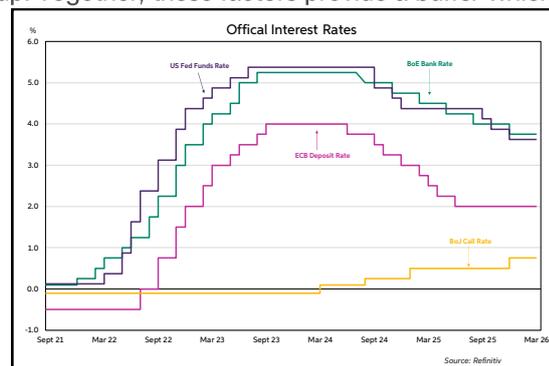


## The first cut is the deepest

- The ongoing conflict in the Middle East and its impact on energy markets, raises significant uncertainty in the outlook for inflation and growth in 2026.** However, it should be stated that the current shock, so far, is not near that experienced in 2022 following the invasion of Ukraine, in terms of energy price levels and prevailing economic conditions. Over a longer period, the correlation between GDP growth and fossil fuel use has diminished, meaning an energy shock today is damaging, but nowhere near that of the oil crises of the 1970s, which also emanated from the Gulf region.
- So far, the ramp up in energy prices is less than was seen in 2022, particularly for gas prices which remain a fraction of the 2022 peak. However, Brent Crude has broken through the key \$100/barrel level this week.** In percentage terms, the ramp up in oil prices is akin to the shock in 2022, but back then Brent peaked at around \$130 per barrel. Gas prices, which are contained right now at around €50/MWh are another important point of difference to 2022, when prices peaked around at €350/MWh. The surge in gas prices in 2022 had drastic effects on energy and electricity markets across Europe, eventually pushing industrial economies, such as Germany, into recession.
- The question remains how the Irish economy would fare if it does face a sustained shock like in 2022.** In terms of our energy mix, we have made some progress on reducing our reliance on imported oil and gas. The latest SEAI ‘Energy in Ireland’ report showed 81% of our energy came from fossil fuels in 2024, albeit energy emissions were down nearly 12% compared to 2021, ahead of the Ukraine war, and 32% lower versus the 2005 peak. Steady progress in decarbonisation could lessen the blow of a fresh energy shock, but the Irish economy remains highly exposed to global markets. Indeed, a new Eurostat report showed Irish electricity prices were among the highest in Europe for households, and the single highest for business users. So, we start from a position of competitive disadvantage if the economy faces a sustained shock.
- However, while Ireland is exposed to energy price shocks, we have also built-up significant fiscal resilience to weather them.** The economy is growing at a 3-4% pace at present. In particular, the continued surge in taxes means the Government has an even larger surplus than four years ago, if it chooses to use it. In the private sector, household and business balance sheets are also in a healthy position with debt levels low and substantial savings built up. Together, these factors provide a buffer which should help the economy navigate another potential crisis.
- This week, the ongoing war in the Middle East will remain front and centre. Aside from the war, market participants will be keeping a close eye on a number of central bank meetings, as the Fed, BoE, ECB, and BoJ announce their latest policy decisions.** Interest rate expectations have firmed in response to the war, as the risk of another inflation shock has risen, due to higher energy prices. **However, no changes to policy are anticipated this week.** Instead, the focus will be on what guidance, if any, central bank officials provide on the future path of policy, and how they see the recent surge in oil and gas prices impacting their respective economies. Thus, the post-meeting press conferences with Fed Chair Powell, ECB President Lagarde and BoJ Governor Ueda will be in the spotlight (BoE Governor Bailey is not scheduled to hold a press conference, though he has done an interview following previous non-Monetary Policy Report meetings). Meanwhile, both the Fed and ECB are due to release updated economic projections. However, the assumptions used in the ECB baseline projections will be prior to the war starting, meaning the forecasts are likely to be stale on arrival. The alternative scenarios may be of more significance though. Previous ECB analysis, which factored-in a partial closure of the Strait of Hormuz, indicated that Eurozone growth would be 0.6 percentage points lower and inflation 0.8 percentage points higher compared to the baseline one year after the shock.
- On the data front, the main highlight will be the January/February batch of UK labour market statistics.** Throughout last year, UK labour market conditions softened somewhat. Worryingly, HMRC payrolls have contracted in eleven of the past fifteen months. This saw the unemployment rate trend steadily higher, reaching a peak of 5.2% in December, its highest level since January 2021, and up from 4.4% at the start of the year. The consensus is for the jobless rate to stay at 5.2% in January. Amid the deterioration in labour market conditions, average earnings growth slowed somewhat, albeit, it is still elevated, up by 4.2% y/y in the final quarter of 2025. Wage growth is forecast to slow once again to 3.9% y/y in the three months to January.
- In the US, industrial production figures for February will feature.** Following a weak end to last year, industrial output jumped by 0.7% m/m in January. A solid rise in car manufacturing, its first monthly gain since the Biden-era EV subsidies ended, and a further jump in computer equipment output amid the AI-buildout, led to the increase in overall production. However, a meagre 0.1% m/m rise in industrial output is projected in February. **The data calendar is relatively sparse in the Eurozone.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2026	2026	2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.50	3.25
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 Q1	End Q2	End Q3
		2026	2026	2026
EUR/USD	1.1455	1.19	1.20	1.20
EUR/GBP	0.8641	0.87	0.88	0.88
EUR/JPY	182.60	185	186	185
GBP/USD	1.3252	1.37	1.36	1.36
USD/JPY	159.40	155	155	154

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>			
<b>EU Leaders Summit (19-20th March)</b>				
<b>Mon 16th</b>	<b>US:</b>	12:30 NY Fed / Empire State Index (March)	7.10	3.90
	<b>US:</b>	13:15 Industrial Production (March)	+0.7%	+0.1%
		- Manufacturing Output	+0.6%	
		- Capacity Utilisation	76.2%	76.2%
	<b>US:</b>	14:00 NAHB Homebuilder Sentiment (march)	36.0	37.0
<b>Tue 17th</b>	<b>IRE:</b>	<b>St. Patrick's Day (Public Holiday)</b>		
	<b>ITA:</b>	09:00 Final HICP Inflation (February)	+0.6% (+1.6%)	+0.6% (+1.6%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (March)	58.3	38.7
	<b>JPN:</b>	23:00 Trade Balance (February)	-¥1,152bn	-¥483.2bn
		- Exports	(+16.8%)	(+1.6%)
<b>Wed 18th</b>	<b>EU-21:</b>	10:00 Final HICP Inflation (February)	-0.6% (+1.9%)	-0.6% (+1.9%)
		- Ex-Food & Energy	-0.8% (+2.3%)	-0.8% (+2.3%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.8% (+2.4%)	+0.8% (+2.4%)
	<b>IRE:</b>	<b>11:00 Residential Property Price Index (January)</b>	<b>+0.7% (+7.0%)</b>	<b>+0.3% (+7.1%)</b>
	<b>US:</b>	12:30 PPI Final Demand (February)	+0.5% (+2.9%)	+0.2% (+2.9%)
		- Ex-Food & Energy	+0.8% (+3.6%)	+0.3%
	<b>US:</b>	18:00 Fed FOMC Policy Announcement		
		- Fed Funds Target Range	3.50-3.75%	3.50-3.75%
	<b>US:</b>	18:30 Fed FOMC Post-Meeting Press Conference		
	<b>JPN:</b>	23:50 Machinery Orders (January)	+19.1% (+16.8%)	-9.6% (+10.5%)
<b>Thu 19th</b>	<b>UK:</b>	07:00 Unemployment Rate (January)	5.2%	5.2%
	<b>UK:</b>	07:00 Claimant Count (February)	+28,600	
	<b>UK:</b>	07:00 HMRC Payrolls (February)	-11,000	
	<b>UK:</b>	07:00 Average Earnings Growth (January)	(+4.2%)	(+3.9%)
		- Ex-Bonus	(+4.2%)	(+4.0%)
	<b>EU-21:</b>	10:00 Labour Costs (Q4 2025)	(+3.3%)	
		- Wages	(+3.0%)	
	<b>UK:</b>	12:00 Bank Of England Interest Rate Decision		
		- Bank Rate	3.75%	3.75%
	<b>US:</b>	12:30 Initial Jobless Claims (w/e 9th March)	+213,000	
	<b>US:</b>	12:30 Philly Fed Business Index (March)	16.3	11.0
	<b>EU-21:</b>	13:15 ECB Monetary Policy Announcement		
		- Deposit Rate	2.00%	2.00%
		- Re-fi Rate	2.15%	2.15%
	<b>EU-21:</b>	13:45 ECB Post-Meeting Press Conference		
	<b>JPN:</b>	BoJ Interest Rate Decision		
		-Call Rate	+0.75%	+0.75%
<b>Fri 20th</b>	<b>GER:</b>	07:00 Producer Prices (February)	-0.6% (-3.0%)	
	<b>EU-21:</b>	10:00 Total Trade Balance (January)	+€11.6bn	
		- EuroStat Trade Balance	+€12.6bn	
	<b>UK:</b>	11:00 CBI Trends - Order (March)	-28.0	

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