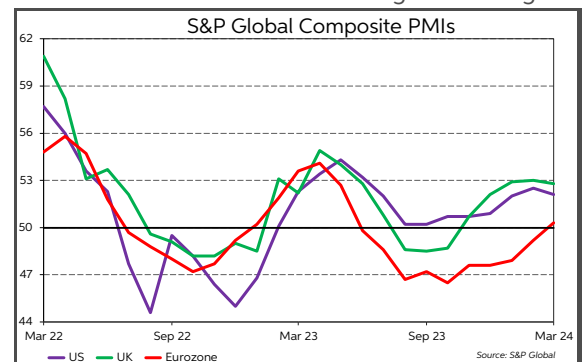


Geopolitical Tension to the Fore Once Again

- This week was very much characterised by “risk-off” sentiment in markets, as rising geopolitical tensions boosted safe haven assets.** On the back of strong inflation and consumer spending data, the dollar’s strength has also been underpinned by escalating tensions in the Middle East, as both Iran and Israel launched retaliatory attacks on each other over the past week. Having broken through the key \$1.07 support level at the end of last week, EUR/USD fell to a fresh YTD low of \$1.06 on Tuesday. Overall, the pair has remained in the \$1.06-1.07 range for much of this week.
- To date, the primary direct impacts of the current tensions in the Middle East are via higher commodity prices and supply chain disruption, which could quickly feed through to higher producer and consumer prices.** Indeed, recent European PMI surveys point to lengthening delivery times for private sector firms and rising input prices directly related to the diversion of trade from the key Red Sea channel earlier in the year. In its updated World Economic Outlook report, the IMF noted that the risks to the outlook are broadly balanced, but highlighted that an escalation of the conflict in the Middle East would make the current economic situation worse, leading to “a surge in oil prices and in shipping costs”.
- With this in mind, it is important to note Brent Crude also rose earlier in the week.** It briefly topped \$90 per barrel, but fell back towards \$86 by the end of the week. Nonetheless, the longer term trend is that oil prices have been steadily rising throughout 2024, having troughed at \$73 per barrel in December 2023, and remain an upside risk to the near-term inflation outlook. Indeed, energy price falls have been helping to reduce annual consumer inflation for much of the past year, but these base effects are likely to wash through the data very soon, and could even push up inflation once more if the recent trend in oil prices persists. Renewed energy price pressures could also give major central banks pause as they near an expected first cut in interest rates later this year.
- The indirect effects on economies of a major escalation in conflict in the Middle East are much harder to gauge.** In 2022, household and business sentiment in Europe collapsed on the back of the Russian invasion of Ukraine, which likely compounded the negative hit to consumer spending and business investment from the spike in energy prices. At present, the move in markets has been muted, while the impact on household and business sentiment will take longer to emerge.
- Turning to the week ahead, a busy US data schedule will include important updates on inflation and growth.** The first reading of Q1 GDP is set to show the US economy continued to expand at a rapid pace in the early part of 2024. Bar a modest fall in retail sales at the start of the year (which was likely due to some inclement weather) most metrics have pointed towards continued good momentum in activity. Indeed, retail sales recovered and expanded strongly in February and March. The consensus is for GDP growth of 2.3% annualised in Q1. Strong US data and sticky CPI inflation have caused market rate cut expectations to be slashed in recent weeks, and appear to have led to a re-think from Fed officials also, with a number sounding more hawkish in remarks over the past week. However, it should be noted that a substantial gap has opened between the CPI and PCE measures of inflation, with the latter at 2.5% (headline) and 2.8% (core), respectively in February, compared to 3.5% and 3.8% for the former in March. Despite this though, the recent down trend in PCE inflation is expected to stall. A modest increase in headline PCE to 2.6% and a slight easing in the core-PCE rate to 2.7% is forecast for March.
- Meanwhile, the flash PMIs for April in the Eurozone, US and UK will feature.** In the Eurozone, the manufacturing PMI has been in contraction mode for 22 straight months. However it has edged higher recently, and averaged 46.4 in Q1, up from an average of 43.9 in Q4. Meantime, the services PMI printed above the key 50 level in February, for the first time since July, and improved further to 51.5 in March. A modest increase for both the PMIs is pencilled in for April. Similarly in the UK, the services PMI has outperformed the manufacturing PMI for the past number of months. However, the manufacturing reading moved above 50 in March. Both UK PMIs are forecast to be broadly unchanged in April. In the US, the PMIs have been in expansion mode so far in 2024, and they are projected to maintain this trend in April.
- Elsewhere on the data front, the flash reading of Eurozone consumer confidence for April is due.** A meagre rise to –14.4 from –14.9 is pencilled in for the month. A number of other consumer and business sentiment indicators from the large Euro-area economies for April will also feature, including the bellwether German Ifo. **Meantime, on the monetary policy front, the BoJ meeting will garner close attention.** No changes to policy are anticipated, but remarks from Governor Ueda on the outlook for interest rates and his comments on the recent bout of yen weakness will be in focus.



	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	1.0663	1.10	1.11	1.12
EUR/GBP	0.8591	0.87	0.87	0.88
EUR/JPY	164.80	161	159	157
GBP/USD	1.2410	1.26	1.28	1.27
USD/JPY	154.51	146	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Mon); Cipollone, Schnabel (Wed); Schnabel (Thur); de Guindos (Fri)		
	BoE Speakers:	Haskel, Pill (Tue)		
	Fed Speakers:			
Mon 22nd	UK:	11:00 CBI Trends - Orders (April)	-18.0	
	EU-20:	15:00 Flash Consumer Confidence (April)	-14.9	-14.4
Tue 23rd	JPN:	00:30 Flash Jibun Composite PMI (April)	51.7	
	FRA:	08:15 Flash HCOB Composite PMI (April)	48.3	48.8
	GER:	08:30 Flash HCOB Composite PMI (April)	47.7	48.6
	EU-20:	09:00 Flash HCOB Composite PMI (April)	50.3	50.8
		- Manufacturing / Services	46.1 / 51.5	46.6 / 51.8
	UK:	09:30 Flash S&P Composite PMI (April)	52.8	52.7
		- Manufacturing / Services	50.3 / 53.1	50.4 / 53.0
	US:	09:30 Flash S&P Composite PMI (April)	52.1	52.0
		- Manufacturing / Services	51.9 / 51.7	51.8 / 51.6
	US:	15:00 New Home Sales (March)	+0.66m / -0.3%	+0.67m / +1.2%
Wed 24th	GER:	09:00 Ifo Business Climate (April)	87.8	88.8
	ITA:	09:00 ISTAT Business Confidence (April)	88.6	89.5
	ITA:	09:00 ISTAT Consumer Confidence (April)	96.5	
	US:	13:30 Durable Goods (March)	+1.3%	+2.5%
		- Ex-Transport	+0.3%	+0.3%
Thu 25th	GER:	07:00 Gfk Consumer Sentiment (May)	-27.4	-26.0
	FRA:	07:45 INSEE Business Climate (April)	100.0	103.0
	US:	13:30 GDP (Q1: Advanced Reading)	+3.4 S.a.a.r.	+2.3% S.a.a.r.
	US:	13:30 PCE Prices (Q1: Advanced Reading)	+1.8% S.a.a.r.	
		- Core-PCE	+2.0% S.a.a.r.	
	US:	13:30 Initial Jobless Claims (w/e 15th April)	+212,000	+214,000
	US:	15:00 Pending Home Sales (March)	+1.6%	
Fri 26th	JPN:	BoJ Interest Rate Decision	0.0-0.1%	+0.0-0.1%
	UK:	00:01 Gfk Consumer Confidence (April)	-21.0	-20.0
	FRA:	07:45 INSEE Consumer Confidence (April)	91.0	92.0
	SPA:	08:00 Retail Sales (March)	(+1.9%)	
	EU-20:	09:00 M3 Annual Money Growth (March)	+0.4%	+0.6%
	US:	13:30 Personal Income / Consumption	+0.3% / +0.8%	+0.5% / +0.6%
	US:	13:30 PCE Prices (March)	+0.3% (+2.5%)	+0.3% (+2.6%)
		- Core-PCE Prices (March)	+0.3% (+2.8%)	+0.3% (+2.7%)
	US:	15:00 Final Uni. Michigan Consumer Sentiment (April)	77.9	77.9

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

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