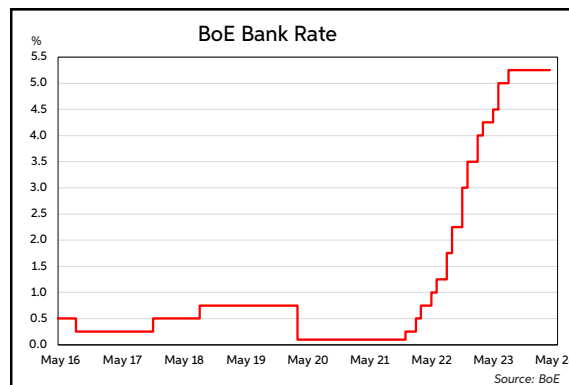


## Not Fed Up with Higher Rates Yet

- We are in the midst of the April-May round of central bank meetings.** This past week saw the US Federal Reserve gathering take centre stage. To no great surprise, the central bank left its key funds rate in a target range of 5.25%-5.50%, a 22-year high. This marked the sixth straight meeting that rates have been left on hold. From a markets viewpoint, with absolutely no expectation of any rate change, attention was centred on what guidance would be forthcoming on the Fed's outlook regarding interest rates.
- In short, assessing the meeting statement and Chair Powell's press conference, the Fed is guiding that official US interest rates will remain at their current level for longer than previously envisaged.** The reason for this is that the downward trajectory in US inflation has stalled. As a result, the Fed does not have sufficient data to show that inflation is on a sustained move lower to its 2% objective and therefore, it does not have confidence that now is the right time to consider cutting interest rates.
- The Fed acknowledged the recent stickiness to inflation in its meeting statement.** It commented that "in recent months there has been a lack of further progress toward" its 2% inflation target. Meanwhile, in the post meeting press conference, Chair Powell's emphasised that the Fed is committed to "retaining our current restrictive stance of policy for as long as is appropriate". When questioned on whether the Fed would contemplate hiking rates, Chair Powell was quite clear that "its unlikely that the next policy move will be a hike". Instead the focus within the Fed is on "how long to keep policy restrictive".
- Amid higher than expected inflation, on-going strength in the labour market and less dovish soundings coming from FOMC members over recent weeks, market expectations for US rate cuts have been scaled back significantly.** However, the extent and timing of any rate cuts will be very much data dependent. Chair Powell has outlined potential paths to policy easing for the Fed. This could occur if the Fed has greater confidence that "inflation is moving sustainably down to 2%" or an "unexpected weakening in the labour market". To note, at the start of the year, futures contracts were anticipating around 150bps of policy easing in 2024. The market had moved to price in around 40bps of rate cuts by end year, with the first 25bps rate cut not expected until the November meeting at the earliest. Following Friday's payroll data for April though, which saw jobs growth print below expectations, the market moved again, to anticipate circa 45-50bps of rate cuts by year end. Furthermore, while the US economy has continued to perform well over recent months, aside from the April labour market data, there have been other signs of a loss of momentum. Therefore, if US data disappoints over the coming months, especially in relation to the labour market and/or there is a resumption of the downtrend in inflation, then this would set the scene for rate cuts later this year.
- This week, the monetary policy spotlight will shift to the Bank of England.** In-line with the Fed, it is widely expected that the BoE will leave its interest rate policy unchanged. Thus, market participants will be paying close attention to any changes to the BoE's assessment on the outlook, with particular focus on the voting split, as well as the updated Monetary Policy Report (MPR) and press conference. In March, the voting breakdown moved into better balance, with eight members of the committee in favour of no change, while one wanted to cut rates by 25bps. However, it should be noted that amongst the group of eight in March, "there was a range of views on the extent to which the risks from persistent inflationary pressures had receded". Remarks from officials since then suggest some MPC members remain highly concerned of the risk that inflation may become embedded in the economy, with CPI inflation and average earnings growth still at elevated levels in March. Meanwhile, the updated MPR macro forecasts and analysis will provide fresh insight on the BoE's view on the economic outlook, amid recent signs of a pick-up in economic activity at the start of the year. The post-meeting press conference with Governor Bailey will also be of interest.
- On the data front in the UK, the preliminary reading of Q1 GDP is due.** Having entered a shallow technical recession in the second half of last year, there have been signs that the UK economy has regained momentum in Q1. The monthly readings of GDP indicate the economy expanded by 0.3% m/m in January and 0.1% m/m in February, while survey indicators also show some improvement. The consensus is for a 0.1% m/m increase in March, culminating in a 0.4% rise in GDP overall in Q1.
- Elsewhere, the data schedule is relatively quiet.** In the Eurozone, the main release will be the minutes from the April ECB policy meeting. Meanwhile, German industrial production is projected to fall by 0.7% in March, following two months of expansion at the start of the year. In the US, the highlight will be the preliminary reading of the Michigan measure of consumer sentiment for May. The headline index is expected to be little changed in the month. The latest SLOOS survey from the Fed will also be released, and will garner attention from investors as they assess how tight credit conditions are in the US.



|             | Interest Rate Forecasts |                |                |                |
|-------------|-------------------------|----------------|----------------|----------------|
|             | Current                 | End Q2<br>2024 | End Q3<br>2024 | End Q4<br>2024 |
| Fed Funds   | 5.375                   | 5.375          | 5.125          | 4.625          |
| ECB Deposit | 4.00                    | 3.75           | 3.50           | 3.00           |
| BoE Repo    | 5.25                    | 5.00           | 4.75           | 4.50           |
| BoJ OCR     | 0.10                    | 0.10           | 0.25           | 0.25           |

Current Rates Reuters, Forecasts AIB's ERU

|         | Exchange Rate Forecasts (Mid-Point of Range) |                |                |                |
|---------|--|----------------|----------------|----------------|
|         | Current                                      | End Q2<br>2024 | End Q3<br>2024 | End Q4<br>2024 |
| EUR/USD | 1.0762                                       | 1.08           | 1.09           | 1.10           |
| EUR/GBP | 0.8577                                       | 0.86           | 0.87           | 0.88           |
| EUR/JPY | 164.54                                       | 166            | 167            | 167            |
| GBP/USD | 1.2544                                       | 1.25           | 1.25           | 1.25           |
| USD/JPY | 152.86                                       | 154            | 153            | 152            |

Current Rates Reuters, Forecasts AIB's ERU

| Date              | UK & Irish Time      | Release   | Previous             | Forecast             |
|-------------------|----------------------|---|----------------------|----------------------|
| <b>This Week:</b> | <b>ECB Speakers:</b> | Cipollone, de Guindos (Thu); Cipollone (Fri)                                    |                      |                      |
|                   | <b>BoE Speakers:</b> | Pill (Thu); Pill (Fri)  |                      |                      |
|                   | <b>Fed Speakers:</b> | Williams, Barkin (Mon); Kaskari (Tue); Cook (Wed); Barr, Bowman, Goolsbee (Fri) |                      |                      |
| <b>Mon 6th</b>    | <b>IRL/UK:</b>       | <b>May Bank Holiday</b>   |                      |                      |
|                   | <b>ITA:</b> 08:45    | HCOB Composite PMI (April)  | 53.5                 | 53.0                 |
|                   | <b>FRA:</b> 08:50    | Final HCOB Composite PMI (April)  | 49.9                 | 49.9                 |
|                   | <b>GER:</b> 08:55    | Final HCOB Composite PMI (April)  | 50.5                 | 50.6                 |
|                   | <b>EU-20:</b> 09:00  | Final HCOB Composite PMI (April)  | 51.4                 | 51.4                 |
|                   |                      | - Final HCOB Service PMI  | 52.9                 | 52.9                 |
|                   | <b>EU-20:</b> 09:30  | EU Sentix Index (May)   | -5.9                 | -5.3                 |
|                   | <b>EU-20:</b> 10:00  | Producer Prices (Mar)   | -1.0% (-8.3%)        | -0.4% (-7.7%)        |
|                   | <b>US:</b> 19:00     | Senior Loan Officer Opinion Survey  |                      |                      |
| <b>Tue 7th</b>    | <b>JPN:</b> 01:30    | Final Jibun Composite PMI (April)   | 52.6                 | 52.6                 |
|                   | <b>GER:</b> 07:00    | Industrial Orders (Mar)   | +0.2%                | +0.4%                |
|                   | <b>GER:</b> 07:00    | Trade Balance (Mar)   | +€21.4bn             | +€22.2bn             |
|                   |                      | - Exports   | -2.0%                | -0.5%                |
| <b>Wed 8th</b>    | <b>GER:</b> 07:00    | Industrial Output (Mar)   | +2.1%                | -0.7%                |
| <b>Thu 9th</b>    | <b>UK:</b> 00:01     | RICS Housing Survey (April)   | -4                   |                      |
|                   | <b>IRL:</b> 11:00    | <b>CPI Inflation (April)</b>  | <b>+0.5% (+2.9%)</b> | <b>+0.3% (+2.7%)</b> |
|                   |                      | <b>- HICP Inflation</b>   | <b>+0.3% (+1.7%)</b> | <b>+0.2% (+1.6%)</b> |
|                   | <b>UK:</b> 12:00     | BoE Monetary Policy Decision Announcement                                       |                      |                      |
|                   |                      | - Bank Rate   | 5.25%                | 5.25%                |
|                   | <b>UK:</b> 12:30     | Monetary Policy Report Press Conference   |                      |                      |
|                   | <b>US:</b> 11:00     | Initial Jobless Claims (w/e 22nd April)   | +208,000             | +215,000             |
| <b>Fri 10th</b>   | <b>JPN:</b> 00:30    | Trade Balance (Mar)   | -¥7.1trn             |                      |
|                   | <b>UK:</b> 07:00     | GDP (Q1: Preliminary Reading)   | -0.3% (-0.2%)        | +0.4% (+0.0%)        |
|                   |                      | - March   | +0.1% (-0.2%)        | +0.1% (+0.3%)        |
|                   | <b>UK:</b> 07:00     | Industrial Output (Mar)   | +1.1% (+1.4%)        | -0.4% (+0.3%)        |
|                   |                      | - Manufacturing Output  | +1.2% (+2.7%)        | -0.4% (+1.8%)        |
|                   | <b>UK:</b> 07:00     | Goods Trade Balance (Mar)   | -£14.2bn             |                      |
|                   | <b>ITA:</b> 09:00    | Industrial Output (Mar)   | +0.1%                | +0.3%                |
|                   | <b>EU-20:</b> 12:00  | ECB Monetary Policy Meeting Account (10-11th April)                             |                      |                      |
|                   | <b>US:</b> 15:00     | Prelim. Uni. Michigan Consumer Sentiment  | 77.2                 | 76.4                 |

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

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