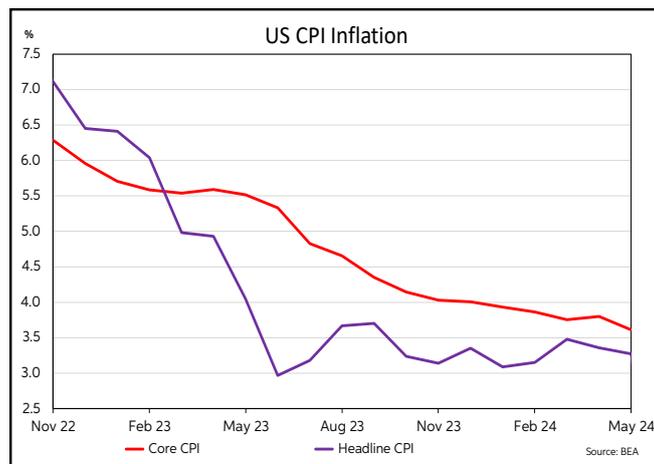


## Soft US data support dovish tilt by Fed Chair

- As political events dominated the news agenda in the past week, the ECB forum in Sintra gave important hints towards near-term monetary policy.** In her opening remarks, ECB President Lagarde ruled out a further cut at its July meeting, stating “it will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed.”. A July cut was already ruled out by markets following the ECB’s ‘hawkish cut’ in June, and further solidified by the minutes of that meeting, which showed disagreement on whether to cut was necessary in June.
- However, despite Lagarde’s cautious outlook, markets are still pricing in nearly two further cuts by end-2024, beginning in September.** While inflation remains above target, recent Eurozone data signal sagging growth momentum in the currency bloc, including very weak PMI surveys for June.
- US Fed Chair Powell also gave remarks at Sintra, widely received as more dovish in nature than recent comments.** While Powell said the Fed needs more confidence inflation is moving towards target before cutting rates; he also noted the risks of waiting too long stating that if the labour market unexpectedly weakens, “that would also cause us to act”. This adds to growing evidence that the Fed will cut rates in the coming months.
- Indeed, the Fed minutes from their June meeting highlighted a growing consensus that the disinflationary trend has now re-emerged in the US, following a plateauing in inflation at the beginning of 2024.** In particular, the minutes noted that a “number of developments in the product and labour markets supported the judgment that price pressures were diminishing”.
- In this context, recent labour market data suggests some softening in the jobs market of late.** Initial jobless claims have been grinding higher in recent weeks, while the June payrolls data revealed a significant downward revision in prior month payrolls of 111,000, more than offsetting the above-consensus June figure at +206,000 (consensus: 190,000). Within this, private sector payrolls were also revised lower in April and May, as well as the June figure coming in well below expectations at 136,000 (cons: 160,000). Unemployment ticked higher in June to 4.1% from 4%, with the report adding to recent evidence of moderating growth in the US economy.
- This week, the focus will be on US CPI inflation data for June.** Having declined in the first six months of last year, headline CPI has been in a 3.1-3.7% range since June 2023. However, in the early part of this year it accelerated from its low of 3.1% in January, rising to 3.5% in March, before edging back to 3.4% in April and 3.3% in May. Encouragingly, the decline in May was broad-based. Meantime, core inflationary pressures are slowly dissipating. Core-CPI has fallen in 18 of the last 20 months, albeit it was still elevated at 3.4% in May. A further move lower is projected in June for the headline rate, to 3.1%, while the core rate is forecast to remain at 3.4%. We also get an update on price pressures at the ‘factory gate’, with the PPI inflation data for June. The headline rate is anticipated to remain unchanged at 2.2% last month
- Elsewhere, on the consumer side of the US economy,** we get an early indication on the mood amongst households with the release of the preliminary reading of the University of Michigan measure of consumer sentiment for July. Sentiment has been negatively impacted by concerns amongst consumers in relation to inflation and finances. The index is forecast to print broadly similar to its June level. On the monetary policy front, Fed Chair Powell delivers his semi-annual testimony to Congress. As referenced above at last week’s central banking forum in Portugal, he espoused a more dovish tone compared to his post-June meeting press conference. He noted that recent inflation data suggests the US economy may be back on a disinflationary path.
- In the UK, after last Thursday’s General Election, the focus turns back to the data calendar this week.** The monthly reading of GDP for May will feature. After expanding throughout Q1, culminating in a 0.6% increase in the quarter, GDP flat-lined on a monthly basis in April. However, bad weather impacted construction output in the month, which weighed on the overall GDP reading. A slight rise of 0.2% m/m in GDP is pencilled in for May. Meanwhile, industrial production remained weak, contracting sharply by 0.9% in April, leaving it 0.4% lower in year-on-year terms. A modest 0.2% rise in production is envisaged for May.
- In the Eurozone, there is a very quiet look to the data calendar.** The EU Sentix index for July will provide the first survey data for this month. The final readings of HICP inflation for June are due from Germany, France and Spain.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.25	5.00	4.75	4.50
BoJ OCR	0.10	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0825	1.10	1.11	1.12
EUR/GBP	0.8460	0.87	0.87	0.88
EUR/JPY	174.25	171	170	168
GBP/USD	1.2796	1.26	1.28	1.28
USD/JPY	160.94	155	153	151

Current Rates Reuters, Forecasts AIB's ERU

<i>Date</i>	<i>UK &amp; Irish Time</i>	<i>Release</i>	<i>Previous</i>	<i>Forecast</i>	
<b>This Week:</b>	<b>ECB Speakers:</b>	Cipollone (Mon)			
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>	Powell, Barr, Bowman (Tue); Goolsbee (Wed); Bostic, Musalem (Thur)			
<b>Mon 8th</b>	<b>EU-20:</b>	09:30	EU Sentix Index (July)	0.3	0.0
	<b>GER:</b>	07:00	Trade Balance (May)	€22.1bn	€21.2bn
			- Exports	+1.6%	-3.0%
<b>Tue 9th</b>	<b>US:</b>	11:00	NFIB Small Business Optimism (June)	90.50	90.0
<b>Wed 10th</b>	<b>ITA:</b>	09:00	Industrial Output (May)	-1.0% (-2.9%)	0.0%
<b>Thu 11th</b>	<b>JPN:</b>	00:50	Machinery Orders (May)	-2.9% (+0.7%)	+0.8% (+7.2%)
	<b>GER:</b>	07:00	Final HICP Inflation (June)	+0.2% (+2.5%)	+0.2% (+2.5%)
	<b>UK:</b>	07:00	GDP (May)	+0.0% (+0.6%)	+0.2% (+1.2%)
			- 3m/3m	+0.7%	+0.7%
	<b>UK:</b>	07:00	Industrial Output (May)	-0.9% (-0.4%)	+0.2% (+0.6%)
			- Manufacturing Output	-1.4% (+0.4%)	+0.5% (+1.2%)
	<b>UK:</b>	07:00	Goods Trade Balance (May)	-£19.6bn	
			- Non-EU	-£7.29bn	
	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (June)</b>	<b>+0.5% (+2.6%)</b>	<b>(+2.2)</b>
			<b>- HICP Inflation</b>	<b>+0.6% (+2.0%)</b>	<b>(+1.5)</b>
	<b>US:</b>	13:30	CPI Inflation (June)	+0.0% (+3.3%)	+0.1% (+3.1%)
			- Core-CPI	+0.2% (+3.4%)	+0.2% (3.4%)
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 1st July)	+238,000	+240,000
<b>Fri 12th</b>	<b>FRA:</b>	07:45	Final HICP Inflation (June)	+0.1% (+2.5%)	+0.1% (+2.5%)
	<b>SPA:</b>	08:00	Final HICP Inflation (June)	+0.3% (+3.5%)	+0.3% (+3.5%)
	<b>US:</b>	13:30	PPI Inflation (June)	-0.2% (+2.2%)	+0.1% (+2.2%)
			- Ex-Food & Energy	+0.0% (+2.3%)	+0.2% (+2.5%)
	<b>US:</b>	15:00	Prelim. Uni Michigan Consumer Sentiment (July)	68.2	68.5

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

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