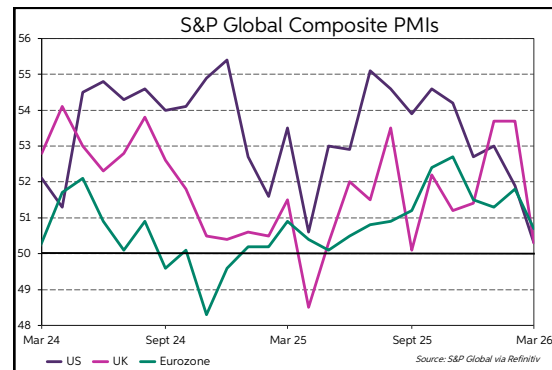


Spring Tide

- **Markets have seen a relief rally in recent days, as investors price in the endgame of the current Middle East conflict.** Central bankers have also been mollifying their outlook for rates, following the initial burst of hawkish comments when the conflict began.
- **The ‘risk-on’ mode has been further bolstered by news of a ceasefire between Israel and Lebanon, and the lifting of a blockade by Iran on commercial vessels in the Strait of Hormuz.** European equities have gained nearly 2% on the week, with much larger gains on Wall Street, with the S&P 500 up around 4%. The dollar has also fallen further as the tail risks around the conflict diminish further. This has included EUR/USD testing back above the \$1.18 threshold.
- **Adding to the general sense of cautious optimism, central bankers attending the IMF meetings in Washington have been talking down the risk of near-term rate hikes.** Notably, Bank of England Governor, Andrew Bailey, stated that the market “got ahead of itself” in pricing in several interest rate hikes in the early days of the war. However, he did caution against the BoE embarking quickly on the rate cuts which had been priced in at the end before the war. Similarly, ECB President, Christine Lagarde, also hinted at a ‘wait and see’ approach stating, “colleagues who are confident that it's going to be one way or the other don't know, honestly”.
- **Markets have reacted to the central bank comments by softening expectations for near term hikes, with less than 50 bps of hikes now priced in by the ECB and 25 bps of hikes by the Bank of England.** However, these recent moves do not fully reverse to the dovish outlook priced in ahead of the Middle East conflict.
- **Interest rate futures have also softened for the Fed but still are not fully pricing in a 25 bps cut this year.** Much uncertainty still surrounds the future FOMC Chair, with confirmation hearings due to begin on Tuesday for Kevin Warsh amid ongoing Dept. of Justice investigations into current Chair Powell. With Powell dug in until these matters are resolved, Republicans may not have a majority on the Senate Banking Committee to install Warsh, who has espoused dovish sentiment on the path for US rates in recent months.
- **This would leave the more cautious Powell in place temporarily, and in any event,** he has committed to remaining on the rate-setting committee after his term as Chair ends to retain leverage in what is seen as a politically motivated probe into apparent Fed mishandling of a major construction project.
- **Turning to the week ahead, the main data highlight of a busy macro schedule will be the flash PMIs for April in the main advanced economies.** In the Eurozone, the manufacturing PMI improved through the first quarter, with the sector moving into expansion territory in February for only the third time since April 2022. The services PMI was also above the key 50 threshold in Q1, albeit it fell to just 50.2 in March. The consensus is for both surveys to move lower in April, with the services index forecast to enter contractionary territory. In the UK, the PMIs jumped higher in January and remained at broadly similar levels in February. In March, the manufacturing PMI rose further but the services PMI eased to 50.5. Expectations are for both indices to suggest a stagnation in activity levels in April. In the US, the manufacturing PMI is envisaged to show modest growth this month, while the services PMI may continue to suggest a contraction in the sector.



- **Aside from the PMI surveys, an eventful UK data calendar includes updates on inflation, the labour market and retail sales.** Both the headline and core rates of CPI inflation fell from a peak of 3.8% last year to 3.0% and 3.1%, respectively in January. They printed at 3.0% and 3.2% in February. Headline inflation is pencilled in for a rise to 3.3% in March, with the core rate expected to be unchanged. Meanwhile, labour market conditions have softened over the past year. The unemployment rate has increased steadily from 4.4% to 5.2% in December/January. Worryingly, payrolls have also contracted in eleven of the past sixteen months to February. Expectations are for the jobless rate to stay at 5.2% in February. Against this backdrop, wage inflation is set to ease marginally to +3.6% y/y in the three months to February. In terms of retail sales, a modest 0.2% monthly increase is expected for March.
- **In the US retail sales data for March also feature this week.** Both the headline and control group measures of sales rose markedly in February, increasing by 0.6% and 0.5%, respectively, following a weak start to 2026. A further improvement is envisaged for March, with a consensus forecast of +1.3% m/m for the headline rate.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.75	3.75
BoJ OCR	0.75	0.75	1.00	1.00
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
EUR/USD	1.1812	1.18	1.19	1.19
EUR/GBP	0.8707	0.87	0.88	0.88
EUR/JPY	186.53	185	186	186
GBP/USD	1.3562	1.36	1.35	1.35
USD/JPY	157.91	157	156	156
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Mon); deGuindos (Tue); Lagarde, Elderson, Lane, Cipollone (Wed)			
	BoE Speakers:				
	Fed Speakers:				
Mon 20th					
Tue 21st	UK:	07:00	Unemployment Rate (February)	5.2%	5.2%
	UK:	07:00	HMRC Payrolls (March)	20,000	
			- Claimant count	24,700	
	UK:	07:00	Average Earnings 3m (February)	(+3.9%)	(+3.6%)
			- Ex-Bonus	(+3.8%)	(+3.5%)
	GER:	10:00	ZEW Economic Sentiment (April)	-0.5	-5.0
	US:	13:00	Retail Sales (March)	+0.6%	+1.3%
			- Ex-Autos	+0.5%	+1.0%
			- Control Group	+0.5%	
Wed 22nd					
JPN:	00:50	Total Trade Balance (March)	+¥44.3bn	¥1,106.3bn	
		- Exports	(+4.0%)	(+11.0%)	
	UK:	07:00	CPI Inflation (March)	+0.4% (+3.0%)	+0.6% (+3.3%)
			- Core-CPI	+0.6% (+3.2%)	+0.5% (+3.2%)
			- Services	+0.5% (+4.3%)	+0.4% (+4.4%)
	UK:	07:00	PPI Output Prices (March)	-0.5% (+1.7%)	
			- Input Prices	+0.5% (+0.8%)	
	EU-21:	15:00	Flash Consumer Confidence (April)	-16.3	
Thu 23rd					
JPN:	00:50	Flash S&P Composite PMI (April)			
	FRA:	07:45	INSEE Business Climate (April)	97.0	96.0
	SPA:	08:00	Overnight Stays (March)	Mar'25: 22.3m	
	FRA:	08:15	Flash HCOB Composite PMI (April)	48.8	48.6
	GER:	08:30	Flash HCOB Composite PMI (April)	51.9	51.1
	EU-21:	09:00	Flash HCOB Composite PMI (April)	50.7	50.2
			- Manufacturing / Services	51.6 / 50.2	50.8 / 49.8
	UK:	09:30	Flash S&P Composite PMI (April)	50.3	49.8
			- Manufacturing / Services	51.0 / 50.5	49.9 / 50.0
	US:	13:30	Initial Jobless Claims (w/e 13th April)	+207,000	+214,000
	US:	14:45	Flash S&P Composite PMI (April)	50.3	
			- Manufacturing / Services	52.3 / 49.8	
Fri 24th					
JPN:	00:30	CPI Inflation (March)	(+1.3%)		
	UK:	07:00	Retail Sales (March)	-0.4% (+2.5%)	+0.2%
			- Ex-Fuel	-0.4% (+3.4%)	
	FRA:	07:45	INSEE Consumer Confidence (April)	89.0	88.0
	GER:	09:00	Ifo Business Climate (April)	86.4	85.3
	US:	15:00	Final Uni. Michigan Consumer Sentiment (April)	47.6	47.6

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

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