Weekly Market Brief
AIB Treasury Economic Research Unit
12th – 16th July 2021

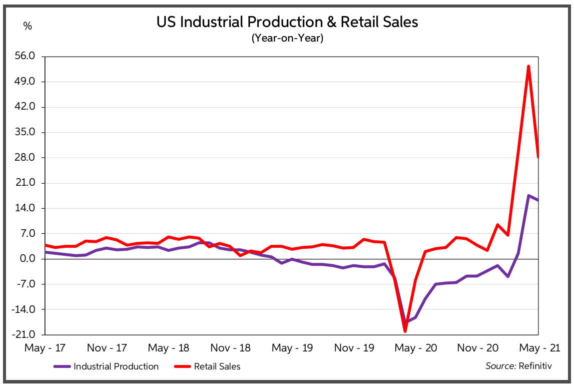
Great Expectations

- **Despite the impact from the Covid-19 pandemic, the first six months of the year from a global macro and markets viewpoint, while not without challenges, were generally encouraging.** On the macro front, the majority of economic releases from the main economies tended to surprise to the upside of expectations. One factor behind this was that these economies proved more resilient than had previously been envisaged, and better able to adapt to restrictions in place to contain the virus during the early part of 2021. Meanwhile, as we progressed through the first two quarters, the underlying data over the period suggested that an uplift in activity was starting to take hold. This occurred against the backdrop of a rollout of vaccination programmes, thereby allowing restrictions to be eased, as well as a supportive policy environment, both from a fiscal and monetary stimulus perspective.

- **Meantime, we saw a strong performance from equity markets in the first half of the year.** Risk appetite was buoyed by the prospects for a strong economic recovery amid the vaccine rollouts and the supportive policy backdrop provided by governments and central banks. The main US equity indices recorded a number of new record highs, with the S&P 500 up by around 15% over the period. On this side of the Atlantic, the Euro Stoxx 50 gained in the region of 14%. On bond markets, although they have fallen considerably from their peaks in the last few weeks, yields moved higher in H1.This was against the improving macro backdrop and markets starting to anticipate rate hikes from the Fed and BoE from mid-2022, earlier than had previously been expected, which contributed to the rise in yields. On commodity markets, oil staged a strong recovery on the back of the improving macro environment, and more recently amid uncertainty over future supply increases from OPEC+. Currency-wise, the dollar was holding the upper hand, supported by signs of a strong recovery in the US and a more hawkish tone from the Fed.

- **Looking ahead to the second half of the year, the global economy looks well positioned to register a significant rebound in activity.** However, risks remain given the nature of the Covid-19 pandemic. This includes those in relation to the slow vaccine rollout in developing economies and the risks that delays inoculating all parts of the world could lead to vaccine resistant virus mutations, necessitating the re-imposition of restrictions. Another key focal point for markets in H2 will be in relation to inflation and whether central banks are proved correct in their widely held view that it will be transitory. Indeed, central bank policy and specifically the US Federal Reserve will be in focus over the coming months. With the recent meetings of the ECB and BoE indicating that neither institution is contemplating any near term policy changes, the US Fed and QE tapering is very much the centre of attention. If the US economy continues to improve, then we would expect guidance on the start date for tapering could be forthcoming from the Fed later in the summer. This would likely see the Fed start to taper QE around the end of this year or in early 2022.

- **Therefore, incoming data on the US economy will be closely followed.** In this regard, the week ahead sees some important macro releases, starting with CPI inflation. The headline rate spiked higher to 5% in May as demand, buoyed by the economy re-opening was met by restricted supply, owing to production bottlenecks. The core rate accelerated to 3.8% as underlying price pressures mounted also. Base effects, which are still greatly impacting both indices, should ease over the coming months though. The forecast is for both the core and headline rate to rise by 0.5% m/m in June. This would see the former edge higher to 4% y/y, and the later inch lower to 4.9% y/y. Elsewhere, retail sales are projected to fall by 0.6% in June. However, this would leave them 17.2% above their pre-Covid level. Meanwhile, industrial production, which grew by 0.7% in Q1, and has expanded by 0.9% so far in Q2, is expected to rise by 0.7% in June. Production has yet to regain its pre-pandemic level, and it is set to remain 0.6% shy of this mark at the end of Q2. In terms of survey data, the consumer sentiment (Uni. Michigan measure) is set to rise to 87.0 in July from 85.5.



- **In the UK, CPI inflation will also feature.** Headline CPI rose above 2% to 2.1% in May for the first time since July 2019. Meantime, the core rate jumped to 2% from 1.3%. The consensus is for the core rate to remain at 2% in June, and for the headline rate to rise to 2.2%. Indeed, the Bank of England recently noted that CPI is likely to exceed 3% in the coming months. As mentioned above though, the central bank still expects the rise in prices to be temporary. Meanwhile, a slew of labour market data is due, with the unemployment rate forecast to hold steady at 4.7% in May. **In the Eurozone, there is a quiet look to the schedule, with industrial production (May) the only release of note.**

Interest Rate Forecasts

	Current	End Q3 2021	End Q4 2021	End Q1 2022
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q3 2021	End Q4 2021	End Q1 2022
EUR/USD	1.1862	1.19	1.18	1.17
EUR/GBP	0.8563	0.86	0.85	0.84
EUR/JPY	130.70	131	131	131
GBP/USD	1.3851	1.38	1.39	1.39
USD/JPY	110.18	110	111	112

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 12th - Friday 16th July

Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde,** Panetta, de Guindos (Mon); de Guindos (Tue); Schnabel (Wed)		
	BoE Speakers:		Ramsden (Wed); Saunders (Thu)		
	Fed Speakers:		Kashkari (Mon); Kashkari, Bostic, Rosengren (Tue); Kashkari, **Powell** (Wed); Evans, **Powell** (Thu); Williams (Fri)		
Mon 12th	**JPN:**	00:50	Machinery Orders (May)	+0.6% (+6.5%)	+2.6% (+6.3%)
Tue 13th	**UK:**	00:01	BRC Retail Sales (June)	(+18.5%)	
	GER:	07:00	Final HICP (June)	+0.4% (+2.1%)	+0.4% (+2.1%)
	FRA:	07:45	Final HICP (June)	+0.2% (+1.9%)	+0.2% (+1.9%)
	US:	11:00	NFIB Business Optimism (June)	99.6	
	US:	13:30	CPI (June)	+0.6% (+5.0%)	+0.5% (+4.9%)
			- Core	+0.7% (+3.8%)	+0.5% (+4.0%)
Wed 14th	**UK:**	07:00	CPI (June)	+0.6% (+2.1%)	+0.2% (+2.2%)
			- Core	+0.8% (+2.0%)	+0.2% (+2.0%)
	UK:	07:00	PPI Output Prices	+0.5% (+4.6%)	+0.6% (+4.8%)
			- Input Prices	+1.1% (+10.7%)	+1.2% (+10.8%)
	SPA:	08:00	Final HICP (June)	+0.4% (+2.4%)	+0.4% (+2.4%)
	EU-19:	10:00	Industrial Production (May)	+0.8% (+39.3%)	-0.1% (+22.5%)
	IRL:	***11:00***	***Residential Property Prices (May)***	***+0.8% (+4.5%)***	***+0.5% (+5.0%)***
	US:	13:30	PPI Final Demand (June)	+0.8% (+6.6%)	+0.5% (+6.7%)
			- Ex-Food & Energy	+0.7% (+4.8%)	+0.5% (+6.4%)
Thu 15th	**CHINA:**	03:00	GDP (Q2 First Reading)	+0.6% (+18.3%)	+1.3% (+8.1%)
	CHINA:	03:00	Retail Sales (June)	(+12.4%)	(+11.0%)
	CHINA:	03:00	Industrial Production (June)	(+8.8%)	(+7.9%)
	UK:	07:00	ILO Employment (May)	+113,000	+90,000
			- Unemployment Rate	4.7%	4.7%
	UK:	07:00	Average Weekly Earnings (3 months to May)	(+5.6%)	(+7.2%)
			- Ex-Bonus	(+5.6%)	(+6.6%)
	UK:	07:00	Claimant Count (June)	-92,600	
	ITA:	09:00	Final HICP (June)	+0.1% (+1.3%)	+0.1% (+1.3%)
	US:	13:30	NY Fed / Empire State Index (July)	17.4	18.0
	US:	13:30	Initial Jobless Claims (w/e 5th July)	+373,000	+360,000
	US:	13:30	Philly Fed Index (July)	30.7	28.3
	US:	14:15	Industrial Production (June)	+0.8% (+16.3%)	+0.7%
			- Manufacturing Output	+0.9%	+0.3%
			- Capacity Utilisation	75.2%	75.6%
Fri 16th	**EU-19:**	10:00	Final HICP (June)	+0.3% (+1.9%)	+0.3% (+1.9%)
			- Ex-Food & Energy	+0.2% (+0.9%)	+0.2% (+0.9%)
	US:	13:30	Retail Sales (June)	-1.3% (+28.2%)	-0.6% (+17.0%)
			- Ex-Autos	-0.7%	+0.4% (+16.8%)
			- Ex-Gas & Autos	-0.8%	
	US:	15:00	Preli. Michigan Consumer Sentiment (July)	85.5	87.0

♦ *Month-on-month changes (year-on-year shown in brackets)*