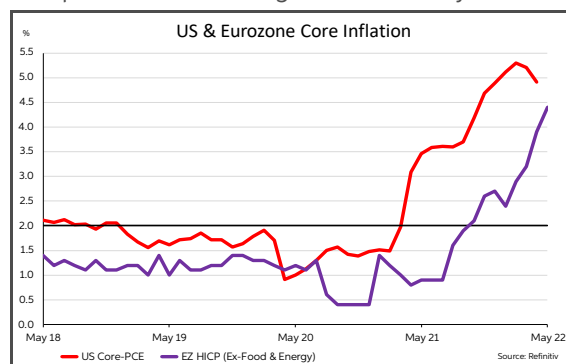


Riding High

- **The dollar has soared over the past year, climbing by 17% on a trade-weighted basis against a basket of peers.** Higher rates are giving the dollar a distinct advantage over other currencies. The Fed has been the most vocal of the main central banks on the need for significant monetary tightening to dampen down inflation pressures. It is guiding that official rates in the US will need to rise to 3.75% by next year, which is far higher than what is being priced in for most other markets. Ten year Treasury yields have been trading as high as 3.5% recently, again well above the yields in other economies. Meanwhile, the Russian invasion of Ukraine as well as the risk-off tone and volatile financial markets have provided a further boost to the dollar this year on the back of safe-haven flows into the world's largest reserve and most liquid currency.
- **The dollar is now at twenty year highs against the main currencies.** It rose above ¥125 against the yen in April for the first time since 2003, and is currently trading at ¥135. Meanwhile, traders have been testing the twenty year low of \$1.04 for the euro in recent weeks. Sterling has also been testing its Brexit lows at around \$1.20 recently. It has not fallen below this level on a sustained basis since 1985. The US currency, then, is at exceptionally high levels at the present time. It is difficult to envisage any significant fall in the dollar over the second half of the year as it should be supported by a further sharp upward move in US interest rates to above 3% and relatively high US bond yields. Markets also seem likely to remain volatile, pointing to continued safe-haven flows into the dollar. Geo-political risks are also likely to remain elevated, again helping the US currency.
- **From a euro viewpoint, the fact that the ECB is set to deliver significant rate hikes over the second half of 2022 should prove supportive of the currency, as should the ending of QE and the negative interest rate regime that has been in place since 2014.** Thus, the key support level of \$1.04 may continue to hold for the euro. The yen, though, is continuing to weaken and is vulnerable to further falls, with the Bank of Japan maintaining its very accommodative policy, keeping rates negative while also engaging in large scale QE to cap ten year JGB yields at 0.25%. Widening interest rate differentials seem likely to keep downward pressure on the yen, as outflows continue into higher yielding currencies.
- **Meantime, sterling faces a number of headwinds.** The UK economy has lost considerable momentum since earlier in the year in the face of a tightening of fiscal and monetary policy as well as galloping inflation. GDP is set to contract in the second quarter. The Bank of England is quite downbeat on the UK economy's growth prospects as a result of a squeeze on real disposable income from higher taxes and elevated inflation, forecasting stagflation out to 2024. Brexit has also acted to depress trade with the EU, and the UK is facing a widening of its BoP deficit this year. Thus, there are clear downside risks for sterling which could come more to the fore if a weakening of the economy results in market rate hike expectations not being delivered on by the BoE.
- **Turning to the week ahead, in the Eurozone we will get a timely inflation update for June.** In May, headline HICP jumped to 8.1%, while the ex-food & energy reading climbed to 4.4%, from 7.4% and 3.9%, respectively. The War in Ukraine has placed upward pressure on a large swathe of commodities, which have fed into broader price increases recently, as noted by the elevated levels in the core-rate. The consensus is for the headline HICP rate to rise to 8.3% in June, with the ex-food & energy rate increasing to 4.7%. Elsewhere in the Eurozone, the latest EC sentiment indices will feature this week. In line with the flash consumer sentiment and PMI readings, which all fell in June, both the industrial and services sector readings are forecast to decline. Meanwhile, the overall economic sentiment index is projected to remain on a downward trend, as it has been since Russia invaded Ukraine. In terms of more lagging data, it is envisaged the Eurozone unemployment rate remained at a record low level of 6.8% in May.
- **Inflation data will also feature in the US.** Core-PCE inflation has eased slightly over the past few months, albeit from very elevated levels, printing at 4.9% in April. Furthermore, headline-PCE was at 6.3%. The core-rate is expected to edge lower again in May, falling to 4.7%. Despite very high inflation levels, US consumption has been surprisingly strong in recent months, particularly goods consumption. However, consumption has risen at a faster pace than incomes every month so far this year, indicating that this trend may not be sustainable. Indeed, personal spending is forecast to grow more slowly in May, rising by 0.5% from 0.9% in April. Incomes are also projected to rise by 0.5% in May. Looking ahead, although the link between consumer sentiment and consumer spending has been de-coupling in recent years, a further fall in the Conference Board measure of consumer confidence in June (as is expected) suggests that consumption may continue to slow over the summer months. Elsewhere in the US, a slight decline in the manufacturing ISM is anticipated in June.
- **Meanwhile in the UK, the final reading of GDP is set to confirm the economy grew by 0.8% in Q1.** Elsewhere, Nationwide house price data for June are expected to show, similar to other house price metrics, a moderation in the rate of house price inflation.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
Fed Funds	1.625	2.625	3.375	3.625
ECB Deposit	-0.50	0.25	1.00	1.25
BoE Repo	1.25	1.75	2.25	2.25
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's EU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
EUR/USD	1.0536	1.06	1.07	1.08
EUR/GBP	0.8582	0.87	0.88	0.88
EUR/JPY	142.34	146	150	151
GBP/USD	1.2272	1.22	1.22	1.23
USD/JPY	135.09	138	140	140

Current Rates Reuters, Forecasts AIB's EU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Schnabel (Mon); Lagarde , Lane, Panetta (Tue); de Guindos, Schnabel, Lagarde (Wed)		
	BoE Speakers:		Cunliffe (Tue); Bailey (Wed)		
	Fed Speakers:		Daly (Tue); Powell (Wed); Bullard (Thu)		
			ECB Forum on Central Banking 2022 (Mon-Wed)		
			NATO Summit (Wed)		
Mon 27th	US:	13:30	Durable Goods (May)	+0.5%	+0.1%
			- Ex-Transport	+0.4%	+0.4%
	US:	15:00	Pending Home Sales (May)	-3.9%	
Tue 28th	GER:	07:00	Gfk Consumer Sentiment (July)	-26.0	-27.7
	FRA:	07:45	INSEE Consumer Confidence (June)	86	84
	IRL:	11:00	Retail Sales (May)	+3.8% (+6.1%)	+1.0% (+8.3%)
	US:	14:00	Case-Shiller House Prices (April)	+1.5% (+19.0%)	+2.1% (+21.0%)
	US:	15:00	Conference Board Consumer Confidence (June)	106.4	101.4
Wed 29th	JPN:	00:50	Retail Sales (May)	(+2.9%)	(+3.3%)
	SPA:	08:00	Flash HICP (June)	(+8.5%)	(+8.7%)
	SPA:	08:00	Retail Sales (May)	(+1.5%)	
	EU-19:	09:00	M3 Money Annual Growth Rate (May)	(+6.0%)	(+5.9%)
	UK:	09:30	Mortgage Approvals (May)	+65,974	
	EU-19:	10:00	EC Economic Sentiment (June)	105.0	103.0
			- Consumer / Industrial / Services	-23.6 / 6.3 / 14.0	-23.6 / 4.7 / 12.7
	US:	13:30	GDP (Q1: Final Reading)	-1.5% s.a.a.r.	-1.5% s.a.a.r.
	US:	13:30	PCE Prices (Q1:Final Reading)	+7.0% s.a.a.r.	+7.0% s.a.a.r.
			- Core-PCE Prices	+5.1% s.a.a.r.	+5.1% s.a.a.r.
Thu 30th	JPN:	00:50	Industrial Output (May)	-1.5%	-0.3%
	UK:	07:00	Nationwide House Prices (June)	+0.9% (+11.2%)	+0.5% (+10.8%)
	UK:	07:00	GDP (Q1:Final Reading)	+0.8% (+8.7%)	+0.8% (+8.7%)
	GER:	07:00	Retail Sales (May)	-0.4% (-8.4%)	+0.8% (-3.4%)
	FRA:	07:45	Flash HICP (June)	+0.8% (+5.8%)	(+6.1%)
	GER:	08:55	Unemployment Rate (June)	5.0%	5.0%
	ITA:	09:00	Unemployment Rate (May)	8.4%	8.4%
	EU-19:	10:00	Unemployment Rate (May)	6.8%	6.8%
	GER:	13:00	Flash HICP (June)	+1.1% (+8.7%)	+0.2% (+8.8%)
	US:	13:30	Personal Income / Consumption	+0.4% / +0.9%	+0.5% / +0.5%
	US:	13:30	PCE Prices (May)	+0.2% (+6.3%)	
			- Core-PCE Prices	+0.3% (+4.9%)	+0.4% (+4.7%)
	US:	13:30	Initial Jobless Claims (w/e 20th June)	+229,000	+229,000
Fri 1st	JPN:	00:30	Jobs/Applicants Ratio (May)	1.23	1.24
	JPN:	00:30	Unemployment Rate (May)	2.5%	2.5%
	IRL:	01:01	AIB Manufacturing PMI (June)	56.4	
	UK:	07:00	Nationwide House Prices (June)	+0.9% (+11.2%)	+0.5% (+10.8%)
	EU-19:	09:00	Final S&P Manufacturing PMI (June)	52.0	52.0
	UK:	09:30	Final S&P / CIPS Manufacturing PMI (June)	53.4	53.4
	EU-19:	10:00	Flash HICP (June)	+0.8% (+8.1%)	+0.5% (+8.3%)
			- Ex-Food & Energy	+0.7% (+4.4%)	+1.2% (+4.7%)
	ITA:	10:00	Flash HICP (June)	+0.9% (+7.3%)	(+7.8%)
	US:	14:45	Final S&P Manufacturing PMI (June)	52.4	52.4
	US:	15:00	Manufacturing ISM (June)	56.1	55.0

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

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