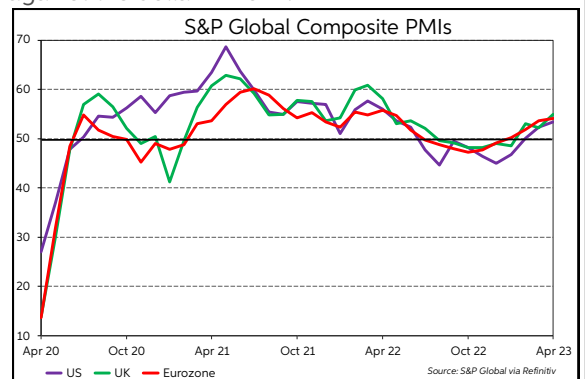


## Life in the old buck yet

- The dollar was in the ascendancy from mid-2021 through to autumn 2022 as hikes in US interest rates, rising US bond yields and elevated geo-political tensions drove the currency to twenty year highs.** However, the final quarter of 2022 through to end April 2023 saw a change in the dollar's fortunes. It lost significant ground over the winter as other central banks stepped up the pace of rate hikes. EUR/USD moved back up to parity, from a low of \$0.95, before rising up to the \$1.05-1.06 level late last year and then moving above \$1.09 at end January. Meantime, sterling rose from a low of \$1.04 to as high as \$1.24, while the dollar fell back from above ¥150 against the yen in October to below ¥130 by January
- The dollar lost some further ground in the late spring amid the emergence of stresses in parts of the global banking system, in particular in the US.** Markets priced in a lower peak for rates and significant policy easing in the US in the second half of this year. EUR/USD traded to a year-to-date high near \$1.11 in late April, while GBP/USD registered a 2023 high of close \$1.27 at the start of May. In the last fortnight though, the dollar has regained some momentum, despite the Fed signaling that it is considering pausing its hiking cycle. US data have remained strong while there appears limited contagion to date from the stresses in the US banking system. US rate contracts have also firmed recently, with fewer rate cuts now anticipated in H2 2023, amid soundings from Fed officials that policy needs to be kept tight.
- At the same time, the euro was softer in the aftermath of the May ECB meeting, despite its continuing hawkish policy stance.** It may also be the case that euro positioning, where net longs had hit a two and a half year high, have weighed on the single currency as these positions get scaled back. In level terms, the EUR/USD rate has moved below the \$1.09 level to trade under \$1.08 in the past couple of days. However, there is strong technical support for the euro in the \$1.05-1.06 area.
- The stresses that have emerged in parts of the global banking system are expected have a bigger impact on the US economy than elsewhere,** as it is likely to experience a more pronounced tightening of credit conditions given the uncertainties surrounding the stickiness of deposits in small to medium-sized US regional banks. Thus, rates seem likely to be lowered in the US ahead of elsewhere and the extent of Fed easing is also expected to be greater than from most other central banks. In this scenario, the dollar is likely to lose ground again later this year, especially as it is still at an elevated level. In terms of the euro, the ECB continues to attach a very high importance to getting inflation back down to its 2% target and so it will be slow to ease policy. Overall, if markets are correct in their belief that US rates will be cut ahead of elsewhere and to a greater extent, then the euro could rise to around the \$1.12 level later this year and make further gains against the dollar in 2024.
- Turning to the week ahead, in the US, the Fed FOMC meeting minutes from May and core-PCE inflation for April feature.** At the May meeting, the Fed hiked rates by 25bps, but opened the door to pausing its current tightening cycle, as mentioned above. Thus, investors will be paying close attention to the meeting minutes, as they assess how high the bar is for further rate hikes to be implemented. In this regard, since the last meeting, remarks from a number of Fed speakers suggest that the central bank will not hesitate to raise rates again in the face of persistent inflationary pressures. Therefore, core-PCE inflation, which has been stuck in a 4.6-4.7% range since December will continue to have a major bearing on the Fed's upcoming policy decisions. The consensus is for core-PCE to remain at 4.6%/y/y in April. Elsewhere, no revisions are anticipated to the second estimate of Q1 GDP.
- Meanwhile, inflation data are also due in the UK.** CPI inflation has proven to be stickier than anticipated in Q1 2023, with increases in food prices in particular offsetting falls in fuel prices, meaning the headline rate remained in double-digit territory. Core CPI, which excludes food and energy, has also been slow to fall, and was unchanged at 6.2% in March, just 0.3 p.p. below its peak of 6.5% in September/October. However, the BoE noted in its recent Monetary Policy Report that inflation should fall significantly from Q2 onwards. Indeed, a sharp fall in headline CPI inflation to 8.2 y/y in April is pencilled in, from 10.1% y/y in March, largely due to base effects in energy prices. Core CPI though is forecast to remain unchanged at 6.2%. Elsewhere, retail sales, which have been very volatile in recent months, are projected to rise by 0.4% in April, having contracted by 0.9% in March.
- In terms of more timely indicators, the flash PMI readings for May, in the US, Eurozone and UK will be of interest this week.** In recent months, the services sector has outperformed manufacturing. This trend is set to continue in May, with the services PMI's remaining in expansion mode, although, they are projected to ease to 52.6, 55.6 and 55.5 in the US, Eurozone and UK, respectively. Meanwhile, the manufacturing PMI is expected to edge lower to the breakeven level of 50.0 in the US. In the Eurozone and UK, the manufacturing indices are forecast to move higher, albeit remaining in contraction mode. **Elsewhere, a number of key Eurozone survey data are due, including the flash print of consumer confidence and the German Ifo for May.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2023			
Fed Funds	5.125	5.125	5.125	4.875
ECB Deposit	3.25	3.50	3.75	3.75
BoE Repo	4.50	4.75	4.75	4.75
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
	2023			
EUR/USD	1.0793	1.09	1.11	1.13
EUR/GBP	0.8681	0.87	0.88	0.88
EUR/JPY	149.56	149	150	149
GBP/USD	1.2430	1.25	1.26	1.28
USD/JPY	138.56	137	135	132

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	deGuindos, Lane (Mon); deGuindos, Jochnick (Tue); <b>Lagarde</b> (Wed); Enria, Lane (Fri)		
	<b>BoE Speakers:</b>	Haskel (Thu)		
	<b>Fed Speakers:</b>	Bullard, Barkin, Daly (Mon); Logan (Tue); Collins (Wed);		
<b>Mon 22nd</b>	<b>EU-20:</b>	10:00 Flash Consumer Confidence (May)	-17.5	-17.0
<b>Tue 23rd</b>	<b>JPN:</b>	01:30 Flash Jibun Composite PMI (May)	52.9	
	<b>FRA:</b>	08:15 Flash HCOB Composite PMI (May)	52.4	52.3
	<b>GER:</b>	08:30 Flash HCOB Composite PMI (May)	54.2	53.5
	<b>EU-20:</b>	09:00 Flash HCOB Composite PMI (May)	54.1	53.7
		- Manufacturing / Services	45.8 / 56.2	46.2 / 55.6
	<b>UK:</b>	09:30 Flash S&P / CIPS Composite PMI (May)	54.9	54.6
		- Manufacturing / Services	47.8 / 55.9	48 / 55.5
	<b>US:</b>	14:45 Flash S&P Composite PMI (May)	53.4	52.3
		- Manufacturing / Services	50.2 / 53.6	50.0 / 52.6
	<b>US:</b>	15:00 New Home Sales (April)	+0.683m / +9.6%	+0.660m / -3.4%
<b>Wed 24th</b>	<b>UK:</b>	07:00 CPI Inflation (April)	+0.8% (+10.1%)	+0.8% (+8.3%)
		- Core CPI	+0.9% (+6.2%)	+0.8% (+6.2%)
	<b>UK:</b>	07:00 PPI Output Prices (April)	+0.1% (+8.7%)	
		- PPI Input Prices	+0.2% (+7.6%)	
	<b>GER:</b>	09:00 Ifo Business Climate (May)	93.6	93.0
	<b>IRL:</b>	<b>11:00 Labour Force Survey (Q1 2023)</b>		
		- <b>Unemployment Rate</b>	<b>4.5%</b>	<b>4.1%</b>
	<b>US:</b>	18:00 Fed FOMC Meeting Minutes (2-3rd May 2023)		
<b>Thu 25th</b>	<b>GER:</b>	07:00 GDP (Q1: Detailed Reading)	+0.0% (+0.2%)	+0.0% (+0.2%)
	<b>GER:</b>	07:00 Gfk Consumer Sentiment (June)	-25.7	-24.0
	<b>FRA:</b>	07:45 INSEE Business Climate (May)	102	
	<b>US:</b>	13:30 GDP (Q1: Second Reading)	+1.1% s.a.a.r.	+1.1%
	<b>US:</b>	13:30 PCE Prices (Q1: Second Reading)	+4.2% s.a.a.r.	
		- Core-PCE Prices	+4.9% s.a.a.r.	
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 15th May)	+242,000	+250,000
<b>Fri 26th</b>	<b>UK:</b>	07:00 Retail Sales (April)	-0.9% (-3.1%)	+0.4% (-2.8%)
		- Ex-Fuel	-1.0% (-3.2%)	+0.3% (-2.8%)
	<b>FRA:</b>	07:45 INSEE Consumer Confidence (May)	83	84
	<b>ITA:</b>	09:00 ISTAT Business Confidence (May)	103.0	102.5
	<b>ITA:</b>	09:00 ISTAT Consumer Confidence (May)	105.5	105.5
	<b>US:</b>	13:30 Personal Income / Consumption (April)	+0.3% / +0.0%	+0.4% / +0.4%
	<b>US:</b>	13:30 PCE Prices (April)	+0.1% (+4.2%)	
		- Core-PCE Prices	+0.3% (+4.6%)	+0.3% (+4.6%)
	<b>US:</b>	13:30 Durable Goods (April)	+2.8%	-1.1%
		- Ex-Transport	+0.2%	+0.0%
	<b>US:</b>	15:00 Final Uni. Michigan Consumer Sentiment (May)	57.7	57.7

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