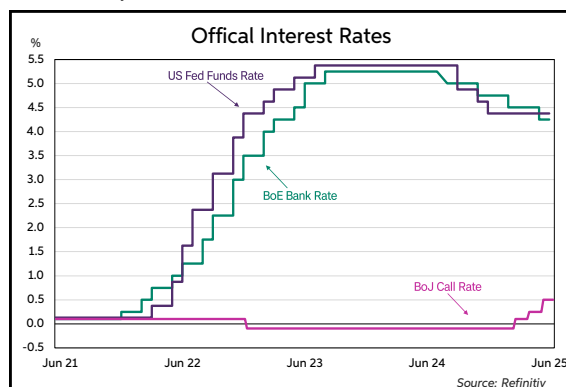


Bad Vibrations

- **Following a period of relative calm for the dollar of late, the currency has been volatile and has weakened in recent days as tariff and growth risks have come to the fore once more.** On the week, the dollar index (DXY), is down around 1%. At the same time, the euro has benefitted from the negative sentiment towards the dollar, with the single currency testing (albeit not sustaining) a break above the \$1.16 level. Nevertheless, EUR/USD is up circa 1% on the week. The abrupt move in the dollar begs the question, as to how far the dollar could fall, given the current uncertainty around the US outlook.
- **Since the start of the year, US markets have been surfing a volatile wave of geopolitical events and trade uncertainty emanating from the Trump administration.** While US equities recovered much of the ground lost in the immediate aftermath of the 'Liberation Day' tariffs in April, the DXY remains nearly 10% lower year-to-date.
- **As we have highlighted previously, the dollar is coming off a period of exceptional strength in recent years.** The currency reached historically high levels during the rising rate cycle of 2022 that was unlikely to be sustained as US growth moderated and global interest rates converged with the US. The uncertainty is now hastening the downward trend that began slowly from that dollar peak in late-2022. An additional accelerant could be the rising 'twin deficits' of the US fiscal and current balances, which are expected to be exacerbated further by the tax-cutting bill winding its way through the US Congress at present. Meanwhile, the Fed's path through the current fog may become somewhat clearer post its FOMC meeting next week when it publishes its next set of forecasts.
- **Looking at trading levels over the last 10-15 years, the dollar still remains elevated.** The average trading level for the EUR/USD pair over the period 2010-2020 was \$1.23. Meanwhile, for the GBP/USD pair, the average over the same timeframe was \$1.47. This suggests there is more scope for the greenback to fall.
- **In terms of important levels to watch in the near term for EUR/USD, a sustained break above the recent \$1.14-1.16 range would imply further material downside for the dollar.** The \$1.20 mark would represent the next significant resistance, as the pair has not traded on a sustained basis above this threshold since 2014. For GBP/USD, the pair generally held above \$1.40 up to the Brexit referendum in 2016. Therefore, this level would be a noteworthy level for the pair.
- **Turning to the week ahead, a number of central bank meetings will take place. Most notably, the Fed is widely expected to leave policy on hold.** Indeed, the overarching message from the FOMC has been that they are in no hurry to cut rates, given current economic conditions, and as they assess the potential impact of changes in US trade policy. However, current pricing suggests markets expect around 50bps of easing over the second half of the year, in-line with the interest rate dotplot released in March. Therefore, the updated Summary of Economic Projections, including the new dotplot will garner close attention from market participants. The post-meeting press conference with Fed Chair Powell will also be in the spotlight, as investors look for additional insight on the future path of US monetary policy. **Meantime, both the BoE and the BoJ are expected to hold interest rates steady this week as well.** The BoE voting breakdown will be in focus though, given there was a three-way split on the MPC last time around, when they cut rates by 25bps.



- **On the data front, a busy UK calendar includes updates on the consumer side of the economy.** Inflation has been somewhat volatile in the UK over the past number of months. Overall, it rose sharply throughout the winter before declining in Q1, meaning the headline and core rates stood at 2.6% and 3.4%, respectively in March. However, both rates jumped markedly higher in April, to 3.5% and 3.8%. It should be noted though, that a number of idiosyncratic factors, including changes to household energy and water bills, as well as higher road tax charges and the earlier timing of Easter this year contributed heavily to the increase. The consensus is for both measures to edge down to 3.4% and 3.7% in May. Despite still elevated levels of inflation in the UK, retail sales have trended upwards so far in 2025. Headline sales rose by a cumulative 2.2% in the first quarter of the year and by a substantial 1.2% m/m in April. A 0.6% m/m contraction is pencilled in for May though. However, consumer confidence has been somewhat subdued this year, albeit it moved off its lows in May. It is expected to be unchanged at -20 in June.
- **In the US, retail sales and industrial production data for May will feature.** Retail sales were quite jumpy in Q1, but moved higher overall in the quarter, before rising by 0.1% m/m in April. As in the UK though, a 0.6% decrease is projected in May. Meantime, a modest 0.1% rise in industrial production is anticipated in May. Elsewhere in the US, a number of updates on the housing market, including housing starts (May) and Homebuilder sentiment (June) are due.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.25	4.25	4.00	3.75
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
EUR/USD	1.1507	1.13	1.14	1.14
EUR/GBP	0.8507	0.84	0.84	0.83
EUR/JPY	166.15	164	164	163
GBP/USD	1.3520	1.35	1.36	1.37
USD/JPY	144.39	145	144	143

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Cipollone (Mon); Lane, de Guindos (Wed); Lagarde , de Guindos (Thu)		
	BoE Speakers:				
	Fed Speakers:				
Mon 16th	ITA:	09:00	Final CPI Inflation (May)	+0.1% (+1.9%)	+0.1% (+1.9%)
	EU-20:	10:00	Labour Costs (Q1) - Wages	(+3.7%) (+4.1%)	
	US:	13:30	NY Fed / Empire State Index (June)	-9.20	-6.0
Tue 17th	JPN:		BoJ Interest Rate Announcement	0.50%	0.50%
	GER:	10:00	ZEW Economic Sentiment (June)	25.2	35.0
	US:	13:30	Retail Sales (May) - Ex-Autos - Control Group	+0.1% (+5.2%) +0.1% -0.2%	-0.6% (+4.1%) +0.1% +0.3%
	US:	13:30	Industrial Production (May) - Manufacturing Output - Capacity utilisation	+0.0% (+1.5%) -0.4% 77.7%	+0.1% (+1.0%) 77.7%
	US:	15:00	NAHB Homebuilder Sentiment (June)	34.0	36.0
Wed 18th	JPN:	00:50	Machinery Orders (April)	+13.0% (+8.4%)	-9.7% (+4.0%)
	JPN:	00:50	Total Trade Balance (May) - Exports	-¥115.8bn (+2.0%)	-¥892.9bn (-3.8%)
	UK:	07:00	CPI Inflation (May) - Core CPI - Services CPI	+1.2% (+3.5%) +1.4% (+3.8%) +2.2% (+5.4%)	+0.2% (+3.4%) (+3.7%) (+5.0%)
	EU-20:	10:00	Final HICP Inflation (May) - Ex-Food & Energy - Ex-Food, Energy, Alcohol & Tobacco	+0.6% (+1.9%) +0.9% (+2.4%) +0.0% (+2.3%)	+0.6% (+1.9%) +0.9% (+2.4%) +0.0% (+2.3%)
	US:	13:30	Housing Starts (May) - Building Permits	+1.36m / +1.6% +1.42m / -4.0%	+1.36m / -0.1% +1.43m / +0.6%
	US:	13:30	Initial Jobless Claims (w/e 14th June)	+248,000	+245,000
	US:	19:00	Fed FOMC Interest Rate Announcement - Fed Funds Target Range	 4.25-4.50%	 4.25-4.50%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 19th	US:		Juneteenth (Market Holiday)		
	IRE:	11:00	Residential Property Price Index (April)	+0.0% (+7.5%)	+0.2% (+7.2%)
	UK:	12:00	BoE MPC Monetary Policy Announcement - Bank Rate	 4.25%	 4.25%
Fri 20th	UK:	00:01	Gfk Consumer Confidence (June)	-20.0	-20.0
	JPN:	00:30	CPI Inflation (May) - Core CPI	+0.4% (+3.6%) +0.4% (+3.5%)	 (+3.6%)
	UK:	07:00	Retail Sales (May) - Ex-Fuel	+1.2% (+5.0%) +1.3% (+5.3%)	-0.6% (+1.5%) -0.6%
	FRA:	07:45	INSEE Business Climate (June)	96.0	97.0
	US:	13:30	Philly Fed Business Index (June)	-4.0	-1.0
	EU-20:	15:00	Flash Consumer Confidence (June)	-15.2	-14.5

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

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