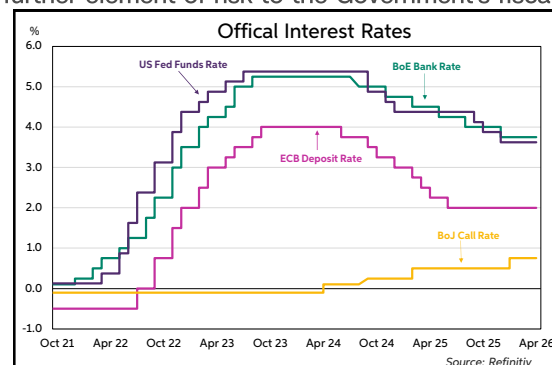


One step forward, two steps back

- **The positive momentum on markets last week gave way to further uncertainty in recent days, with some of the recent gains unwound over the course of this week.** The swift rescinding of the opening of the Strait of Hormuz by Iran last weekend and stop-start peace talks have added to the sense of drift and uncertainty. Oil prices have traded above the \$100/ barrel mark in recent days, having dropped to \$89 following the brief Iranian appeasement. Nevertheless, the existing ceasefires with Iran and Lebanon have been extended for a further three weeks, giving space for both sides to reach a compromise.
- **With countries bracing for a longer lasting shock, policymakers have begun to lay out fiscal supports to offset some of the shock.** Notably, the European Commission has revealed its “AccelerateEU” energy bill, which allows member states to provide temporary supports and tax cuts to counter surging energy costs. Proposed changes to subsidies rules will allow countries to cover up to 70% of the cost of wholesale electricity bills until December, and up to 50% of the extra fuel costs. Many countries, including Ireland, have already jumped the gun in cutting excise duties and pausing carbon tax hikes due later in the year.
- **However, as we have stated previously, wider fiscal deficits will limit the ability of EU governments to provide the level of support seen following the war in Ukraine in 2022.** One exception is Ireland, with the release of the Annual Progress Report this week showing an even larger projected fiscal surplus in 2026 and 2027 than expected in last year’s Budget, of c.€9bn (2.5% of GNI*) in both years. This comes despite the DoF trimming its economic growth forecasts on the back of the current geopolitical uncertainty. The upward revisions primarily reflect larger corporation tax receipts, with €35.3bn expected to be collected in 2026, compared to a previous estimate of €34bn. Higher VAT receipts are also expected amid rising inflation, enabling the Government to expand its expenditure ceiling - once again - by c.€700m, and fund tax cuts to offset rising fuel costs.
- **However, as the Fiscal Advisory Council has pointed out, these surpluses are expected to dwindle towards 2030, with the Government planning to save just €1 out of every €6 collected in corporation tax.** While sovereign wealth funds are being steadily increased in the coming years, debt will also rise in nominal terms by €30bn, suggesting that some borrowings will be used to meet transfer commitments to the funds. While counterintuitive, if the investment returns from the wealth funds exceed Government borrowing costs, this approach can work well, but it does add a further element of risk to the Government’s fiscal strategy if interest rates shift in the medium term.
- **Looking ahead, it will be a busy week on the monetary policy front. However, neither the Fed, ECB, BoE nor the BoJ are expected to alter rates.** Market rate expectations have firmed across the board in response to the surge in energy costs following the outbreak of war in the Middle East. As a result, at what could be his last meeting as Fed Chair, Powell can expect to face questions regarding potential further easing. Current pricing shows that markets see just a 20% chance of a Fed rate cut in 2026. Likewise, the main focus of the ECB meeting is likely to be the press conference. The ECB has guided that it is in “wait-and-see” mode for now albeit markets anticipate 50bps of hikes this year. Therefore, remarks from President Lagarde will be followed closely, to see if there is a hawkish shift in tone. Meanwhile, the updated BoE Monetary Policy Report and the press conference will also garner close attention. The market expects the BoE to hike rates twice this year but Governor Bailey has pushed back against this. Finally, the tone of BoJ communications will be in focus, as a recent rise in inflation and tight labour market conditions, put the BoJ under pressure to resume hiking rates.
- **Data-wise, the calendar is quite busy in the Eurozone.** Most notably, the flash reading of HICP inflation for April will be released. In March the headline rate jumped to 2.6% due to the surge in wholesale energy prices. However, the core rate remained relatively low, at 2.2%. The consensus is for the headline rate to rise further, to 2.9%, but underlying price pressures are set to remain contained, at 2.3%. In terms of more lagging data, the preliminary reading of GDP for Q1 is forecast to show the economy expanded by 0.2% in the first three months of the year. Regarding the labour market, the unemployment rate is projected to remain at 6.2% in March, close to its all-time low of 6.1%. However, timelier updates, such as the EC sentiment indices for April are likely to indicate a deterioration in the near-term outlook for the Eurozone economy.
- **Likewise, the data schedule in the US is jam-packed, and contains updates on GDP and inflation.** The unwinding of the impact of the government shutdown in Q4 is expected to boost Q1 GDP. Overall, GDP is forecast to increase by 2.3% annualised at the start of 2026. Meanwhile, core-PCE inflation is projected to rise to 3.2% in March. It would mean that underlying price pressures in the US have been running at 3.0% or above for the past four months. In terms of wage inflation, the Fed’s preferred measure of wage pressures - the employment component of the ECI - is anticipated to remain elevated, increasing by 0.8% in Q1. Elsewhere in the US, a slew of survey data for April are also due, including consumer confidence.



	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	3.50
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	1.1712	1.18	1.19	1.20
EUR/GBP	0.8672	0.87	0.88	0.88
EUR/JPY	186.80	185	187	187
GBP/USD	1.3502	1.36	1.35	1.36
USD/JPY	159.47	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:	Pill (Fri)		
Mon 27th	GER: 08:00	Gfk Consumer Sentiment (May)	-28.0	-29.3
Tue 28th	US: 15:00 JPN:	Conference Board Consumer Confidence (Apr) BoJ Interest Rate Decision	91.8 0.75%	88.5 0.75%
Wed 29th	SPA: 08:00 EU-21: 09:00 ITA: 09:00 ITA: 09:00 EU-21: 10:00 EU-21: 10:00 IRE: 11:00 IRE: 11:00 GER: 13:00 US: 13:30 US: 19:00 US: 19:30	Flash HICP Inflation (April) M3 Annual Money Growth (March) Loans to Households ISTAT Business Confidence (April) ISTAT Consumer Confidence (April) EC Business Climate (April) EC Economic Sentiment (April) - Consumer / Industrial / Services Flash HICP Inflation (April) Flash GDP Estimate (Q1 2026) Flash HICP Inflation (April) Housing Starts (March) - Building Permits Fed FOMC Policy Announcement - Fed Funds Target Range Fed FOMC Post-Meeting Press Conference	+1.7% (+3.4%) (+3.0%) (+3.0%) 88.8 92.6 -0.27 96.6 -20.6 / -7.0 / 4.9 +1.8% (+3.6%) -3.8% (+2.2%) +1.2% (+2.8%) +1.49m / +7.2% +1.39m / -4.7% 3.50-3.75%	(+3.1%) 95.3 -20.6 / -8.0 / 3.8 +0.7% (+3.0%) +1.41m / -5.4% +1.40m / +0.9% 3.50-3.75%
Thu 30th	FRA: 06:30 FRA: 07:45 SPA: 08:00 GER: 09:00 ITA: 09:00 EU-21: 10:00 EU-21: 10:00 EU-21: 10:00 IRE: 11:00 UK: 12:00 UK: 12:30 EU-21: 13:15 EU-21: 13:45 US: 13:30 US: 13:30 US: 13:30 US: 13:30 US: 13:30	GDP (Q1: Preliminary Reading) Flash HICP Inflation (April) GDP (Q1: Preliminary Reading) GDP (Q1: Preliminary Reading) GDP (Q1: preliminary Reading) Flash HICP Inflation (April) - Ex-Food & Energy - Ex-Food, Energy, Alcohol & Tobacco GDP (Q1: Preliminary Reading) Unemployment Rate (March) New Dwelling Completions (Q1 2026) BoE Monetary Policy Announcement - Monetary Policy Report BoE Monetary Policy Report Press Conference ECB Monetary Policy Decision - Deposit Rate - Re-fi Rate ECB Post-Meeting Press Conference Personal Income / Consumption (March) PCE Prices (March) - Core-PCE Prices GDP (Q1: Advanced Reading) Initial Jobless Claims (w/e 20th April) Employment Cost Index (Q1)	+0.2% (+1.2%) (+2.0%) +0.8% (+2.7%) +0.3% (+0.6%) +0.3% (+0.8%) +1.3% (+2.6%) +0.7% (+2.2%) +0.8% (+2.3%) +0.2% (+1.2%) 6.2% 11,994 3.75% 2.00% 2.50% -0.1% / +0.1% +0.4% (+2.8%) +0.4% (+3.0%) +0.5% S.a.a.r. +214,000 +0.7%	+0.2% (+%) (+2.2%) +0.5% (+2.7%) +0.2% (+0.4%) +0.1% (+0.6%) +0.9% (+2.9%) +1.0% (+2.3%) +1.0% (+2.3%) +0.2% (+0.8%) 6.2% 3.75% 2.00% 2.50% +0.3% / +0.9% +0.7% (+3.5%) +0.3% (+3.2%) +2.3% S.a.a.r. +215,000 +0.8%
Fri 1st	Most EU-21: IRE: 01:01 UK: 09:30 UK: 09:30 US: 14:45 US: 15:00	May Day (Bank Holiday) AIB Irish Manufacturing PMI (April) BoE Mortgage Approvals (March) Final S&P manufacturing PMI (April) Final S&P Manufacturing PMI (April) Manufacturing ISM (April)	53.7 62,584 53.6 54.0 52.7	60,100 53.6 54.0 53.0

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

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