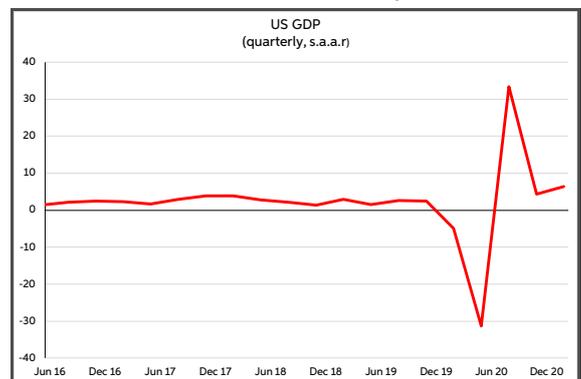


## Money for Nothing

- **The July meeting of the ECB’s Governing Council was the first to be held since it changed its inflation target following a strategic review of its policy framework and objectives.** The new inflation objective is now a symmetric 2% target compared to its previous ‘close to, but below 2%’. This implies that the ECB will allow inflation to run above its 2% target for a short period of time, if required. The meeting saw the ECB alter its forward guidance on interest rates to be consistent with the new inflation strategy. It now states that it expects its key interest rates to remain at their present, or lower levels until three key criteria are met. Firstly, and most significantly, that inflation is viewed by the ECB to be reaching its 2% target well ahead of the end its forecast horizon, which is three years. Consistent with this three year time horizon, the current ECB economic forecasts cover the period 2021 to 2023. ECB President Lagarde stated that “well ahead” could be interpreted as meaning the midpoint of this horizon. Secondly, that inflation is durable for the remainder of its projection horizon. Thirdly, that the ECB judges underlying inflation to be consistent with inflation stabilising at its 2% target over the medium term (i.e. beyond the 3 year forecast horizon).
- **In terms of its outlook for inflation, the ECB is currently forecasting the rate to average 1.9% this year, driven higher by a big jump in energy prices in particular.** It is projecting that the rise in 2021 will prove temporary, with inflation falling back to 1.5% in 2022. Its 2023 inflation forecast is 1.4%. Core inflation, which excludes energy, is forecast at 1.1% in 2021, 1.3% in 2022 and 1.4% in 2023. The ECB commented after the meeting that the outlook for inflation over the medium term remains subdued. Taking account of these inflation forecasts together with its new forward guidance, would suggest that the ECB does not envisage hiking interest rates during its current forecast horizon, i.e. before end 2023. Indeed, with both headline and core inflation forecast to be well below 2% in 2023, it is hard to see the ECB starting to raise rates in 2024. Not surprisingly, President Lagarde was asked at her press conference that based on its new criteria, why the ECB is not providing additional stimulus to help it achieve its new 2% target.
- **In terms of market expectations, futures contracts suggest that traders do not envisage official ECB rates being increased from their current level of -0.5% until 2024.** Thereafter, rates are viewed as rising at a snail’s pace and are still seen as being in negative territory by end 2026. Negative interest rates were first introduced by the ECB back in 2014. The new ECB inflation target and forward guidance on monetary policy has cemented interest rates remaining in negative territory for years to come. Bond markets in the Eurozone have taken this on board, with yields anchored at very low levels, despite signs of a strong rebound in economic activity in recent months.
- **Irish bond yields are negative all the way out to the ten year part of the curve.** Thirty year bond yields stand at just 0.65% in Ireland, 1.2% in Spain and 1.65% in Italy. This means that Eurozone governments can finance big borrowings at very low interest rates to help their economies recover from the Covid pandemic. It makes high government debt levels much more sustainable, with the biggest beneficiaries being those countries in the euro area that have the weakest public finances.
- **This week, it’s the turn of the US Fed to hold its monetary policy meeting.** No policy changes are expected so market attention will be centred on the issue of QE tapering. Chair Powell will likely reiterate that QE discussions are ongoing, and that the spike in inflation will prove to be transitory. If the US economy continues to improve, then guidance on tapering could be forthcoming later in the summer, with more insight on the issue possible at the Jackson Hole Symposium in August. **Data-wise in the US, the main highlight, will be the first reading of Q2 GDP.** US economic data generally posted strong readings in the quarter, aided by the successful vaccine rollout and fiscal stimulus. GDP is expected to register a 8.2% annualised growth. A busy US docket also includes, personal income and consumption figures, as well as core PCE inflation data for June and consumer confidence for July.
- **The Eurozone diary also features the first reading of Q2 GDP** including the aggregate number and key national figures. EZ GDP is forecast to expand by 1.5% in Q2, as the economy continued to reopen amid the ramping up of the vaccine rollout. The July prints of the EC sentiment indices and the German IFO are also due Elsewhere, the consensus is for headline HICP to edge higher to 2.0% from 1.9%. The core rate is expected to edge back slightly as underlying price pressures remain subdued. **Meanwhile, in the UK, house price data are the main 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	1.1775	1.19	1.18	1.17
EUR/GBP	0.8556	0.86	0.85	0.84
EUR/JPY	130.10	131	131	131
GBP/USD	1.3760	1.38	1.39	1.39
USD/JPY	110.48	110	111	112

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>	Haskel (Mon)		
	<b>Fed Speakers:</b>	Bullard, Brainard (Fri)		
<b>Mon 26th</b>	<b>JPN:</b>	01:30 Flash Jibun Manufacturing PMI (July)	52.4	
	<b>GER:</b>	09:00 German Ifo (July)	101.8	102.1
	<b>US:</b>	13:00 New Home Sales (June)	+0.769m / -5.9%	+0.792 / +2.9%
<b>Tue 27th</b>	<b>EU-19:</b>	09:00 M3 Annual Money Growth (June)	(+8.4%)	(+8.2%)
	<b>UK:</b>	11:00 CBI Distributive Trades (July)	25	20
	<b>US:</b>	13:30 Durable Goods (June)	+2.3%	+2.1%
		- Ex-Transport	+0.3%	+0.8%
	<b>US:</b>	14:00 Case-Shiller (May)	+1.6% (+14.9%)	
	<b>US:</b>	15:00 Consumer Confidence (July)	127.3	125.0
<b>Wed 28th</b>	<b>UK:</b>	07:00 Nationwide House Prices (July)	+0.7% (+13.4%)	+0.5% (+12.0%)
	<b>GER:</b>	07:00 Gfk Consumer Sentiment (August)	-0.3	0.0
	<b>FRA:</b>	07:45 Consumer Confidence (July)	102	102
	<b>ITA:</b>	09:00 ISTAT Business Confidence (July)	114.8	115.3
	<b>ITA:</b>	09:00 Consumer Confidence (July)	115.1	115.8
	<b>IRL:</b>	<b>11:00 Retail Sales (June)</b>	<b>+1.8% (+44.0%)</b>	<b>+10% (+10.5%)</b>
	<b>US:</b>	19:00 Fed Funds Rate Announcement	+0.00-0.25%	+0.00-0.25%
	<b>US:</b>	19:30 Fed Press Conference		
<b>Thu 29th</b>	<b>SPA:</b>	08:00 Flash HICP (July)	(+2.5%)	(+2.9%)
	<b>GER:</b>	08:00 Unemployment Rate (July)	5.9%	5.8%
	<b>UK:</b>	09:30 Consumer Credit (June)	+0.28Bn	+0.55Bn
	<b>UK:</b>	09:30 Mortgage Approvals (June)	+87,545	+85,000
	<b>EU-19:</b>	10:00 EC Sentiment (July)	117.9	118.8
		- Consumer / Industrial / Services	-4.4 / 12.7/17.9	-4.4 / 13.0/19.5
	<b>IRL</b>	<b>11:00 New Dwellings (Q2)</b>	<b>3,953 (-20%)</b>	<b>5,000 (+55%)</b>
	<b>GER:</b>	13:00 Flash HICP (July)	+0.4% (+2.1%)	+0.5% (+3.0%)
	<b>US:</b>	13:30 GDP (Q2: Advance Reading)	+6.4% s.a.a.r.	+8.2% s.a.a.r.
	<b>US:</b>	13:30 Advance Core PCE Prices (Q2)	+2.5%	+5.1%
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 19th July)	419,000	365,000
	<b>US:</b>	15:00 Pending Home Sales (June)	+8.0%	
<b>Fri 30th</b>	<b>JPN:</b>	00:30 Jobs/Applicants Ratio (June)	1.09	1.10
	<b>JPN:</b>	00:30 Unemployment Rate (June)	3.0%	3.0%
	<b>JPN:</b>	00:50 Industrial Output (June)	-6.5%	+5.0%
	<b>JPN:</b>	00:50 Retail Sales (June)	(+8.2%)	(+0.2%)
	<b>FRA:</b>	06:30 GDP (Q2: Flash Estimate)	-0.1% (+1.2%)	+0.8%
	<b>GER:</b>	07:00 GDP (Q2: Flash Estimate)	-1.8% (-3.4%)	+2.0% (+10.0%)
	<b>FRA:</b>	07:45 Flash HICP (July)	+0.2% (+1.9%)	+0.1% (+1.5%)
	<b>ITA:</b>	08:00 Unemployment Rate (June)	10.5%	10.4%
	<b>SPA:</b>	08:00 GDP (Q2: Flash Estimate)	-0.4% (-4.2%)	+2.2% (+19.0%)
	<b>ITA:</b>	09:00 GDP (Q2: Flash Estimate)	+0.1% (-0.8%)	+1.4% (+15.7%)
	<b>EU-19:</b>	10:00 Flash HICP (July)	(+1.9%)	(+2.0%)
		- Ex-Food & Energy	(+0.9%)	(+0.7%)
	<b>EU-19:</b>	10:00 GDP (Q2: Flash Estimate)	-0.3% (-1.3%)	+1.5% (+13.2%)
	<b>ITA:</b>	11:00 Flash HICP (July)	(+1.3%)	(+1.3%)
	<b>US:</b>	13:30 Personal Income / Consumption (June)	-2.0% / 0.0%	-0.4% / +0.7%
		- Core PCE Prices	+0.5% (+3.4%)	+0.6% (+3.7%)
	<b>US:</b>	13:30 Employment Cost Index - Wages (Q2)	+1.0%	
	<b>US:</b>	15:00 Final Michigan Consumer Sentiment (July)	80.8	80.5

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

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