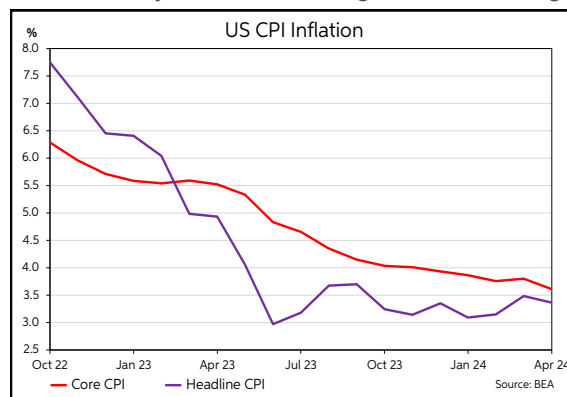


## And we're off!

- In the last week, we have seen further signs that central banks are starting to alter their monetary policy settings, with rate cuts being announced.** Both the Bank of Canada and the ECB lowered interest rates (albeit monetary policy remains restrictive). In terms of the ECB, it cut its key interest rates by 25bps, which included the Deposit rate being reduced to 3.75% (from 4.00%). The ECB rate cuts were very much expected, with the central bank giving clear guidance in the lead up to the meeting of their intention to ease policy. The rationale for cutting rates was outlined in the meeting statement. The ECB commented that now was the appropriate time to reduce the degree of monetary policy restriction against the backdrop where “inflation has fallen by more than 2.5 percentage points” since September’23, the “inflation outlook has improved markedly”, as well as noting that “underlying inflation has also eased” and “inflation expectations have declined”.
- The ECB cut interest rates despite revising higher its inflation forecasts.** The central bank noted that not withstanding progress over recent quarters, domestic price pressures remain strong amid elevated wage growth and that “inflation is likely to stay above target well into next year”. It now sees the headline HICP rate averaging 2.5% this year (from 2.3%) and 2.2% (was 2.0%) next year. It expects the core rate to average 2.8% in 2024 (was 2.6%) and 2.2% (from 2.1%) in 2025. Both rates are projected to move back to 2% or below in 2026. However, at the press conference, President Lagarde stated that the ECB’s confidence in the inflation outlook has been increasing. She cited the recent downtrend in inflation and the “reliability and solidity” of its inflation projections as to why it now has more conviction in the future path of inflation and in turn achieving its 2% inflation target.
- With the June rate cut well flagged, the focus for markets was on what insight, if any, the ECB would provide on additional policy easing over the coming months.** In this regard, the ECB was non-committal. President Lagarde emphasised that the central bank would be “data-dependent” and take a “meeting-by-meeting” approach, and that it “is not pre-committing to a particular rate path”. Futures contracts suggest that the market is anticipating around 35bps of additional easing from the ECB by year end. Our view is that a further 50bps of rate cuts from the ECB over the remainder of 2024 is a reasonable expectation if underlying inflation, including wage growth, which the ECB will continue to scrutinise closely, shows further signs of moderating. This would see the Deposit rate end the year at 3.25%.
- This week, the monetary policy spotlight will shift to the US Fed.** In contrast to the ECB, the Fed is widely expected to leave monetary policy on hold, with the Fed funds target range remaining at 5.25-5.50%. Indeed, one of the main features of financial markets so far this year has been the marked hardening in US market rate expectations, as inflation has proven to be more stubborn than anticipated. Futures pricing has changed from suggesting in January that there could be up to six rate cuts in 2024, to now being consistent with rates being lowered just twice this year. Against this backdrop, the updated interest rate dotplot will be in focus. The median projection from FOMC participants in March was for 75bps of rate cuts this year and a further 75bps of easing in 2025. An upward revision in the projections appears likely. Elsewhere, the post-meeting press conference with Chair Powell will be of interest, with investors looking for any guidance on the outlook for interest rates and inflation.
- With this in mind, US CPI inflation for May, which is also due on Wednesday, will warrant close attention.** The clear disinflationary trend that had been in place in headline inflation throughout 2023 has stalled. After declining sharply in the first six months of last year, headline CPI has been in a 3.1-3.7% range since June 2023. Worryingly, this year it has accelerated from its low of 3.1% in January, rising to 3.5% in March, its highest level since last September, before printing at 3.4% in April. Meantime, despite falling in 17 of the last 19 months, core-CPI remained elevated at 3.6% in April. The consensus is for the headline rate to remain at 3.4% in May, while the core rate is expected to edge lower to 3.5%. Elsewhere in the US, the preliminary reading of the Michigan measure of consumer sentiment is projected to register a modest improvement in June.
- In the UK, a busy data schedule includes updates on the labour market and GDP.** The UK labour market remains quite tight, but there have been some signs of softening in recent months. The unemployment rate has increased so far in 2024, rising to 4.3% in March from 3.8% in December. Furthermore, the number of people in employment has fallen by 107k so far in 2024. At the same time, average earnings growth remains elevated at +5.7% y/y in Q1. However, it should be noted that the reliability of the ONS labour market statistics has been questioned in recent months, owing to a low response rate to its surveys. In any case, the unemployment rate is expected to remain at 4.3% in April. Similarly, average earnings growth is forecast to stay at +5.6% y/y. In terms of GDP, the monthly readings indicate the economy expanded throughout Q1, culminating in a 0.6% rise overall in the quarter. This trend is set to continue, with a 0.1% m/m increase pencilled in for April. **In the Eurozone, a quieter look to the data calendar includes industrial production (April) and the EU Sentix (June).**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2024	2024	2024
Fed Funds	5.375	5.375	5.125	4.875
ECB Deposit	3.75	3.75	3.50	3.25
BoE Repo	5.25	5.25	5.00	4.75
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	End Q3	End Q4
		2024	2024	2024
EUR/USD	1.0817	1.08	1.10	1.11
EUR/GBP	0.8500	0.86	0.87	0.87
EUR/JPY	169.84	167	171	170
GBP/USD	1.2723	1.25	1.26	1.28
USD/JPY	156.98	155	155	153

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane, Elderson (Tue); Schnabel, Schnabel (Wed); <b>Lagarde</b> , Lane, Schnabel, de Guindos (Fri)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Williams (Thu); Goolsbee (Fri)		
<b>Mon 10th</b>	<b>JPN:</b>	00:50 GDP (Q1: Revised Reading)	-0.5%	-0.5%
	<b>JPN:</b>	06:00 Economy Watchers Poll (May)	47.4	
	<b>ITA:</b>	09:00 Industrial Output (April)	-0.5% (-3.5%)	+0.3% (+10.1%)
	<b>EU-20:</b>	09:30 Sentix Index (June)	-3.6	-2.0
<b>Tue 11th</b>	<b>UK:</b>	07:00 ILO Unemployment Rate (April)	4.3%	4.3%
	<b>UK:</b>	07:00 Employment Change (April)	-177,000	-100,000
	<b>UK:</b>	07:00 Claimant Count (April)	+8,900	
	<b>UK:</b>	07:00 Average Earnings (April)	(+5.7%)	(+5.7%)
		- Ex-Bonus	(+6.0%)	(+6.0%)
	<b>US:</b>	11:00 NFIB Small Business Optimism (May)	89.70	
<b>Wed 12th</b>	<b>GER:</b>	07:00 Final HICP Inflation (May)	+0.2% (+2.8%)	+0.2% (+2.8%)
	<b>UK:</b>	07:00 GDP (April)	+0.4% (+0.7%)	+0.0% (+0.6%)
		- 3m/3m	+0.6%	+0.7%
	<b>UK:</b>	07:00 Industrial Output (April)	+0.2% (+0.5%)	-0.1% (+0.3%)
		- Manufacturing Output	+0.3% (+2.3%)	-0.2% (+1.6%)
	<b>UK:</b>	07:00 Goods Trade Balance (April)	-£14.0bn	
	<b>US:</b>	13:30 CPI Inflation (May)	+0.3% (+3.4%)	+0.1% (+3.4%)
		- Core-CPI	+0.3% (+3.6%)	+0.3% (+3.5%)
	<b>US:</b>	19:00 Fed FOMC Interest rate Announcement		
		- Fed Funds Target Range	5.25-5.50%	5.25-5.50%
	<b>US:</b>	19:30 Fed FOMC Post-Meeting Press Conference		
<b>Thu 13th</b>	<b>SPA:</b>	08:00 Final HICP Inflation (May)	+0.2% (+3.8%)	+0.2% (+3.8%)
	<b>EU-20:</b>	10:00 Industrial Production (April)	+0.6% (-1.0%)	+0.1% (-2.0%)
	<b>IRL:</b>	<b>11:00 CPI Inflation (May)</b>	<b>+0.2% (+2.6%)</b>	<b>+0.2% (+2.3%)</b>
		<b>- HICP Inflation</b>	<b>Flash: +0.2% (+1.6%)</b>	<b>+0.2% (+1.6%)</b>
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 3rd June)	+229,000	+225,000
	<b>US:</b>	13:30 PPI Inflation (May)	+0.5% (+2.2%)	+0.1% (+2.6%)
		- Ex-Food & Energy	+0.3% (+2.4%)	+0.3% (+2.4%)
<b>Fri 14th</b>	<b>FRA:</b>	07:45 Final HICP Inflation (May)	+0.2% (+2.7%)	+0.2% (+2.7%)
	<b>EU-20:</b>	10:00 Total Trade Balance (April)	+€17.3bn	
	<b>US:</b>	15:00 Preli. Uni Michigan Consumer Sentiment (June)	69.1	72.0

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

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