# Ulster Bank Weekly Economic Commentary

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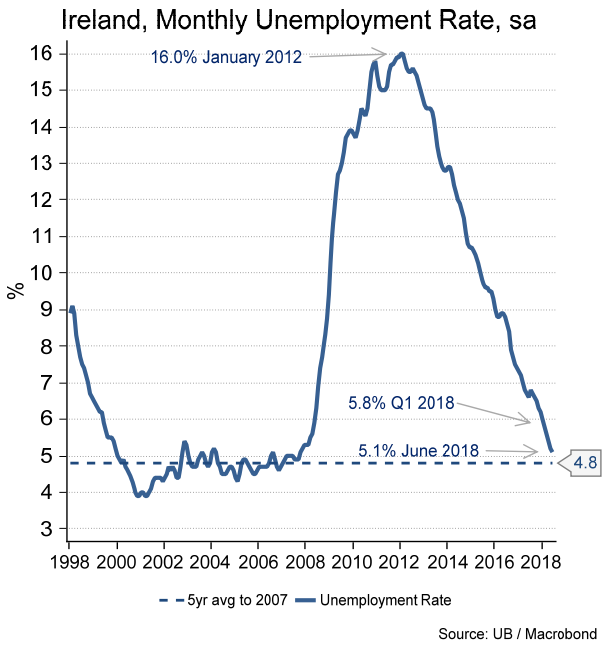
**6 July 2018**





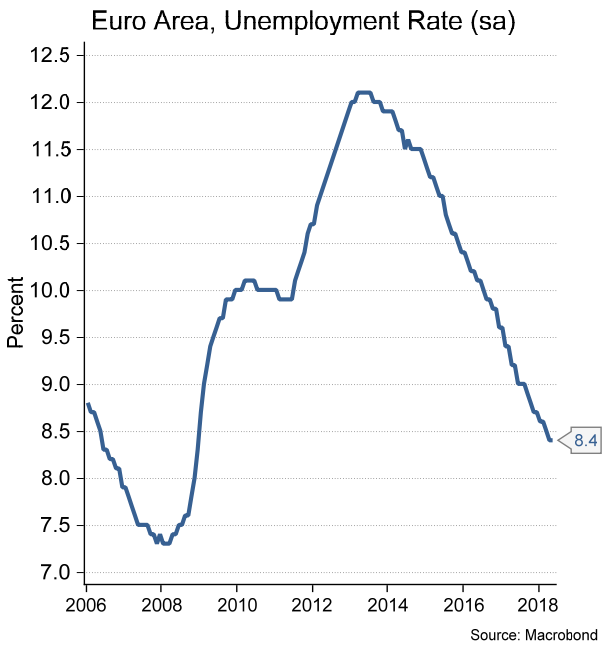


## Ireland: Tax receipts continue to benefit from ongoing rapid decline in unemployment as jobless rate drops to lowest level since Oct '07




The latest CSO unemployment estimate indicates that the improvement in the Irish jobs market showed no signs of waning in the first half of the year. While the monthly figures are preliminary, the jobless rate is estimated at 5.1% in June, down from 5.2% in May and from 5.8% in Q1. The impressively strong downward trend has seen the jobless rate decline by a remarkable 1.1% points so far in 2018 – a somewhat faster pace than has been experienced on average over the past 5 years of labour market recovery (the avg. 6-month decline in that period has been 0.9% points). The June reading leaves the jobless rate within just 0.3% of the 4.8% level seen on avg. at the top of the last cycle – thus again highlighting the fast-reducing amount of spare capacity in the jobs market as we approach full employment. In turn, this implies that some moderation in the pace of improvement (i.e. slower growth in employment and a slower pace of decline in the unemployment rate) is likely as we look forward. In the meantime, the robust jobs market performance continues to leave its imprint on other areas of the economy. Last week we noted its supportive influence on consumer spending. And this week's Exchequer returns for June highlight that tax returns are also benefiting strongly, with income tax receipts up 7.7% y/y so far this year, in the process running 1% ahead of expectations. Together with even greater buoyancy in corporation tax receipts (up 14.6% y/y and 9.1% ahead of plan), this leaves overall budgetary targets broadly on track despite further spending overruns in the department of Health.

# Eurozone: Jobless rate at a new over nine-year low; some ECB members uneasy with current interest rate expectations

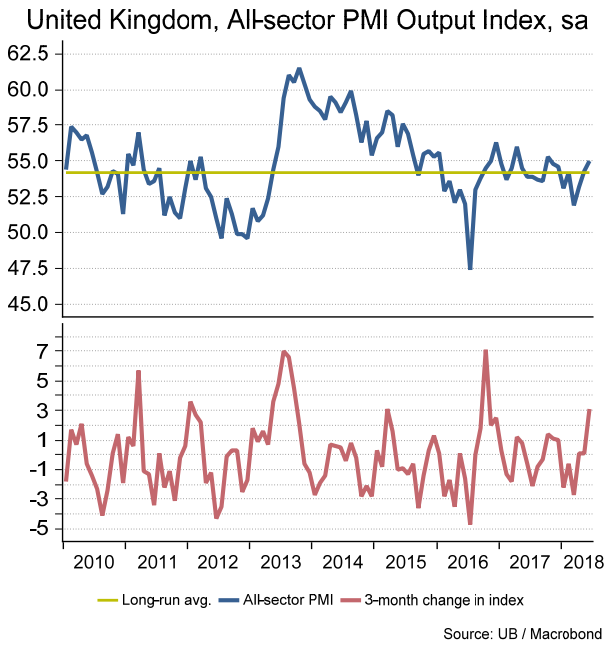



Positive trends in the Eurozone labour market remain in place judging by the latest drop in the jobless rate to an over nine-year low of 8.4%, with the May reading unchanged following a downwardly revised April (from 8.5% previously). This is an important indication that, despite some loss of momentum in recent months, the Eurozone economy has continued to record healthy performance over that period. It is also encouraging that the latest evidence from high-frequency survey indicators, including the PMIs, is signalling a continued positive outlook for employment growth underpinning our expectations for further downward pressure on the jobless rate over the period ahead. With the labour market also acting as an important driver of other areas of the economy, including household consumption, we also remain optimistic regarding the near-term growth outlook for the Eurozone economy more generally. Recent ECB messaging, including from Peter Praet this week, highlights that policy-makers also remain confident on the underlying strength of the Eurozone economy, so we are not surprised to see a media report suggesting that some ECB members are uneasy with current expectations for a first interest ECB rate hike. Markets reacted to ECB's mid-June changes to its forward guidance on interest rates by paring back expectations. However, this move may have gone a bit too far, with the report saying that a hike in September or October next year may be more likely than a later timeframe. And we think that's fair, particularly if economic conditions continue to improve meaningfully.



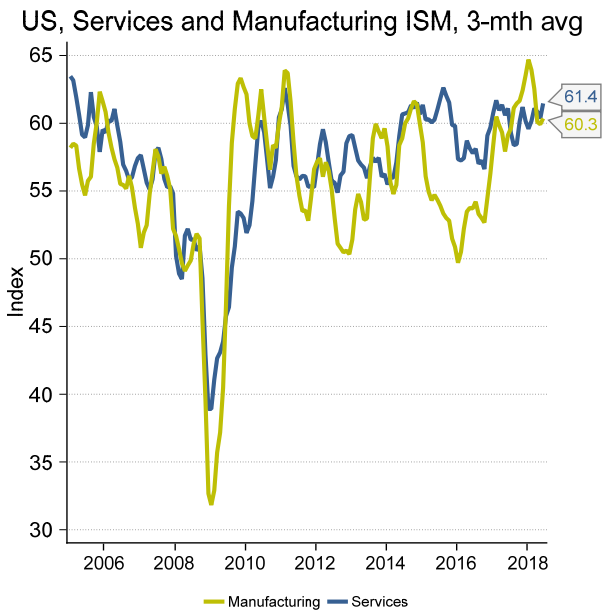


# UK: PMIs validate BoE's optimism; Carney signals an August rate hike




This week's June PMI survey results indicated that the UK private sector economy gained further momentum in the final month of Q2. This was particularly evident in the key services sector, with the Services PMI unexpectedly picking-up to an eight-month high in June, but construction firms also experienced slightly faster growth in activity. The manufacturing sector ended up being the exception maintaining a broadly unchanged rate of expansion. Encouragingly, this left the all-sector PMI at an eight-month high of 55 in June, with the figures for Q2 as a whole at levels which historically have been consistent with GDP growth of 0.4-0.5% q/q. This also means that incoming news continues to validate the BoE-expected growth pick-up, with this week's comments from BoE Governor Carney highlighting that policy-makers are in turn becoming increasingly confident that the weak performance of the UK economy in Q1 was largely due to temporary factors. Carney also reiterated that recent data suggest that the UK economy is evolving largely in line with the May BoE projections. This is important because one clear implication from recent MPC messaging has been that in such a scenario, further policy tightening would be required, so we view this comment as clearly flagging that the next Bank rate hike could come soon, possibly next month. Of course Brexit risks and uncertainties remain a live concern, with media reports suggesting that Theresa May is having difficulties in achieving full Cabinet support for her new vision of the EU-UK post-Brexit relationship ahead of today's crunch meeting at Chequers.

# US: Fed continues to see US economy as strong but acknowledges intensifying risks from trade policy



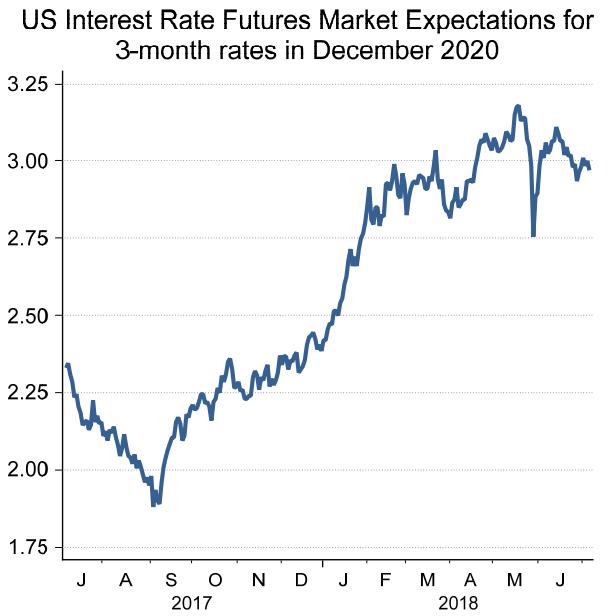

Source: UB / Macrobond

Thursday's minutes from the June FOMC meeting clearly reiterated the Fed's current core message, namely that "with the economy already very strong and inflation expected to run at 2 percent on a sustained basis…it would likely be appropriate to continue gradually raising the target range for the federal funds rate to a setting that was at or somewhat above their estimates of its longer run level by 2019 or 2020". Indeed, this week's data provided further evidence of the economy's strength, with Street-beating June outcomes in the manufacturing and non-manufacturing ISM surveys as well as in monthly payrolls (at 213k vs. 195k expected) pointing to robust momentum as the economy heads into H2. The unemployment rate moved higher from 3.8% to 4% but this was for a 'good' reason (higher workforce participation), and in any case, it still remains some way below the current Fed estimate of full employment which is 4.5%. One further point of interest from the minutes was that most participants were concerned that intensifying uncertainty and risks associated with trade policy could have negative effects on business sentiment and investment spending. Indeed, business contacts in some Fed Districts indicated that plans for capital spending had been scaled back or postponed as a result of uncertainty over trade policy. In this respect, the minutes perhaps sounded a bit more cautious than Chair Powell did in his press conference. With the latest round of US tariff hikes vs. China kicking in at the end of the week, such caution within and outside the Fed will likely continue to rise.





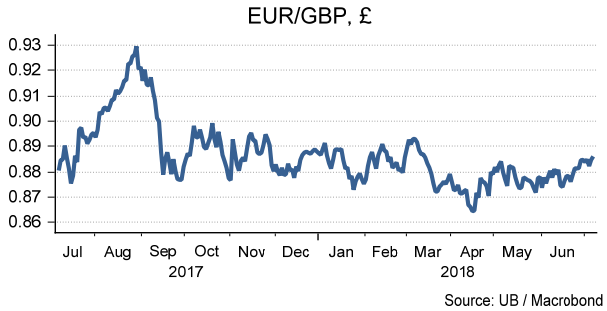
# Financial Markets: Eur/USD grinding higher; Brexit risks weigh on pound despite growing expectations of an August BoE hike



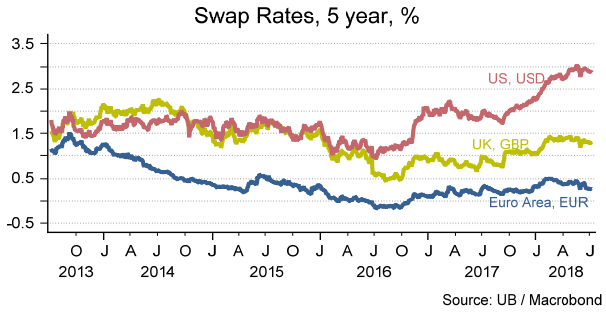

Source: UB / Macrobond

Building on the signs of stability we noted a couple of weeks ago, Eur/USD has been grinding higher in recent sessions. The pair ends the week at $1.176 following a gain of 0.6% since last Friday and of 2.2% from its June low of close to $1.15. Both legs of the pair are contributing to this modest move to the upside. In Europe, reports of ECB discomfort with seemingly excessively dovish interest rate market pricing have offered support for the single currency. In the US, while the overall tone of much of the recent economic news has been positive, elements of Friday's jobs data were on the soft side of market expectations. In particular, unchanged wage growth of 2.7% was softer than the 2.8% which had been anticipated. While this doesn't really change the big picture in our view, at the margin it has cast doubt over the extent to which underlying cost pressures are building, and thus the extent to which the market needs to price additional Fed tightening. Also, as we noted above, while we are not concerned about the rise in the jobless rate, it has served to reinforce market perceptions of a dovish report. In the process, this sees the dollar trading on the back foot, with growing concern about trade policy risks also restraining US interest rate expectations (which have been pulling back from their recent May peak). While expectations of a BoE August hike continue to build, sterling is actually slightly weaker vs. the euro on the week, at 88.6p, as Brexit risks and uncertainties continue to weigh on the pound. The fallout from today's cabinet meeting could well trigger further volatility (and possible downside) for the UK unit.

# Currency and interest rate market trends










# Market Monitor

## Foreign Exchange Markets

| | Latest | weekly Δ, % |
|---|---|---|
| EUR/GBP, £ | 0.886 | 0.2 |
| GBP/EUR, € | 1.129 | -0.2 |
| EUR/USD, $ | 1.176 | 0.6 |
| GBP/USD, $ | 1.327 | 0.4 |
| EUR/JPY, JP¥ | 129.9 | 0.4 |
| GBP/JPY, JP¥ | 146.6 | 0.2 |
| USD/JPY, JP¥ | 110.5 | -0.2 |
| EUR/CHF, CHF | 1.163 | 0.5 |

## Stocks & Commodities

| | Latest | weekly Δ, % |
|---|---|---|
| ISEQ | 6,968 | -0.2 |
| STOXX Europe 600 | 381 | 0.2 |
| FTSE 100 | 7,577 | -0.8 |
| S&P 500 | 2,742 | 0.9 |
| Dow Jones | 24,364 | 0.4 |
| Nasdaq | 7,626 | 1.5 |
| NIKKEI | 21,788 | -2.3 |
| OIL (London Brent) | 76.7 | -3.5 |
| Gold | 1,255 | 0.0 |

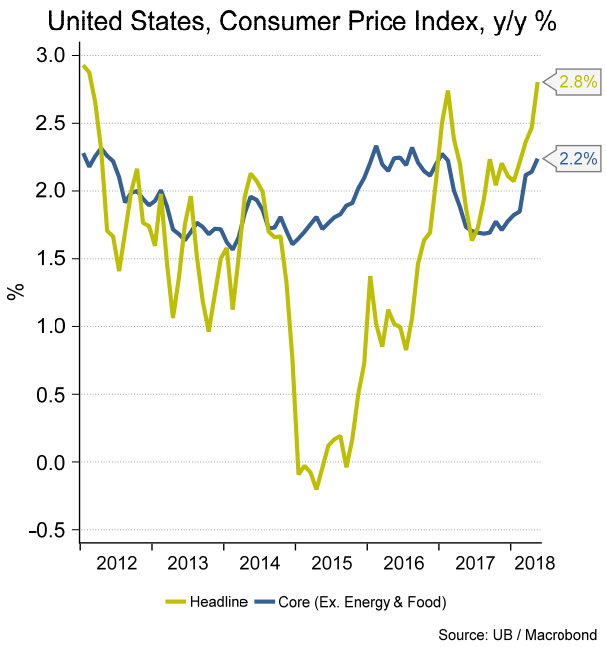
## Interest Rate Markets

| | | Latest (%) | weekly Δ, bps |
|---|---|---|---|
| EUR | 3 Month Euribor | -0.321 | 0.0 |
| | 2 Year Swaps | -0.17 | 0 |
| | 5 Year Swaps | 0.27 | 0 |
| | 10 Year Swaps | 0.86 | -1 |
| GBP | 3 Month Libor | 0.713 | 3.8 |
| | 2 Year Swaps | 1.06 | 4 |
| | 5 Year Swaps | 1.31 | 1 |
| | 10 Year Swaps | 1.52 | 0 |
| USD | 3 Month Libor | 2.331 | -0.4 |
| | 2 Year Swaps | 2.80 | 1 |
| | 5 Year Swaps | 2.88 | 0 |
| | 10 Year Swaps | 2.91 | -1 |

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) = 0.45%
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 Construction PMI, Brexit and US inflation in focus




In a relatively quiet week on the Irish economic calendar, the Ulster Bank Construction PMI (on Monday) will present the latest trends in Irish construction activity at the end of Q2, while on Thursday, we will get May goods trade figures and June's consumer price inflation. In the UK, the details of today's Brexit Cabinet meeting at Chequers will attract plenty of attention over the coming days, with the main points of interest for markets likely to be whether Theresa May succeeds in uniting her government behind a common vision of the post-Brexit UK-EU relationship and whether that vision (which is expected to be detailed in a white paper) is acceptable to EU-leaders. In terms of economic data, Tuesday's official output data (services, industrial production and construction) are expected to signal improving trends in May following a disappointing start to Q2. We also await with interest the inaugural publication of the monthly GDP estimate for May as it is likely to give an early insight on whether GDP growth is likely to accelerate in Q2 as expected by the BoE. Meanwhile in the US, both headline and core CPI inflation are expected to have ticked-up by another tenth in June, leaving the headline measure at an over six-year high of 2.9%, while core inflation is seen matching a post-crisis high of 2.3%. Confirmation of these expectations would provide support for the view that the Fed will continue its gradual normalisation of US interest rate settings. Finally in the Eurozone, we will pay close attention to the initial surveys for July, in the form of the Sentix and ZEW measures of investor and financial sector confidence.





# Economic calendar for the week commencing July 9th

| Ireland / Eurozone | UK | US |
|---|---|---|
| **Monday** | | |
| 01.01 – Ulster Bank Construction PMI (Jun)<br>09.30 – EZ Sentix Investor Confidence (Jul)<br>10.00 – ECB Speech on monetary policy (Praet)<br>11.00 – New vehicle registrations (Jun)<br>16.00 – ECB hearing on EU Parliament (Draghi) | 08.50 – BoE speech (Deputy Governor Broadbent) | 20.00 – Consumer Credit (May) |
| **Tuesday** | | |
| 10.00 – GE ZEW Survey (Jul) | 00.01 – BRC Sales Like-for-like (Jun)<br>09.30 – Monthly GDP Estimate (May); Index of Services (May); Industrial / Manufacturing Production (May); Construction Output (May)<br>09.30 – NIESR GDP estimate (Jun) | 11.00 – NFIB Small Business Optimism (Jun)<br>15.00 – JOLTS Job Openings (May) |
| **Wednesday** | | |
| | 16.35 – BoE speech (Governor Carney) | 13.30 – PPI inflation (Jun) |
| **Thursday** | | |
| 10.00 – EZ Industrial Production (May)<br>11.00 – CPI and HICP (Jun); Trade Statistics (Apr) | 00.01 – RICS House Price Balance (Jun)<br>09.30 – BoE Credit Conditions Survey | 13.30 – Initial Jobless Claims; CPI (Jun)<br>19.00 – Monthly Budget Statement (Jun) |
| **Friday** | | |
| | 09.30 – BoE speech (Deputy Governor Cunliffe) | 15.00 – U. of Michigan Consumer Sentiment (Jul)<br>16.00 – Fed semi-annual report to Congress |

The Calendar uses Irish local time

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