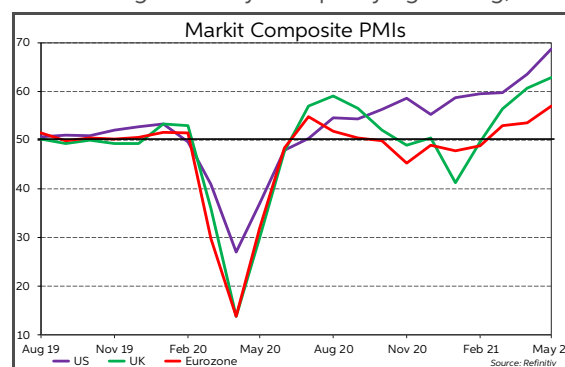


Tightening the Timeline

- **There were no major revisions to the Fed's economic forecasts at this week's FOMC meeting.** The projections for growth and particularly inflation were revised up somewhat for 2021, but the 2022-23 forecasts were virtually unchanged. Yet, there was a significant movement in the Fed's rate projections, with a large majority of the 18 FOMC members now believing that interest rates will start to rise in 2023 compared to 2024 at the earliest, previously. Not only that, the median projection now is for two 25bps rate hikes in 2023. Chair Powell said the rate projections should be taken with a "big grain of salt" as they encompass a timeframe that is still full of uncertainty. It is a fair point as nobody can say with certainty what course rates will take over the next two to three years.
- **However, markets are not dismissing Fed projections that rates are likely to be increased earlier than it had previously guided.** The tightening of the rate hike timeline triggered significant gains for the dollar, a marked rise in bond yields and saw stock markets edge lower. This may be somewhat surprising given that futures contracts have been pricing in even earlier Fed tightening for quite some time, with the first rate increases seen in the second half of 2022 and the fed funds rate getting to 1% by end 2023 versus the Fed projection of 0.625%. The fact, though, that Fed officials now think that rates will start to rise sooner than they previously anticipated suggests that they are increasingly confident about their bullish forecasts for the US economy. The Fed sees GDP growth running at 7% yoy at end 2021 and a still strong 3.3% by end 2022, with the unemployment rate getting back down to 3.5% by 2023.
- **It may also be that the FOMC is building in scope for earlier rate increases in case their view that the rise in inflation this year proves transitory turns out to be incorrect.** They still see core inflation falling back close to 2% by the end of next year, despite recent stronger than expected price rises. Rate hikes are still a long way away for the Fed. Their near term focus is on when they should start to taper or scale back asset purchases. Chair Powell emphasised that the economic recovery needs to progress further for this to begin. The conversation around tapering though, has started at the Fed, with markets expecting that guidance on the topic could come at the very end of the summer.
- **Another important consideration for the Fed is greater clarity on the labour market.** It expects the factors holding back the supply of labour at present to wane in the coming months. A pick-up in labour force participation is critical to the inflation outlook. The latest data show that there are over 9 million job vacancies in the US, but job growth has slowed recently, even though the level of employment remains 7.6 million below its pre-Covid level. An ongoing shortage of workers risks a marked pick-up in wage growth, which would endanger expectations that inflation will fall back next year. This is the biggest threat to the Fed's view that there is no great hurry with policy tightening, be it tapering or rate hikes.
- **This week, it is the turn of the Bank of England to hold its latest monetary policy meeting.** However, the meeting is likely to be a rather uneventful affair, with no changes to policy anticipated. In May, the BoE revised its GDP and inflation forecasts higher, lowered its projected unemployment rate, and noted that the risks to its forecasts had become balanced. Since then, monthly GDP data suggests growth may be stronger in Q2 than the MPC anticipated, inflation rose at an even faster clip, and the unemployment rate has declined further. Thus, the meeting statement/minutes are likely to acknowledge that the data is coming in ahead of expectations, but that it is still too early to consider tightening policy. The MPC is expected to vote unanimously to keep rates at 0.10%, with Chief Economist Haldane, likely to be the only member to advocate for reducing the QE target, as he did in May, by £50bn to £845bn.
- **Elsewhere, the flash PMIs for June in the US, UK and Eurozone are the main data highlight this week.** Starting with the US, having been at extremely elevated levels in May, it is envisaged the services and manufacturing PMIs will edge slightly lower, but remain very strong in June. Similarly, the UK manufacturing PMI is projected to fall but remain above 60, while the forecast is for an unchanged services sector print. Likewise, in the Eurozone, a small drop in the manufacturing PMI is pencilled in. The consensus for the services index though, is for it to rise, as restrictions which severely disrupted the sector, continue to be eased across the bloc.
- **Meanwhile, US consumption is forecast to grow by 0.4% in May.** Core-PCE inflation is projected to rise by 0.6% in the month, lifting the annual rate to 3.5%. In the Eurozone, a slew of survey data, including the German Ifo is due for June. Overall, it is envisaged the data will be consistent with improving economic conditions in the Eurozone.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2021	2021	2021
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 Q2	End Q3	End Q4
		2021	2021	2021
EUR/USD	1.1859	1.21	1.21	1.20
EUR/GBP	0.8575	0.86	0.87	0.87
EUR/JPY	131.02	132	132	131
GBP/USD	1.3829	1.41	1.39	1.38
USD/JPY	110.46	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Mon); Lane, Schnabel (Tue); de Guindos, Lagarde (Wed); Panetta, Schnabel (Thu); Lagarde (Fri)		
	BoE Speakers:				
	Fed Speakers:		Bullard, Williams (Mon); Powell , Bowman, Bostic, Rosengren (Tue); Bostic, Williams, Bullard (Thu); Mester, Rosengren (Fri)		
	EU-27:		EU Leaders Summit (Thu/Fri)		
Mon 21st					
Tue 22nd	ITA:	09:00	Industrial Sales (April)	+1.6% (+38.1%)	
	UK:	11:00	CBI Trend Orders (June)	17	
	US:	15:00	Existing Home Sales (May)	+5.85m / -2.7%	+5.71m / -2.4%
	EU-19:	15:00	Flash Consumer Confidence (June)	-5.1	-2.9
Wed 23rd	JPN:	01:30	Flash Jibun Manufacturing PMI (June)	53.0	
	FRA:	08:15	Flash Markit Composite PMI (June)	57.0	59.0
	GER:	08:30	Flash Markit Composite PMI (June)	56.2	57.4
	EU-19:	09:00	Flash Markit Composite PMI (June)	57.1	58.7
			- Manufacturing / Services	63.1 / 55.2	62.1 / 57.6
	UK:	09:30	Flash Markit Composite PMI (June)	62.9	63.0
			- Manufacturing / Services	65.6 / 62.9	64.0 / 63.0
	IRL:	11:00	Labour Force Survey (Q1)		
	IRL:	11:00	Unemployment Rate (May)	5.8%	5.7%
			- Covid-19 Adjusted Rate	22.4%	20.0%
	US:	14:45	Flash Markit Composite PMI (June)	68.7	
			- Manufacturing / Services	62.1 / 70.4	61.5 / 70.0
Thu 24th	US:	15:00	New Home Sales (May)	+0.86m / -5.9%	+0.87m / +0.8%
	FRA:	07:45	INSEE Business Climate (June)	107	110
	SPA:	08:00	Q1 GDP (Final Reading)	-0.5% (-4.3%)	-0.5% (-4.3%)
	GER:	09:00	Ifo Business Climate (June)	99.2	100.4
	UK:	12:00	BoE Interest Rate Announcement (June)	0.10%	0.10%
	US:	13:30	Durable Goods (May)	-1.3%	+1.9%
			- Ex-Transport	+1.0%	+0.8%
	US:	13:30	Q1 GDP (Final Reading)	+6.4% s.a.a.r.	+6.4% s.a.a.r.
	US:	13:30	Q1 PCE Prices (Final Reading)	+3.7%	+3.7%
Fri 25th			- Core PCE Prices	+2.5%	+2.5%
	US:	13:30	Initial Jobless Claims (w/e 14th June)	+412,000	+380,000
	UK:	00:01	Gfk Consumer Confidence (June)	-9.0	-7.0
	JPN:	00:30	CPI (June)	-0.4% (-0.2%)	
			- Ex-Food & Energy	+0.0% (-0.1%)	
	GER:	07:00	Gfk Consumer Sentiment (July)	-7.0	-4.0
	ITA:	09:00	ISTAT Business Confidence (June)	110.2	112.0
	ITA:	09:00	Consumer Confidence (June)	110.6	112.0
	EU-19:	09:00	M3 Annual Money Growth (May)	(+9.2%)	(+8.5%)
	UK:	11:00	CBI Distributive Trades (June)	18	
	US:	13:30	Personal Income / Consumption (May)	-13.1% / +0.5%	-2.0% / +0.4%
			- Core PCE Prices	+0.7% (+3.1%)	+0.6% (+3.5%)
	US:	15:00	Final Michigan Consumer Sentiment (June)	86.4	86.4

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

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