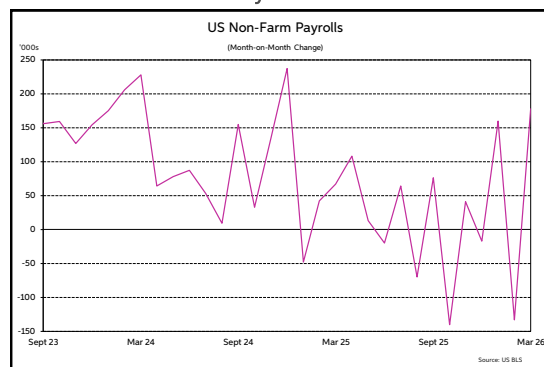


Trigger happy central banks

- With another set of central bank meetings over, policymakers are slowly revealing their hands in terms of their reaction to the current energy price shock.** In what looked like coordinated communication, the three majors – Fed, ECB and Bank of England (BoE) – held rates but the latter pair emphasised that emerging signs of second-round effects in non-energy inflation and wages, could necessitate some degree of policy tightening. Given the potential lag between the energy shock and second-round inflation, central bankers may have to take a punt in the dark at the upcoming meetings, with markets betting June is the most likely point for initial hikes for the ECB and BoE. The more insulated US economy is set to allow the Fed to hold steady through 2026, but this is a still significant change compared to the 50bps of policy easing expected before the Middle East war began.
- In his last post-meeting press conference as Fed Chair, Jerome Powell remained non-committal on the interest rate outlook commenting that “there is so much uncertainty about the path ahead”,** while also noting the Fed would have “new leadership in all likelihood” for upcoming policy decisions. The incoming Fed Chair, Kevin Warsh, is likely to be in place by the June meeting. Warsh has espoused a preference for lower rates as well as a smaller Fed balance sheet and was nominated by President Trump, who very much favours lower official interest rates. So, despite core PCE inflation rising again in March to 3.2% from 3%, it appears unlikely the Fed will countenance any hikes unless the situation in the Middle East deteriorates further.
- In contrast, the various communications from the BoE indicate a further hawkish shift in the central bank’s mindset regarding the interest rate outlook.** Governor Bailey stated that the decision was an “active hold” rather than a “passive hold”. Therefore, if oil prices remain elevated or rise further, it could see the BoE start to raise rates. Futures contracts continue to price in at least 50bps of rate hikes by the end of this year, with the first 25bp hike fully priced in by July. In a marked shift, Governor Bailey, who previously pushed back against this market pricing stated that he did not think the “interest rate curve” was in the “wrong pace”.
- At the ECB’s post-meeting press conference, President Lagarde stressed that the Eurozone economy had “certainly” moved away from its base case projections, but she refused to be drawn on where it is compared to the alternative scenarios outlined by the central bank in March.** However, she made it clear that the ECB will closely monitor “the size and persistence of the energy price surge, and how it feeds through to price and wage-setting”. In other words, the ECB is highly sensitive to second round inflation effects. President Lagarde also let it be known that the Council “debated in length and in depth” about hiking rates today, before unanimously voting to hold rates steady. Despite Eurozone core inflation dipping in April to 2.2% from 2.3% in March, it looks like the ECB could be ready to act as soon as the June meeting. Markets currently see a 70% chance of an ECB hike in June.
- Turning to the week ahead, the main data release of note will be the US labour market report for April.** In the first quarter of the year, payrolls remained very volatile. They rose by 160k in January, fell by 133k in February, before rebounding by 178k in March. In contrast though, the unemployment rate has remained steady over the same period, oscillating in the tight 4.3-4.5% range it has occupied since July. It is currently at the bottom of this band. Meanwhile, average earnings growth has slowed in recent months. It cooled to 3.5% year-on-year in March, its weakest level since May 2021. The broad trends in the report are projected to continue in April. Payrolls are forecast to increase by 60k, compared to an average monthly rise of 68k in Q1, while the unemployment rate is expected to stay at 4.3%. However, average earnings growth is anticipated to break with the recent trend, and re-accelerate to +3.8% y/y in the month.
- Elsewhere in the US, the non-manufacturing ISM is forecast to stay at 54.0 in April, consistent with a solid pace of expansion in the sector.** Meantime, the Michigan measure of consumer sentiment for May is projected to deteriorate slightly for a third consecutive month, from an already weak level.
- In the Eurozone, the data calendar is relatively sparse.** The subdued start to the year for retail sales is set to continue. A 0.3% m/m contraction is pencilled in for March, following a 0.2% decline in February. Elsewhere, producer price inflation for March will garner close attention, given the ongoing war in the Middle East. The consensus is for a significant increase to 1.6% from –3.0% in February. In terms of more timely data, the EU sentix index for May is forecast to fall further to –21.0 in May, having plunged to –19.2 in April from just –3.1 in March.



	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	1.1755	1.18	1.19	1.20
EUR/GBP	0.8625	0.87	0.88	0.88
EUR/JPY	184.12	185	187	187
GBP/USD	1.3624	1.36	1.35	1.36
USD/JPY	156.61	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde, Lane (Tue); Lane, Cipollone, de Guindos (Wed) Schnabel, Lane (Thu) de Guindos, Cipollone (Fri)		
	BoE Speakers:	Taylor, Mann (Thu); Bailey (Fri)		
	Fed Speakers:	Williams (Mon); Bowman, Barr (Tue); Musalem, Goolsbee (Wed); Hammack, Williams (Thu); Cook (Fri)		
		UK Local Elections (Thu)		
Mon 4th	IRE/UK:	May Bank Holiday (Public Holiday)		
	EU-21: 09:00	Final Manufacturing PMI (April)	52.2	52.2
	EU-21: 09:00	EU Sentix Index (May)	-19.2	-21.0
Tue 5th	US: 13:30	International Trade (March)	-\$57.3bn	
	US: 14:45	Final S&P Composite PMI (April)	52.0	52.0
		- Final S&P Services PMI	51.3	51.3
	US: 15:00	Non-Manufacturing ISM (April)	54.0	54.0
	US: 15:00	JOLTS Job Openings (March)	6.88m	
Wed 6th	IRE: 01:01	AIB Irish Services PMI (April)	50.7	
	ITA: 08:45	Final S&P Composite (April)	49.2	49.2
	FRA: 08:50	Final S&P Composite (April)	47.6	47.6
	GER: 08:55	Final S&P Composite (April)	48.3	48.3
	EU-21: 09:00	Final S&P Composite PMI (April)	48.6	48.6
		- Final S&P Services PMI	47.4	47.4
	UK: 09:30	Final S&P Composite PMI (April)	52.0	52.0
		- Final S&P Services	52.0	52.0
	EU-21: 10:00	Producer Prices (March)	-0.7% (-3.0%)	+3.0% (+1.6%)
	US: 13:15	ADP National Employment (April)	62,000	
	IRE: 16:30	Exchequer Returns (April)	Apr'26: +€2.8bn	-€1.4bn
Thu 7th	GER: 07:00	Industrial Orders (March)	+0.9%	+1.0%
	EU-21: 10:00	Retail Sales (March)	-0.2% (+1.7%)	-0.3% (+0.9%)
	IRE: 11:00	Unemployment Rate (April)	4.7%	4.7%
	US: 13:30	Initial Jobless Claims (w/e 27th April)	+189,000	
Fri 8th	GER: 07:00	Industrial Output (March)	-0.3% (+0.0%)	+0.5% (-1.8%)
	GER: 07:00	Trade Balance (March)	+€19.8bn	
		- Exports	+3.6%	-1.9%
	US: 13:30	Non-Farm Payrolls (April)	+178,000	+60,000
		- Unemployment Rate	4.3%	4.3%
		- Average Earnings	+0.2% (+3.5%)	+0.3% (+3.8%)
	US: 15:00	Prelim. Uni. Michigan Consumer Sentiment (May)	49.8	49.5

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

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