Ulster Bank Weekly Economic Commentary

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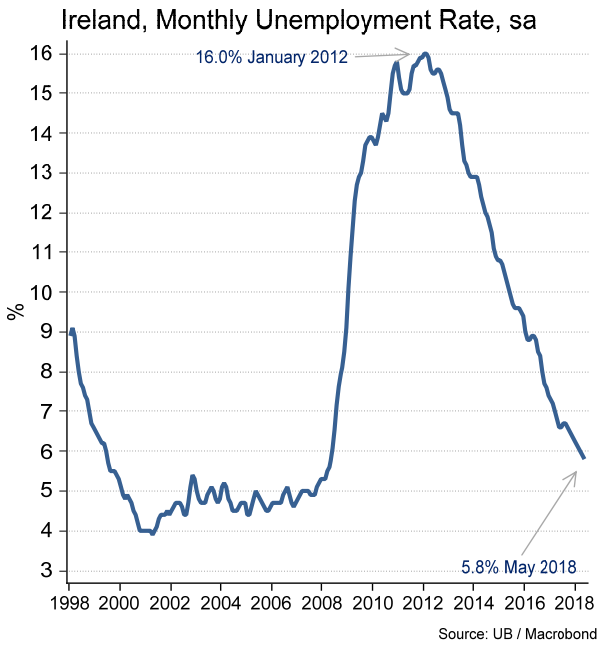
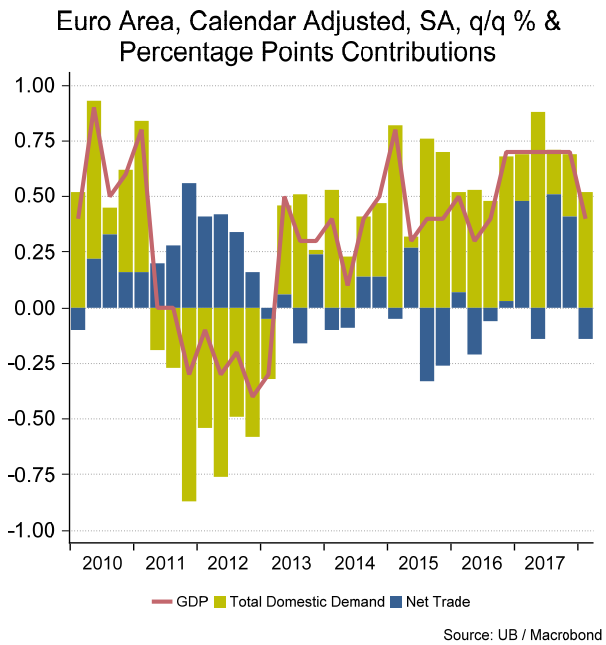
Ireland: Positive trends in the Irish economy continued in May; fiscal council sees no case for additional stimulus in 2019



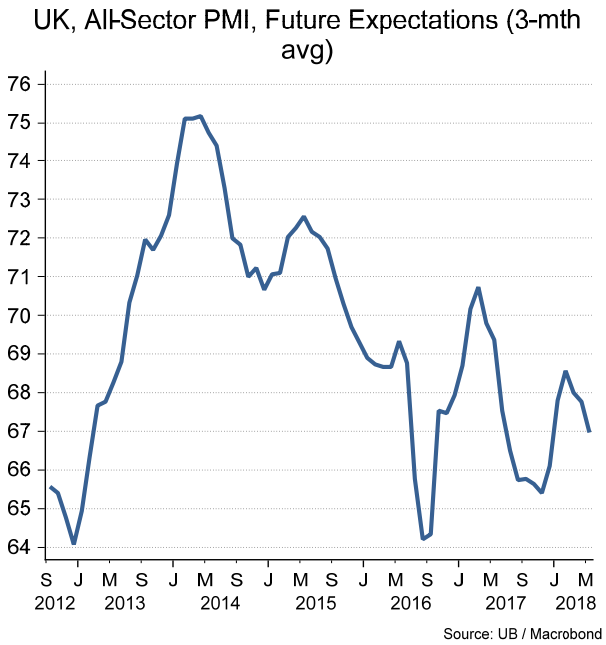
The latest PMI, unemployment and tax data indicate that positive trends in the Irish economy continued in May. The May PMI surveys show that growth in the key services sector picked-up to a four-month high, while the manufacturing PMI also ticked up marginally in May from already very solid levels in April. This left the Composite PMI also slightly up on the month, with an elevated reading of 57.7 marking a four-month high and indicating that Irish business sector firms continue to experience very rapid expansion. Furthermore, the forward-looking elements were also very positive, with the index of new orders and future expectations both improving in May. The employment index also continues to signal, rapidly-rising demand for labour, albeit at somewhat slower pace in May. In any case, this has been enough to leave the CSO (unofficial) monthly unemployment rate at a new cycle and ten-year low of 5.8% in May, with the provisional estimates showing that the unemployment rate has now fallen for nine-months in a row. Improvement in the labour market also continues to be reflected in the income tax receipts figures which rose by 6.1% y/y in the year to May (running broadly in line with plan at this stage) having risen 4.4% in 2017 as a whole. With the economy continuing to do so well, the Irish Fiscal Council was the latest institution to recommend that the Government follows fiscal prudence in 2019, writing in the Fiscal Assessment Report that “there is no case for additional fiscal stimulus in 2019 beyond existing plans” as it projects that the economy will move beyond full employment next year and after.

Eurozone: Incoming news have been slightly disappointing but ECB's chief economist remains confident in the strength of the economy



Final figures for Q1 kept Eurozone GDP growth at 0.4% q/q following five quarters in a row at 0.7%, leaving y/y growth at 2.5%. However, the detailed expenditure breakdown offered mild encouragement. Consumer spending had a stronger than expected start to 2018, rising by 0.5% q/q in Q1 following 0.2% in Q4. Moreover, investment also rose by a healthy 0.5% q/q in Q1, meaning that the contribution from domestic demand to q/q GDP growth actually rose to 0.5% in Q1 following 0.3% in Q4 and providing some reassurance on the underlying trend in Eurozone growth. However, the latest survey and official activity data for Q2, including the the Sentix measure of investor confidence for June and April retail sales and industrial production figures for the Eurozone and Germany, respectively, continued to perform on the disappointing side of expectations. In any case, a series of communications from the ECB highlighted that policy makers remain confident in the underlying strength of the economy, with Peter Praet also upgrading his assessment on inflation. This is important as Praet presents the policy proposals for the Governing Council, so we wouldn't be surprised if similar soundings end up featuring in Draghi's post-meeting press conference of next Thursday. However, we think that Draghi is more likely to do so while laying the groundwork for a July announcement on QE (rather than in the context of a June announcement). Two things are clear though, monetary policy will be discussed this time around, and an early QE announcement shouldn't be ruled-out.

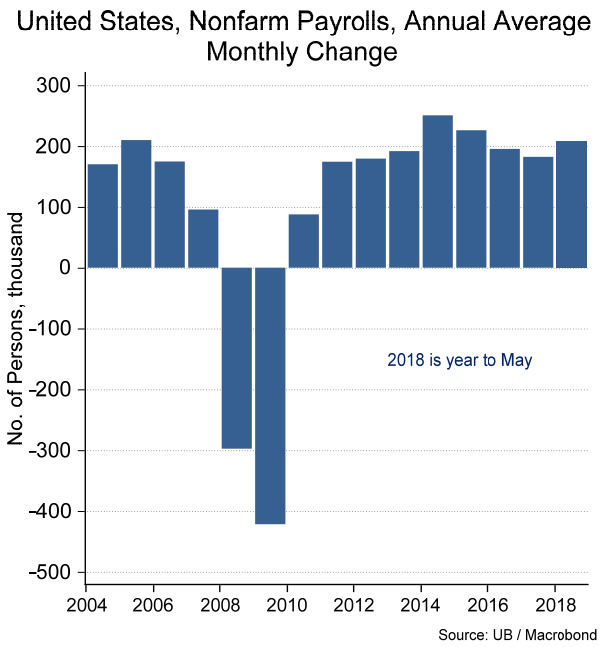
UK: PMIs point to growth accelerating in Q2; government backstop for Irish border faces opposition in Brussels



The latest UK PMI survey results indicate that growth in the key services sector picked up to a three-month high in May, while the manufacturing sector also experienced a slightly faster rate of expansion. The construction sector ended up being the exception maintaining a steady (and subdued) pace of growth in May. Collectively, the latest PMIs figures added to evidence that GDP growth is likely to accelerate somewhat in Q2 following a sluggish start to 2018. Indeed, the all-sector PMI (weighted average of the three-sector PMIs) rose to 54.3 in May, up from 53.2 in April, with the readings so far over Q2 at levels which historically have been consistent with q/q growth around 0.4% - in line with BoE expectations for Q2. However, the forward-looking elements of the surveys were less positive. Private sector firms continued to report subdued rates of new business, with respondents linking it to Brexit uncertainties, while sentiment around future prospects eased to a seven-month low.

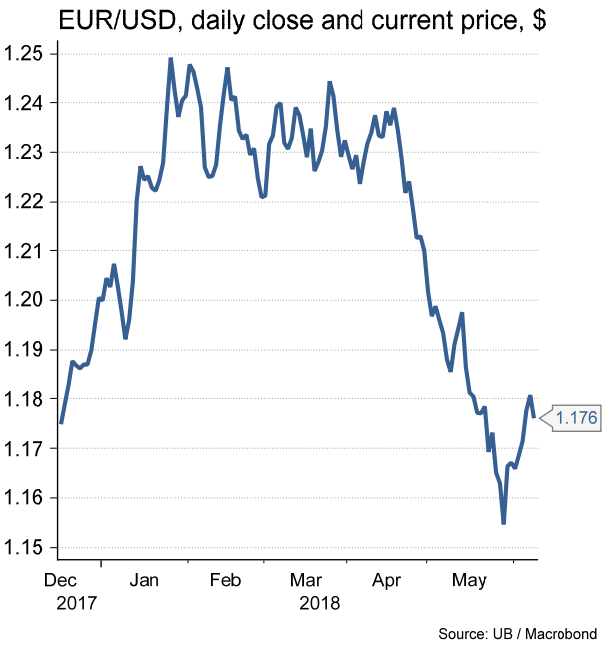
Meanwhile on Brexit, the UK Government published its "backstop" proposals to avoid an hard border in Ireland. The Uk plan deviated from EU's in important ways, namely as the backstop would be time-limited and would apply to the whole UK rather than just Northern Ireland. However, both proposals have already been rejected by Barnier, even if EU's chief Brexit negotiator referred that his response was not a wholesale rejection of the UK's approach. Discussions over this issue are expected to continue, but agreement at the upcoming EU-Council meeting is increasingly looking over-ambitious.

US: Further signs of strength in the US economy; expect another Fed hike next week



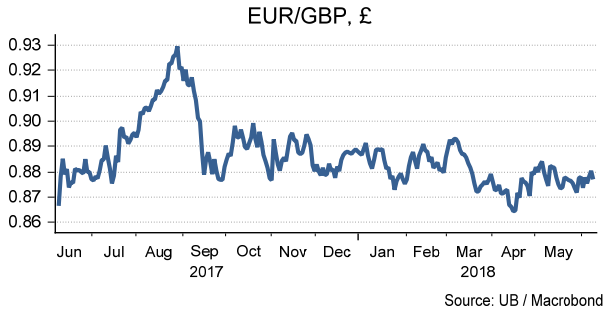
A flurry of recent labour market data and activity surveys continue to paint a decidedly upbeat picture of trends in the US economy at the moment. The pace of jobs growth continues to look very healthy, with last week's May jobs report showing non-farm payrolls rising by a street-beating 223k in May (vs. 190k expected), while there were also net upward revisions to the prior two months of 15k. Payrolls have averaged 207k so far this year, an impressive pace particularly given the point in the cycle. Such favourable trends in employment continue to exert downward pressure on the unemployment rate which fell to 3.8% in May to match April 2000 as the lowest since 1969. The earnings element of this month's report was also encouraging with average hourly earnings ticking up to 2.7% y/y in May, slightly above expectations of an unchanged reading at 2.6%. Meanwhile, a separate report showed job openings rising further in April to a fresh new all-time high of 6.7 million, leaving the ratio of numbers unemployed per job opening below 1 for the first time in the survey's over 18-year history - meaning that there were more job openings than numbers unemployed. The May ISM surveys also highlighted that US private sector firms continued to experience strong, and faster, rates of expansion in May, supported by very sharp increases in current and new activity. This is consistent with our view that GDP growth is likely to accelerate following a soft start to the year, with the ongoing labour market strength also providing an important reason to expect another interest rate hike from the Fed next week.

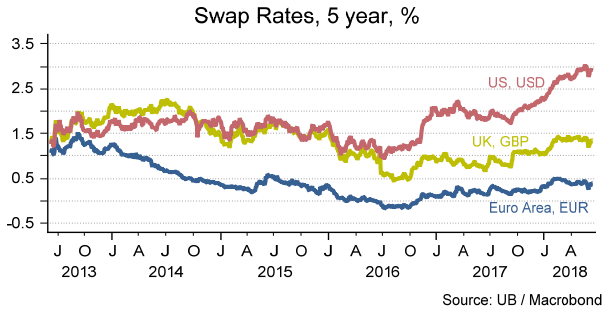
Financial Markets: Euro capitalizes on hawkish speeches from ECB members



The euro was on the front foot this week with the move to the upside linked to a series of relatively hawkish speeches from ECB members. The remarks from Peter Praet were particularly important given his role within the governing council. Praet's speech underlined a growing confidence "on a sustained adjustment in the path of inflation", supported by the underlying strength of the Eurozone economy at the moment which is increasingly affecting wage growth. In this context, Praet stated that the governing council will need to assess whether this progress is sufficient to warrant a gradual unwinding of QE. Of course that "assess" here does not mean "decide", but following this strong signalling from Praet, no one would be surprised if the ECB announced its QE exit path already in June – even if continue to think that such announcement is more likely to be made at the July policy meeting. In any case, this week's focus on the ECB cycle provided some impetus to the euro, with EUR/USD at one point trading at a three-week high of $1.184. And even if the euro has eased modestly since then to trade at around $1.176 at the moment, the single currency is still looking poised to gain around 0.9% vs. the dollar this week following seven weeks in which the euro recorded a cumulative drop of over 5% vs. the dollar. The euro also capitalized against sterling, with EUR/GBP at one point trading at a nearly one-month high of 88.4p to end the week around 88p (a 0.7% move to the upside). GBP/USD was little moved, which suggests that the EU's rejection of the UK plan was broadly anticipated by markets.

Currency and interest rate market trends





Market Monitor

Foreign Exchange Markets

	Latest	weekly Δ, %
EUR/GBP, £	0.877	0.4
GBP/EUR, €	1.140	-0.4
EUR/USD, $	1.175	0.8
GBP/USD, $	1.340	0.4
EUR/JPY, JP¥	128.6	0.7
GBP/JPY, JP¥	146.7	0.3
USD/JPY, JP¥	109.5	-0.1
EUR/CHF, CHF	1.157	0.4

Stocks & Commodities

	Latest	weekly Δ, %
ISEQ	7,136	-0.6
STOXX Europe 600	386	-0.3
FTSE 100	7,706	0.1
S&P 500	2,770	1.3
Dow Jones	25,241	2.5
Nasdaq	7,635	1.1
NIKKEI	22,695	2.4
OIL (London Brent)	76.7	-0.1
Gold	1,298	0.2

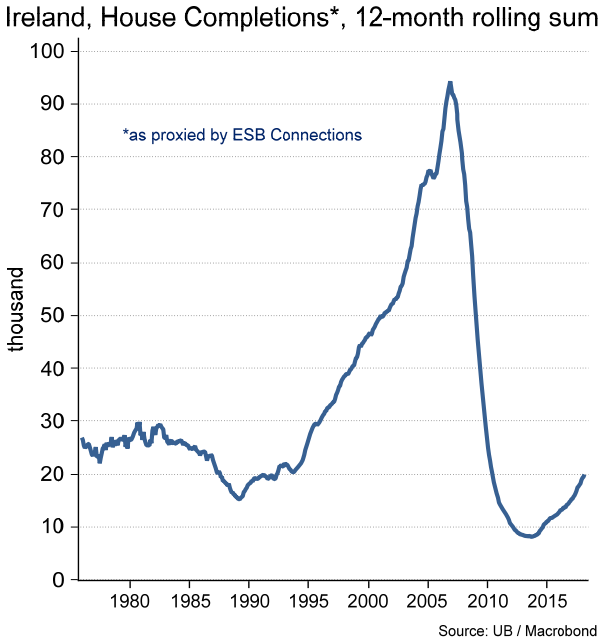
Interest Rate Markets

		Latest (%)	weekly Δ, bps
EUR	3 Month Euribor	-0.321	0.0
	2 Year Swaps	-0.12	2
	5 Year Swaps	0.38	6
	10 Year Swaps	1.00	7
GBP	3 Month Libor	0.627	1.0
	2 Year Swaps	1.02	6
	5 Year Swaps	1.35	9
	10 Year Swaps	1.60	9
USD	3 Month Libor	2.326	0.8
	2 Year Swaps	2.77	4
	5 Year Swaps	2.91	4
	10 Year Swaps	2.98	4

Note: the data in the tables are indicative only and are sourced from Bloomberg. Latest data are updated as at the time of publication. "weekly Δ" refers to the change from the previous week's closing levels.

Ulster Bank Cost of Funds Rate (365 day count) = 0.50%
Euro rates are quoted in 360-day convention.
To convert to 365 day count, divide by 360, & multiply by 365

Highlights for the week ahead: Irish housing data, Central Banks and Brexit in focus



A busy week on the Irish economic calendar includes the inaugural new dwellings completions (on Thursday), which will replace the ESB Connections as the source of data on housing completions. We would not be surprised to see recent flows revised lower even if the latest data for Q1 is expected to point to improving supply-side trends. In any case, with the supply-demand balance expected to remain price-supportive, house price inflation (on Wednesday) is seen remaining very elevated in the short-term following growth of 12.3% y/y in Q1 as a whole.

Away from home, we will pay close attention to monetary policy updates from the Fed (on Wednesday) and the ECB (on Thursday). The Fed is widely expected to hike interest rates by another 25bps, with the main point of interest for markets likely to be whether the Fed also shifts its interest rate guidance for 2018 (from three to four hikes). We would also not be surprised if the Fed revisits some dovish elements of the current forward-guidance language. Meanwhile on the ECB, one particular point of interest for market participants relates to the path of QE beyond September. While we think that no announcement this Thursday is more like than not, Praet's recent comments clearly highlight that an early announcement shouldn't be ruled-out.

In the UK, the EU Withdrawal Bill returns to the Commons on Tuesday, with the key focus on the amendment calling on the UK government to secure a customs union with the EU-27. Meanwhile, the UK economic calendar includes labour market and inflation figures for April and May, respectively.

Economic calendar for the week commencing June 11th

Ireland / Eurozone	UK	US
Monday		
06.00 – Ulster Bank Construction PMI (May) 11.00 – New Vehicle Licenses (May)	David Davis meets EU Brexit Chief Barnier 09.30 – Trade Balance (Apr); Industrial / Manuf. Production (Apr); Construction Output (Apr) 12.00 – NIESR GDP Estimate (May)	
Tuesday		
10.00 – GE ZEW Survey (Jun)	Brexit legislation returns to the Commons 09.30 – Employment Change (Apr); Unemp. Rate (Apr); Av. Weekly Earnings (Apr)	President Trump meets North Korean leader Kim 11.00 – NFIB Small Business Optimism (May) 13.30 – CPI (May) 19.00 – Monthly Budget Statement (May)
Wednesday		
10.00 – EZ Industrial Production (Apr); Employment (Q1) 11.00 – House Prices (Apr); Trade Statistics (Mar)	09.30 – CPI (May); House Price Index (May)	13.30 – PPI (May) 19.00 – Fed Monetary Policy Meeting
Thursday		
11.00 – New Dwelling Completions (Q1) 12.45 – ECB Monetary Policy Meeting	00.01 – RICS House Price Balance (May) 09.30 – Retail Sales (May)	13.30 – Initial Jobless Claims; Retail Sales (May) 15.00 – Business Inventories (Apr)
Friday		
10.00 – EZ Trade Balance (Apr); CPI – Final Release (May); EZ Labour Costs (Q1) 11.00 – Planning Permissions (Q1); Merch. Trade (Apr)		13.30 – Empire Manufacturing (Jun) 14.15 – Industrial / Manuf. Production (May) 15.00 – U. of Michigan Consumer Sentiment (Jun)

The Calendar uses Irish local time

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