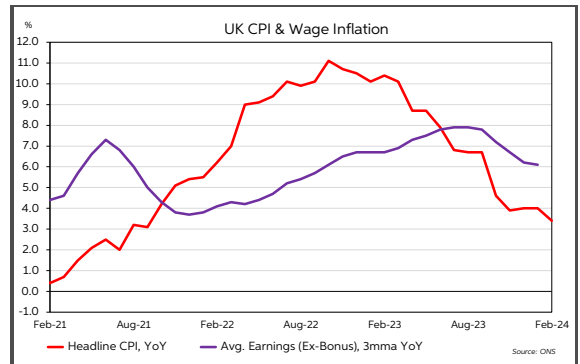


ECB’s Dovish Hold Sets the Stage for June Cut

- **While markets were largely unmoved by the ECB’s latest monetary policy statement, the tone of the statement and President Lagarde’s press conference was very much a dovish one.** Interest rate futures were little changed following the press conference, while the weakness in the Euro largely reflected broad-based dollar strengthening, with the currency holding ground against other majors. However, the subtle shift in language and tone is an important scene setter as the ECB nears a likely first cut in June.
- **Lagarde had stated after the March meeting that the ECB will have a “little” data in April, but will have “a lot more” in June and “it matters because we are data dependent”.** Since that March meeting the data continue to bolster the case for rate cuts. Eurozone inflation has undershot expectations, with the hitherto German engine of the Eurozone economy now experiencing persistent disinflation, as its economy remains exceptionally weak. Moreover, wage growth, a persistent (and vocal) concern for ECB policymakers, now appears to be back on a downward trajectory. Latest wage data from recruiter Indeed, shows average annual wage growth slowing to 3.7% in March from 3.9% in February, signalling an easing in still sticky services inflation in the near term. The ECB noted yesterday that while “domestic inflation remains high, wages and unit profits grew less strongly than anticipated” in Q4’2023 and recent data point to a “further moderation in wage growth”. It was also noteworthy during the press conference that President Lagarde stated that the Governing Council is “not going to wait until everything goes back to 2%” before they ease interest rates.
- **In this context, President Lagarde’s meeting statement contained a new additional sentence to reflect these developments and set the scene for a June cut.** The ECB stated that if its updated assessment of the inflation outlook (which will happen in June) gives it further confidence that underlying inflation is converging to its 2% target, it would be “appropriate to reduce the current level of monetary policy restrictions”. The ECB also re-emphasised that it will follow a data-dependent approach in making future monetary policy decisions and maintained flexibility by stating it is not “pre-committing to a particular rate path”. Markets are now pricing in 83bps worth of cuts in 2024, but a first 25bps cut is not fully priced in until July, which looks a little conservative based on current macro developments and weakening inflation data across the Eurozone.

■ **Turning to the week ahead, a busy UK data schedule includes updates on inflation and the labour market.** Headline CPI inflation fell to 3.4% in February from 4.0% at the start of the year. Meantime, core-CPI inflation which had been proving to be quite sticky, dropped to 4.5% in February, from 5.1% in December. The consensus is for both rates to edge down to 3.1% and 4.2%, respectively, in March. Looking ahead, the BoE noted in its February Monetary Policy Report, that inflation should decline significantly further over the coming months and throughout 2024, helped in particular by substantial moves lower in energy prices. Indeed, Ofgem is set to reduce the energy price cap by 12% in April, which will push the headline rate lower. However, the BoE is closely monitoring the data for signs of persistent inflationary pressures, notably from the underlying tightness of the labour market and wage growth. Encouragingly though, average earnings growth has moderated in recent months. It fell for a sixth consecutive period, to 5.6% y/y in the three months to January, its lowest level since July 2022. A further slowdown to 5.5%/y/y in the three month to February is expected. Meanwhile, the unemployment rate is forecast to edge higher to 4.0%. Elsewhere in the UK, retail sales are projected to rise by 0.1% in March, having stagnated in the month prior.



■ **Retail sales data will also feature in the US.** Retail activity has been mixed so far in Q1, with sales contracting by 1.1% in January, before rebounding modestly by 0.6% in February. Furthermore, the control group measure, a key core sales metric, fell by 0.3% in January before stagnating in February. However, inclement weather at the start of 2024 may have depressed sales. A 0.3% increase in headline retail sales is pencilled in for March. In terms of some other hard data from the US, industrial production for March is due. Having increased by 0.1% in February, following a 0.5% contraction at the start of the year, a 0.4% rise in production is forecast in March. However, this would still leave industrial output down 0.1% in year-on-year terms. Meantime, a slew of housing market updates will be released, including housing starts and existing home sales for March, as well as homebuilder sentiment for April.

■ **In the Eurozone, the February reading of industrial production is due.** Output has been volatile in recent months, with a 3.2% contraction in January wiping out a 1.6% expansion in December. A 0.8% rebound is envisaged in February, partly due to a strong 2.1% rise in German industrial output in the month. The other main Eurozone release, the final reading of HICP inflation for March, is set to confirm the headline and core rates fell to 2.4% and 3.1%, respectively.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2024	2024	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	End Q3	End Q4
		2024	2024	2024
EUR/USD	1.0629	1.10	1.11	1.12
EUR/GBP	0.8545	0.87	0.87	0.88
EUR/JPY	162.58	161	159	157
GBP/USD	1.2437	1.26	1.28	1.27
USD/JPY	152.94	146	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Mon); Cipollone, Schnabel (Wed); de Guindos, Schnabel (Thur);		
	BoE Speakers:	Breeden (Mon); Bailey (Tue); Bailey , Greene, Haskel (Wed); Ramsden (Fri)		
	Fed Speakers:	Logan, Daly (Mon); Mester (Wed); Williams, Bostic (Thur); Goolsbee		
		IMF World Economic Outlook (Tue)		
Mon 15th	EU-20:	10:00 Industrial Production (February)	-3.2% (-6.7%)	+0.8% (-5.7%)
	US:	13:30 NY Fed / Empire State Index (April)	-20.9	-7.0
	US:	13:30 Retail Sales (March)	+0.6% (+1.5%)	+0.3% (+3.1%)
		- Ex-Autos	+0.3%	+0.4%
		- Control	+0.0%	+0.4%
	US:	13:30 NAHB Homebuilder Sentiment (April)	51.0	51
Tue 16th	UK:	07:00 ILO Unemployment Rate (February)	3.9%	4.0%
	UK:	07:00 Employment Change (February)	-21,000	+45,000
	UK:	07:00 Claimant Count (March)	+16,800	
	UK:	07:00 Average Earnings (February)	(+5.6%)	(+5.5%)
		- Ex-Bonus	(+6.1%)	(+5.8%)
	ITA:	09:00 Final HICP Inflation (March)	+1.2% (+1.3%)	+1.2% (+1.3%)
	EU-20:	10:00 Total Trade Balance (February)	+€28.0bn	
	GER:	10:00 ZEW Economic Sentiment (April)	31.7	36.0
	US:	13:30 Housing Starts (March)	+1.52m / +10.7%	+1.48m / -4.1%
		- Building Permits	+1.52m / +2.4%	+1.51m / -0.7%
	US:	14:15 Industrial Production (March)	+0.1% (-0.2%)	+0.4% (+0.1%)
		- Capacity Utilisation	78.3%	78.5%
		- Manufacturing Output	+0.8%	
Wed 17th	JPN:	00:50 Trade Balance (March)	-¥379.4bn	
		- Exports	(+7.8%)	(-7.0%)
	UK:	07:00 CPI inflation (March)	+0.6% (+3.4%)	+0.4% (+3.1%)
		- Core CPI	+0.6% (+4.5%)	(+4.2%)
	UK:	07:00 PPI Output Prices (March)	+0.3% (+0.4%)	
		- PPI Input Prices	-0.4% (+2.7%)	
	EU-20:	10:00 Final HICP Inflation (March)	+0.6% (+2.4%)	+0.6% (+2.4%)
		- Ex-Food & Energy	+0.6% (+3.1%)	+0.6% (+3.1%)
		- Ex-Food, Energy, Alcohol & Tobacco	+1.1% (+2.9%)	+1.1% (+2.9%)
	IRL:	11:00 Residential Property Price Index (February)	+0.7% (5.4%)	+0.2% (+6.0%)
Thu 18th	US:	13:30 Initial Jobless Claims (w/e 8th April)	+211,000	+215,000
	US:	13:30 Philly Fed Index (April)	3.2	-0.5
	US:	15:00 Existing Home Sales (March)	+4.4m / +9.5%	+4.2m / -4.5%
Fri 19th	JPN:	00:30 CPI Inflation (March)	+0.0% (+2.8%)	(+2.6%)
		- Ex-Food & Energy	+0.2% +2.8%	(+2.6%)
	GER:	07:00 Producer Price Inflation (March)	-0.4% (-4.1%)	+0.1% (-3.1%)
	UK:	07:00 Retail Sales (March)	+0.0% (-0.4%)	+0.1% (+0.8%)
		- Ex-Fuel	+0.2% (-0.5%)	+0.3% (+0.9%)

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