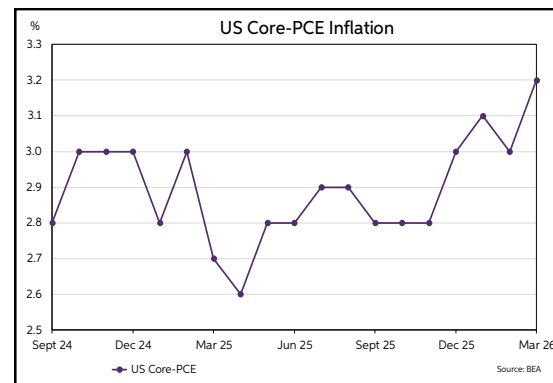


## The Dollar Show

- From a currency market perspective, the Middle East conflict has corresponded with a strengthening in the dollar.** This represents a reversal of fortunes compared to how the greenback fared in the opening weeks of the year. At that time, a combination of some disappointing US macro data, concerns over a government shutdown, fiscal risks, renewed trade tensions, dovish US rate expectations, as well as White House comments all weighed on the currency in early 2026. This saw EUR/USD trade briefly above the \$1.20 mark to a high of \$1.2078 in late January, while GBP/USD peaked at \$1.3867.
- The dollar's ascent started to take shape over the course of February as markets positioned for a possible breakout of military action between the US and Iran (war commenced on the 28th).** A distinctive feature of the dollar's performance over this period has been its positive correlation to oil prices. As oil prices climbed, the trade-weighted dollar index also rose, increasing by around 2.0%, while the currency appreciated by 1.5–2.0% against several of the other majors, including the euro. In level terms, EUR/USD traded to a low of \$1.1412 in mid-March, as oil prices surged higher amid the escalation in the conflict. Similarly, the GBP/USD pair traded down to a trough of \$1.316. Elsewhere, the combination of the stronger dollar and weaker yen prompted the Japanese authorities to intervene to support their currency after USD/JPY rose above the key ¥160 mark in late April.
- The dollar's appeal as a safe haven during periods of heightened uncertainty has interlinked with the energy price shock arising from the Middle East conflict.** In addition, the US economy's relatively limited exposure to the Middle East and its position as a net oil exporter, compared to the Eurozone and UK who are net energy importers, has also worked in the dollar's favour. However, the US unit has not benefitted nor has the euro weakened, to the same extent as they did in 2022, following the initial outbreak of the war in Ukraine. At the same stage back then, 60 trading days into the conflict, the euro had shed more than 7.0% of its value against the dollar, with the EUR/USD pair trading near \$1.05. This suggests that recent policy uncertainty stemming from the US may have limited the safe haven appeal of the dollar. Although, the Ukraine war was an even greater energy shock to Europe than the current conflict, and other factors - such as a much more bullish rates outlook for the US in 2022 - mean an exact comparison between the two periods cannot be made.
- Looking ahead, the outlook for the dollar will be heavily influenced by the evolution of the US-Iran war and, by extension, the trajectory of oil prices.** Under a scenario, where the war remains unresolved and oil prices persistently elevated, the greenback is likely to retain the upper hand on the exchanges. However, if a deal to end the war is agreed – resulting in a sustained fall in oil prices - the dollar could lose momentum. From a EUR/USD perspective, the recent price action highlights the importance of the \$1.18 level as a key threshold. The pair has been unable to sustain a break above this level since the conflict commenced.
- Turning to the week ahead, the macro data calendar is relatively quiet on both sides of the Atlantic.** In the US, the main highlight will be the April reading of core-PCE inflation. This metric was already on an upward trajectory in the months before the conflict in the Middle East. Having troughed at 2.6% last April, it stayed in a narrow 2.7-2.9% range between May-November, before printing at between 3.0-3.2% over the December to March period. The consensus is for core-PCE to rise again, to 3.3% in April.
- US personal consumption and income data for April will also be released.** In Q1, personal consumption rose sharply, rising by 0.6-0.9% in nominal terms per month. Incomes increased at a weaker pace, rising by 0.5% in January, before flatlining in February, and expanding by 0.6% in March. Both measures are projected to rise more slowly in April. The Conference Board measure of consumer confidence is also due. Although it has improved in each of the last three months, the main index remains at a low level historically. Expectations are for a slight fall to 92.0 in May.
- In the Eurozone, the EC economic sentiment indices for May will feature.** The surveys all deteriorated markedly in April. Notably, consumer confidence declined to -20.6, its weakest level since December 2022. Despite the flash reading of consumer confidence improving slightly to -19.0 in May, a further decline is pencilled in across the other sectors in May. Meantime, the flash readings of HICP inflation from some of the large national economies in the Eurozone (Germany, France, Italy & Spain) will garner some interest. On the monetary policy front, investors will be paying close attention to the ECB monetary policy meeting account from the April gathering. President Lagarde let it be known that the Governing Council debated hiking rates in April, before unanimously voting to keep policy on hold. Market participants will run a fine comb through the minutes to glean any further details regarding the debate. **Meanwhile, investors will continue to be highly sensitive to developments in the Middle East, as talks to end the war continue.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.75	3.50
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	1.1591	1.18	1.19	1.20
EUR/GBP	0.8635	0.87	0.88	0.88
EUR/JPY	184.49	185	187	187
GBP/USD	1.3422	1.36	1.35	1.36
USD/JPY	159.16	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane, <b>Lagarde</b> , Cipollone, Schnabel (Thu)		
	<b>BoE Speakers:</b>	Breeden, Lombardelli (Thu); <b>Bailey</b> (Fri)		
	<b>Fed Speakers:</b>	Cook, Jefferson, Kashkari (Wed); Williams, Musalem (Thu); Daly, Bowman, Waller, Schmid (Fri)		
<b>Mon 25th</b>		<b>Memorial Day (US Market Holiday)</b>		
<b>Tue 26th</b>	<b>IRE: 11:00</b>	<b>Earnings and Labour Costs (Q1 2026)</b>		
	<b>UK: 11:00</b>	CBI - Distributive Trades (May)	-68.0	
	<b>US: 14:00</b>	Case-Shiller House Prices (March)	-0.1% (+0.9%)	
	<b>US: 15:00</b>	Conference Board Consumer Confidence (May)	92.8	92.0
<b>Wed 27th</b>	<b>FRA: 07:45</b>	INSEE Consumer Confidence (May)	84.0	
<b>Thu 28th</b>	<b>ITA: 09:00</b>	ISTAT Business Confidence (May)	87.9	
	<b>ITA: 09:00</b>	ISTAT Consumer Confidence (May)	90.8	
	<b>EU-21: 10:00</b>	EC Business Climate (May)	-0.28	
	<b>EU-21: 10:00</b>	EC Economic Sentiment (May)	93.0	92.5
		- Consumer / Industrial / Services	-19.0 / -7.7 / 0.9	-19.0 / -8.0 / -0.1
	<b>IRE: 11:00</b>	<b>Retail Sales (April)</b>	<b>+0.2% (+1.6%)</b>	
	<b>EU-21: 11:00</b>	ECB Meeting Account (29-30th April)		
	<b>US: 13:30</b>	Personal Income / Consumption (April)	+0.6% / +0.9%	+0.4% / +0.5%
	<b>US: 13:30</b>	PCE Price inflation (April)	+0.7% (+3.5%)	+0.5% (+3.8%)
		- Core-PCE inflation	+0.3% (+3.2%)	+0.3% (+3.3%)
	<b>US: 13:30</b>	GDP (Q1: Second Reading)	+2.0% S.a.a.r.	+2.1% S.a.a.r.
	<b>US: 13:30</b>	Initial Jobless Claims (w/e 18th May)	+209,000	+211,000
<b>Fri 29th</b>	<b>JPN: 00:30</b>	Tokyo CPI Inflation (May)	(+1.5%)	
		- Ex-Fresh Food	(+1.5%)	(+1.5%)
	<b>JPN: 00:30</b>	Unemployment Rate (April)	2.7%	2.7%
	<b>JPN: 00:30</b>	Jobs/Applicants Ratio	1.18	1.18
	<b>FRA: 07:45</b>	GDP (Q1: Final Reading)	+0.0% (+1.1%)	+0.0% (+1.1%)
	<b>FRA: 07:45</b>	Flash HICP Inflation (May)	(+2.2%)	(+2.9%)
	<b>SPA: 08:00</b>	Flash HICP Inflation (May)	(+3.5%)	
	<b>GER: 08:55</b>	Unemployment Rate (May)	6.4%	6.4%
	<b>ITA: 10:00</b>	Flash HICP Inflation (May)	(+2.8%)	(+3.0%)
	<b>IRE: 11:00</b>	<b>Flash HICP Inflation (May)</b>	<b>+0.5% (+3.6%)</b>	
	<b>ITA: 11:00</b>	GDP (Q1: Final Reading)	+0.2% (+0.7%)	+0.2% (+0.7%)
	<b>GER: 13:00</b>	Flash HICP Inflation (May)	+0.5% (+2.9%)	+0.2% (+2.9%)

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

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