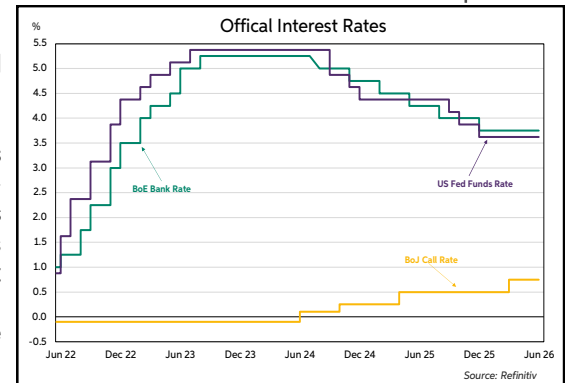


Still fighting the last war?

- Amid the most recent surge in energy prices following the outbreak of the war in the Middle East, Eurozone headline inflation has risen sharply.** It printed at 3.2% in May, its highest level since September 2023 and up from just 1.7% at the start of the year. Perhaps unsurprisingly then, the ECB hiked rates by 25bps on Thursday, bringing the deposit rate up to 2.25%. The outcome was in line with market expectations. **In terms of the outlook for headline inflation, the June forecasts contained upward revisions.** The ECB now expects inflation to average 3.0% this year, 2.3% next year. Meanwhile, core inflation is forecast to run above the 2% target, averaging 2.5% this year and next. In terms of growth, the ECB revised lower its baseline GDP projections by 0.1% per annum, to 0.8% in 2026 and to 1.2% in 2027. This suggests a rather benign impact on activity.
- The ECB also provided a slew of alternative macro scenarios.** This included two downside, “adverse” and “severe”, and an upside, “milder”, scenario. In the worst-case scenario, growth slows to 0.5% this year and to 0.4% in 2027, with inflation averaging 4.0% and 5.3%. Meanwhile, in the “milder” scenario, growth would be 0.9% this year and 1.3% next year, as inflation averages 2.6% and 2.0%, respectively. Crucially, President Lagarde stated that the decision to hike rates was “robust” across the scenarios. In other words, even if the upside scenario transpired, policy tightening would still be appropriate.
- In 2011, the ECB hiked rates twice in April and July, amid concerns regarding price stability, before having to reverse course by cutting rates twice before the year was out.** The ill-considered hikes were the last until July 2022, when the ECB was slow to react to a surge in inflation. It could be argued that each episode shows a central bank that was too busy “fighting the last war” - making it too quick to act in 2011 and to slow to act in 2022.
- Eurozone GDP contracted in Q1 of this year, for the first time since Q4 2022.** This fact is not included in the ECB’s projections, as it only became known after the cut-off point for the forecasts. Furthermore, underlying inflation has been relatively steady recently. Granted, it rose to 2.3% in May, up from 2.1% in April, but it is worth pointing out that it remained in the 2.2-2.4% region in the final nine months of last year. For the majority of that time, the ECB was willing to stay on hold. However, President Lagarde stated that the ECB is now seeing signs of “broadening” price pressures, although, it was also acknowledged that inflation expectations remain anchored. Taken altogether, this begs the question - is there a risk the ECB could repeat the mistakes of the past, and find itself fighting the last war once again?
- Turning to the week ahead, the monetary spotlight will shift to the Federal Reserve, the Bank of England and the Bank of Japan.** Starting with the Fed, the FOMC is widely expected to leave policy on hold for a fifth successive meeting. However, it should be noted that market interest rate expectations have hardened in recent weeks, amid signs that inflationary pressures have increased, and that the labour market has gathered momentum. Against this backdrop, the main focus will be on Chair Warsh’s first post-meeting press conference. The updated Summary of Economic Projections will also warrant attention, particularly the interest rate dotplot. The March dotplot indicated that the median projection was for one 25bps cut this year. In contrast, the market now thinks there is a 70% chance of a Fed rate hike in 2026.
- Meanwhile, expectations are that the BoE will also leave policy on hold.** In recent weeks, UK market rate expectations have softened slightly, albeit futures contracts suggest that the BoE may hike rates twice this year. However, there appears to be a range of differing opinions amongst the MPC members regarding the future path of policy. Indeed, the MPC has voted unanimously just once since June 2022. As a result, investors will be keeping a close eye on the voting split this week. **In contrast, the BoJ is set to raise rates by 25bps.** This will bring the policy rate up to 1.00%.
- Data-wise, a busy macro calendar contains a number of updates on the UK economy.** In terms of the labour market, conditions have softened over the past year. The unemployment rate rose from 4.4% at the start of 2025 to 5.2% in December/January, before edging back to 5.0% in March. Furthermore, wage inflation has cooled somewhat, with average earnings growth falling to +4.1% y/y in Q1 compared to +5.4% y/y in the same period last year. The consensus is for the unemployment rate to stay at 5.0% in April, while wage inflation is set to slow to +4.0% y/y. Meanwhile, CPI inflation has been trending lower recently. The headline rate fell to 2.8% in April, while the core rate declined to 2.5%. However, both rates are forecast to rise to 3.0% and 2.7% in May. Elsewhere, retail sales are projected to rebound by 0.4% in May, following a sharp 1.3% contraction in April.
- In the US, retail sales data for May will also be released.** Headline sales have increased at a solid pace throughout the first four months of the year, although this partly reflects the recent rise in fuel prices. Underlying sales have also remained robust. The control group has increased by 0.5-0.9% per month in 2026. Furthermore, both are forecast to rise by 0.5% and 0.4% in May.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
Fed Funds	3.625	3.625	3.625	3.625
ECB Deposit	2.25	2.25	2.50	2.50
BoE Repo	3.75	3.75	3.75	3.75
BoJ OCR	0.75	0.75	1.00	1.00

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
EUR/USD	1.1570	1.18	1.19	1.20
EUR/GBP	0.8632	0.87	0.88	0.88
EUR/JPY	185.42	185	187	187
GBP/USD	1.3397	1.36	1.35	1.36
USD/JPY	160.24	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde, Cipollone (Mon); Lane (Tue); Lane (Fri)		
	BoE Speakers:			
	Fed Speakers:			
		G7 Summit (Monday - Wednesday)		
		European Council Meeting (Thursday-Friday)		
Mon 15th	EU-21:	10:00 Total Trade Balance (April) - EuroStat Trade	+€3.5bn +€7.8bn	
	EU-21:	10:00 Industrial Production (April)	+0.2% (-2.1%)	+0.2% (+0.4%)
	US:	13:30 NY Fed / Empire State Index (June)	19.6	15.0
	US:	14:15 Industrial Production (May) - Manufacturing Output - Capacity Utilisation	+0.7% +0.6% +76.1%	+0.2% +0.3% 76.2%
	US:	15:00 NAHB Homebuilder sentiment (June)	37.0	36.0
Tue 16th	JPN:	BoJ Interest Rate Decision	0.75%	1.00%
	GER:	10:00 ZEW Economic Sentiment (June)	-10.2	-6.0
	US:	13:30 Housing Starts (May) - Building Permits	+1.47m / -2.8% +1.42m / +4.4%	+1.43m / -2.4% +1.42 / -0.1%
Wed 17th	JPN:	00:50 Total Trade Balance (May) - Exports	+¥301.9bn (+14.8%)	
	UK:	07:00 CPI Inflation (May) - Core-CPI - Services	+0.7% (+2.8%) +0.7% (+2.5%) (+3.2%)	+0.4% (+3.0%) +0.4% (+2.7%) (+3.7%)
	UK:	07:00 PPI Input Prices (May) - Output Prices	+2.4% (+7.7%) +1.4% (+4.0%)	
	EU-21:	10:00 Final HICP Inflation (May) - Ex-Food & Energy - Ex-Food, Energy, Alcohol & Tobacco	+0.1% (+3.2%) +0.3% (+2.3%) +0.3% (+2.5%)	+0.1% (+3.2%) +0.3% (+2.3%) +0.3% (+2.5%)
	IRE:	11:00 Residential Property Price Index (April)	+0.0% (+6.5%)	+0.4% (+6.5%)
	US:	13:30 Retail Sales (May) - Ex-Autos - Control Group	+0.5% +0.7% +0.5%	+0.5% +0.4% +0.4%
	US:	19:00 Fed FOMC Policy Announcement - Fed Funds Target Range	3.50-3.75%	+3.50-3.75%
	US:	19:30 Fed FOMC Post-Meeting Press Conference		
Thu 18th	UK:	07:00 Unemployment Rate (April)	5.0%	5.0%
	UK:	07:00 HMRC Payrolls (May) - Claimant count	-100,000 26,500	
	UK:	07:00 Average Weekly Earnings (3 months to April) - Ex-Bonus	(+4.1%) (+3.4%)	(+4.0%) (+3.2%)
	UK:	12:00 BoE Monetary Policy Announcement - Bank Rate	3.75%	
	US:	13:00 Initial Jobless Claims (w/e 8th June)	+229,000	+226,000
	US:	13:30 Philly Fed Business Index (June)	-0.4	+12.0
Fri 19th	UK:	00:01 Gfk Consumer Confidence (June)	-23.0	-25.0
	JPN:	00:30 CPI Inflation (May) - Core-CPI	(+1.4%) (+1.4%)	(+1.4%)
	UK:	07:00 Retail Sales (May) - Ex-Fuel	-1.3% (+0.0%) -0.4% (+1.1%)	+0.4% (+1.8%) +0.6% (+3.4%)

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