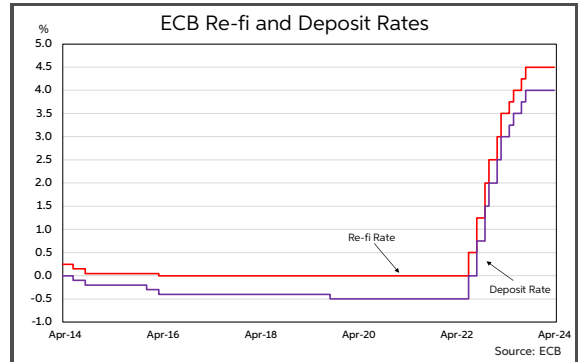


Eyes on ECB for June Signal

- The Eurozone economy essentially flat-lined for five consecutive quarters between the end of 2022 and throughout last year.** For the year as a whole, GDP rose by just 0.5% in 2023, down from 3.5% in 2022. Furthermore, the limited available hard data so far this year have been mixed at best. Industrial production remains volatile, with output contracting by 3.2% in January, wiping out a 1.6% increase in December. However, the drop was largely driven by a sharp 29% fall in Irish production figures, which are notoriously distorted by contract manufacturing. Meantime, retail sales stagnated in January before falling by 0.5% m/m in February. In year-on-year terms, retail sales were 0.7% lower in February.
- Survey data though, suggests there are signs that the economy may be bottoming out.** The manufacturing PMI remains below 50, but it averaged 46.4 in Q1, up from 43.9, signifying a slower pace of contraction. Meantime, the services PMI printed above the key 50 level for the first time since last July in February, and improved further to 51.5 in March. Overall, it averaged 50.0 in Q1, up from 48.4 in Q4. At the same time, the EC Economic Sentiment Index posted a modest rebound in March, while consumer confidence rose to its highest level since the Russian invasion of Ukraine last month.
- Perhaps even more encouragingly, the Eurozone labour market remains in good health and inflation has resumed its downward trend.** The unemployment rate has been between 6.5-6.6% for the past year, all-time lows for the bloc. Meanwhile, having risen to 2.9% in December, and printed at 2.8% in January, headline inflation eased to 2.4% in March. Furthermore, HICP excluding energy, food, alcohol and tobacco declined to 2.9% in March, below 3% for the first time since February 2022. Looking ahead, the ECB expects headline inflation to average 2.3% this year as price pressures continue to ease.
- However, despite the backdrop of falling inflation, a strong labour market and signs of a rebound in activity in Q1, growth is forecast to remain muted this year.** The IMF and ECB project GDP growth of between 0.6-0.9% in 2024. It should also be noted that a number of downside risks to the outlook remain, most notably stemming from ongoing geo-political tensions around the globe. The ECB also appears to be concerned about wage and services inflation which have remained ‘sticky’ at elevated levels in recent months. However, expectations are that the ECB will be in a position to cut rates this year, which should support activity. With the economy showing some signs of improvement, the lingering clouds around the Eurozone economic outlook may be clearing somewhat.
- Against this backdrop, the main focus this week will be on the ECB monetary policy meeting for April.** It has been less than five weeks since the March ECB Governing Council gathering, which partly explains why market rate expectations have been little changed since then, despite some encouraging inflation data. Futures contracts are pricing in around 90bps of rate cuts this year, starting in June. This pricing is almost identical to immediately before the March meeting. **Thus, no changes to policy are envisaged this week.** However, markets will be looking for guidance that the ECB is likely to cut rates in June. President Lagarde indicated in March that a June rate cut was a possibility, given the central bank will have “a lot more” data by then. Market participants will be watching to see whether the ECB firms up on this guidance this week. Thus, the press conference with President Lagarde will garner close attention.
- Elsewhere on the monetary policy front, the Fed meeting minutes from the March FOMC are due.** Data-wise, the highlight will be US CPI inflation for March. The headline CPI rate has been in a 3.1-3.7% corridor since mid-2023, and stood at 3.2% in February. Meantime, core CPI remained elevated at 3.8% in February, having risen by a hefty 0.4% m/m in the opening two months of the year. However, it should be noted that a substantial gap has opened between the CPI and PCE measures of inflation, with the latter declining to 2.4% (headline) and 2.8% (core), respectively. The difference between the two metrics largely stems from the way housing is included in each basket, with CPI placing a greater emphasis on this category. Nevertheless, the Fed’s preferred measure, Core PCE has given some FOMC officials confidence that they will likely be able to start cutting rates this year. A lower CPI inflation reading, though, would also help in this regard. The consensus is for the headline to rise marginally to 3.4%, and core rates to ease slightly to 3.7% in March. Elsewhere in the US, the Michigan measure of consumer sentiment is projected to be broadly unchanged in April from its March level.
- In the UK, the monthly reading of GDP for February will feature.** Growth rebounded by 0.2% m/m in January, having registered a 0.1% contraction in December. The forecast is for a 0.1% m/m rise in output in February. Meanwhile, UK industrial production, which fell by 0.2% in January, is projected to be flat in February. **In the Eurozone, industrial production data for Germany will feature.** German industrial output performed quite poorly last year but a modest 0.3% increase in production is pencilled in for February. In terms of more timely Eurozone data, the EU Sentix index is expected to improve to -8.9 in April from -10.5.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2024	2024	2024
Fed Funds	5.375	5.125	4.875	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	1.0827	1.10	1.11	1.12
EUR/GBP	0.8578	0.87	0.87	0.88
EUR/JPY	164.11	161	159	157
GBP/USD	1.2619	1.26	1.28	1.27
USD/JPY	151.55	146	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Kashkari (Mon); Bowman, Goolsbee (Wed); Williams, Collins, Bostic (Thur); Bostic		
Mon 8th	GER:	07:00 Industrial Production (February)	+1.0% (-5.4%)	+0.3% (-6.7%)
	GER:	07:00 Trade Balance (February)	+€27.5bn	+€26.0bn
		- Exports	+6.3%	-0.5%
	EU-20:	09:30 Sentix Index (April)	-10.5	-8.9
Tue 9th	FRA:	07:45 Trade Balance (February)	-€7.4bn	
	US:	11:00 NFIB Small Business Optimism (March)	-89.4	
Wed 10th	US:	13:30 CPI Inflation (March)	+0.4% (+3.2%)	+0.3% (+3.4%)
		- Core CPI	+0.4% (+3.8%)	+0.3% (+3.7%)
Thu 11th	ITA:	09:00 Industrial Output (February)	-1.2% (-3.4%)	+0.5%
	IRL:	11:00 CPI Inflation (March)	+1.0% (+3.4%)	
		- HICP Inflation	+1.1% (+2.3%)	+0.3% (+1.7%)
	EU-20:	13:15 ECB Monetary Policy Announcement		
		- Deposit Rate	4.00%	4.00%
		- Re-fi Rate	4.50%	4.50%
	US:	13:30 Initial Jobless Claims (w/e 1st April)	+221,000	+215,000
	US:	13:30 PPI Inflation (March)	+0.6% (+1.6%)	+0.3% (+2.3%)
		- Ex-Food & Energy	+0.3% (+2.0%)	+0.2% (+2.3%)
	EU-20:	13:45 ECB Press Conference		
Fri 12th	UK:	00:01 RICS Housing Survey (March)	-10.0	
	GER:	07:00 Final HICP Inflation (March)	+0.6% (+2.3%)	+0.6% (+2.3%)
	UK:	07:00 Goods Trade Balance (March)	-£14.5bn	
	FRA:	07:45 Final HICP Inflation (March)	+0.3% (+2.4%)	+0.3% (+2.4%)
	UK:	08:00 GDP (February)	+0.2% (-0.3%)	+0.1%
		- 3m/3m	-0.1%	+0.1%
	UK:	08:00 Industrial Output (February)	-0.2% (+0.5%)	+0.0%
		- Manufacturing Output	+0.0% (+2.0%)	+0.2%
	SPA:	08:00 Final HICP Inflation (March)	+1.3% (+3.2%)	+1.3% (+3.2%)
	US:	15:00 Preli. Uni. Michigan Consumer Sentiment (April)	79.4	79.0

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