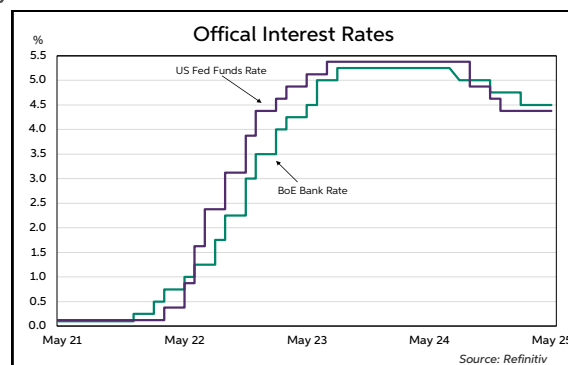


## Come what May

- **As the early stages of May get underway, it is useful to look back over a very eventful April to try and ascertain what may lie ahead for markets.** Tariff related developments dominated the market discourse and action last month. The significant shift in US trade policy, with the imposition of new and higher tariffs on its trading partners, caused consternation and uncertainty for markets, governments, and businesses. Words such as tumultuous, turbulent, and volatile were very much in vogue to describe the market backdrop. The IMF noted in its latest World Economic Outlook that “uncertainties climbed to new highs”.
- **Aside from the falls in equity markets and sharp swings in bond yields (especially US Treasuries) another feature of the market's reaction was the notable weakening in the dollar.** Amid the escalation in trade tensions on the back of the new aggressive US tariff plans, the market started to re-assess the outlook for the US economy. Arising from this assessment, it became more and more concerned of the negative consequence for the growth trajectory of the world's largest economy. As a result, the dollar fell out of favour on the exchanges, with investors relocating out of US assets as part of the ‘sell America’ trade. The announcement of the 90-day pause to reciprocal tariffs provided some respite for the currency. However, President Trump's negative comments in relation to Jerome Powell's position as Fed Chair brought further downward pressure to bear on the dollar, as market participants worried about the threat to the Fed's independence. This was reflected in EUR/USD trading to a high of \$1.157 during the Easter period. For context, this was the pair's highest level since November 2021 and represented a 7% move from the \$1.079 mark seen at the start of April.
- **The Trump administrations comments recently have become less confrontational in relation to tariffs and trade policy, while also emphasising a desire to, and the potential for, new trade deals.** Against this backdrop, Wall Street, including the S&P 500 index, has recovered the ground lost during the month of April. However, while the dollar is off its lows, it is still down between 3 -5% against a raft of other currencies. At the start of the year, we outlined our bias for a weaker dollar over the coming 12 months based on our view that the US economy would start to slow. So, the directional move in the dollar has not been a surprise, but obviously the magnitude and speed of its weakness has been unexpected.
- **With still considerable uncertainty surrounding US and in-turn global trade policy, further bouts of volatility for the greenback can be expected.** Progress in relation to trade deals may add some support to the dollar. However, underlying concerns over the outlook for the US economy combined with more medium-term considerations/vulnerabilities in relation to the US twin deficits (budget and current account) may mean the dollar does not regain its previous level of strength on the exchanges. It is also important to note, that a weaker dollar is consistent with the Trump administration's desire to increase the level of exports the US sells to its trading partners. Thus, a weaker dollar may be both warranted and wanted between now and year end.
- **US trade policy uncertainty has also complicated the policy outlook for the Federal Reserve.** Indeed, Chair Powell recently stated that tariffs will likely place both sides of the Fed's dual mandate (maximum employment and price stability) “in tension”. Against this backdrop, and with the labour market remaining solid, the Fed has signalled it will take a gradual approach to changing interest rates. At the same time, the aforementioned high levels of uncertainty and volatility over the past month have led to a marked softening in US rate expectations. Current pricing is for around 85bps of policy easing during the second half of this year. **However, for a third successive FOMC meeting, no changes to policy are anticipated this week, meaning the target range is set to remain at 4.25-4.50%.** The meeting statement, as well as Chair Powell's press conference, where he will face plenty of questions on US trade policy and recent tensions with the White House, will generate ample interest from investors.
- **In the UK, the Bank of England has also espoused a preference for a gradual and careful approach to easing interest rates.** Thus, having cut rates by 25bps for a third time this cycle in February, the BoE left policy on hold last time round in March. However, a 25bps rate cut is fully priced-in for this week's MPC meeting, which would bring Bank Rate down to 4.25%. As in the US, aside from the policy announcement, the BoE's updated view on the outlook contained in its Monetary Policy Report, and the press conference with Governor Bailey and Co., will warrant significant attention from market participants. A close eye will also be paid to the voting breakdown on the MPC, given the last number of policy decisions have been split.
- **Data-wise, the calendar is rather sparse.** In the US, the only release of note will be the non-manufacturing ISM for April. A slight deterioration to 50.2 from 50.8 is pencilled in for the month. Meantime, Eurozone retail sales are forecast to inch 0.1% lower in March. On the home front, updates on CPI inflation, the latest Exchequer Returns and the services PMI (all April) are due.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.25	2.00	2.00	2.00
BoE Repo	4.50	4.25	4.00	3.75
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
EUR/USD	1.1365	1.09	1.10	1.11
EUR/GBP	0.8529	0.85	0.85	0.85
EUR/JPY	163.72	160	161	161
GBP/USD	1.3321	1.28	1.29	1.31
USD/JPY	144.01	147	146	145

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>Bailey;</b> Pill (Fri)		
	<b>Fed Speakers:</b>		Williams, Waller, Kugler, Goolsbee, Barr (Fri)		
<b>Mon 5th</b>	<b>IRE/UK:</b>		<b>May Bank Holiday (Markets closed)</b>		
	<b>EU-20:</b>	09:30	Sentix Index (May)	-19.5	-12.5
	<b>US:</b>	14:45	Final S&P Composite PMI (April)	51.2	51.2
			- Final S&P Services PMI	51.4	51.4
	<b>US:</b>	15:00	Non-Manufacturing ISM (April)	50.8	50.2
<b>Tue 6th</b>	<b>IRE:</b>	<b>01:01</b>	<b>AIB Irish Services PMI (April)</b>	<b>55.3</b>	
	<b>ITA:</b>	08:45	HCOB Composite PMI (April)	50.5	50.1
	<b>FRA:</b>	08:50	Final Composite PMI (April)	47.3	47.3
	<b>GER:</b>	08:55	Final Composite PMI (April)	49.7	49.7
	<b>EU-20:</b>	09:00	Final Composite PMI (April)	50.1	50.1
			- Final Services PMI (April)	49.7	49.7
	<b>UK:</b>	09:30	Final S&P Composite PMI (April)	48.2	48.2
			- Final S&P Services PMI	48.9	48.9
	<b>EU-20:</b>	10:00	Producer Prices (March)	+0.2% (+3.0%)	-1.4% (+2.0%)
	<b>US:</b>	13:30	International Trade (March)	-\$122.7bn	-\$136.5bn
	<b>IRE:</b>	<b>16:30</b>	<b>Exchequer Returns (April)</b>		
			<b>- Exchequer Balance</b>	<b>Apr'24: -€1.2bn</b>	<b>+€3.0bn</b>
<b>Wed 7th</b>	<b>JPN:</b>	01:30	Final Jibun Composite PMI (April)	51.1	51.1
	<b>GER:</b>	07:00	Industrial Orders (march)	+0.0%	+1.3%
	<b>EU-20:</b>	10:00	Retail Sales (March)	+0.3% (+2.3%)	-0.1% (+1.6%)
	<b>US:</b>	19:00	Fed FOMC Meeting Policy Announcement		
			- Fed Funds Target Range	4.25-4.50%	4.25-4.50%
	<b>US:</b>	19:30	Fed FOMC Meeting Press Conference		
<b>Thu 8th</b>	<b>GER:</b>	07:00	Industrial Production (March)	-1.3% (-4.00%)	+0.8% (-2.7%)
	<b>GER:</b>	07:00	Trade Balance (March)	+€17.7bn	
			- Exports	+1.8%	+1.0%
	<b>IRE:</b>	<b>11:00</b>	<b>CPI Inflation (April)</b>	<b>+0.7% (+2.0%)</b>	<b>+0.4% (+2.2%)</b>
			<b>- HICP Inflation</b>	<b>Flash: +0.4% (+2.0%)</b>	<b>+0.4% (+2.0%)</b>
	<b>UK:</b>	12:00	BoE Interest Rate Announcement		
			- Bank Rate	4.50%	4.25%
	<b>UK:</b>	12:30	BoE Monetary Policy Report Press Conference		
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 28th April)	+241,000	+230,00
<b>Fri 9th</b>	<b>ITA:</b>	09:00	Industrial Output (March)	-0.9% (-2.7%)	+0.5% (-8.5%)

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

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