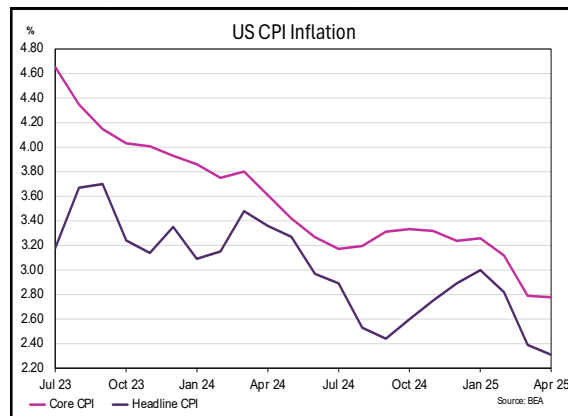


Two to Tango

- **The ECB's Governing Council meeting for June saw the central bank lower interest rates for a fourth consecutive time this year.** The Deposit rate was lowered by 25bps to 2.00%, while the Re-fi rate was decreased to 2.15%. This marked the eighth 25bps rate cut since the ECB started its easing cycle in June 2024. The decision to cut had a “broad consensus” but was not unanimous, with one Governing Council member dissenting on the rate reduction. Meanwhile the somewhat hawkish tone to President Lagarde’s press conference raises the prospect that the ECB may now take a pause at current rates.
- **The Governing Council's decision to lower rates was informed by the latest set of detailed macro staff forecasts.** In terms of the outlook for headline inflation, the June forecasts saw downward revisions. This is mainly due to lower assumptions for energy prices and a stronger euro. The ECB expects inflation to average 2.0% (was 2.3%) this year and 1.6% (was 1.9%) in 2026. For 2027, it sees inflation averaging 2.0% (no change). While the inflationary outlook is more benign, the factors which have dragged down inflation could also quickly unwind in the coming months. In that context, still high core inflation – expected to average 2.4% in 2025 – should give policymakers pause for thought, with ECB rates now well within the ‘neutral range’.
- **Nonetheless, the ECB also commented that it views the risk to its economic outlook as remaining tilted to the downside.** President Lagarde stated that the outlook is “more uncertain than usual” against the backdrop of elevated trade tensions and geopolitical risks. Indeed, given the heightened uncertainty regarding trade policies, the ECB also published alternative scenarios. In the ‘further escalation of trade tensions’ scenario, GDP and inflation are projected to be weaker, which would provide scope for further rate cuts. However, in a ‘trade resolution scenario’, growth and inflation would be slightly stronger.
- **Given the heightened trade uncertainty at present, this may be the last cut for some time from the ECB.** President Lagarde remarked on several occasions that the central bank is in a “good position” regarding its current interest rate levels to “face uncertainty” over the coming months.
- **In terms of market expectations, futures contracts have firmed by around 7-10bps in the aftermath of Thursday's policy announcement.** Current pricing suggests traders do not now expect another rate cut until December, with the Depo rate ending the year at 1.75%.
- **Turning to the week ahead, the main release of note will be US CPI inflation for May.** A clear disinflationary trend in CPI has re-emerged throughout the first four months of the year. Headline CPI inflation printed between 2.6-3.0% during October to February, before falling to 2.4% in March and to 2.3% in April, its lowest level since February 2021. At the same time, core-CPI inflation declined to 2.8% in March/April, having been stuck in a narrow 3.1-3.3% range since last June. The consensus is for a further slight uptick in both rates to 2.5% and 2.9% in May. Elsewhere in the US, the Michigan measure of consumer sentiment for June will feature. Consumer sentiment has deteriorated sharply so far in 2025, with the headline index falling to 52.2 in May, amid ongoing concerns regarding the economic outlook. However, a modest rebound to 53.5 is pencilled in for June.
- **In the UK, a busy data schedule includes updates on the labour market and the latest monthly reading of GDP.** In terms of the labour market, conditions appear to have softened in recent months. Having risen to 4.4% in November, up from 4.1% last August, the unemployment rate stayed at that level before rising again to 4.5% in March. Meantime, average earnings growth has remained elevated, albeit it has slowed somewhat, falling to +5.5% y/y in Q1, down from +6.1% y/y at the end of Q4. Expectations are for both metrics to be little changed in April, at 4.6% and 5.5% y/y. Despite some cooling in the labour market though, growth has gathered momentum in the early months of the year. GDP expanded by 0.7% in Q1. However, a more subdued start to Q2 is anticipated, with GDP forecast to contract by 0.1% m/m in April. At the same time, industrial production is projected to decline by 0.5% m/m in April, following a marked 0.7% contraction in March.
- **Industrial production data are also due in the Eurozone.** A recent rebound in German output and a sugar rush ahead of potential tariffs on goods exported to the US led to a very strong increase in production during Q1. Industrial output jumped by 2.6% in March alone, and by a cumulative 4.6% overall in the quarter. However, a 1.3% m/m contraction is forecast for the start of Q2.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2025	2025	2025	2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.25	2.00	2.00	2.00
BoE Repo	4.25	4.25	4.00	3.75
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
	2025	2025	2025	2025
EUR/USD	1.1398	1.13	1.14	1.14
EUR/GBP	0.8423	0.84	0.84	0.83
EUR/JPY	165.18	164	164	163
GBP/USD	1.3531	1.35	1.36	1.37
USD/JPY	144.90	145	144	143

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 9th - Friday 13th June

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Elderson (Mon); Buch (Tue); Lane, Cipollone (Wed); Schnabel, deGuindos (Thu)		
	BoE Speakers:				
	Fed Speakers:				
Mon 9th	JPN:	00:50	GDP (Q1: Revised Reading)	-0.2%	-0.2%
Tue 10th	UK:	07:00	ILO Unemployment Rate (March)	4.5%	4.6%
	UK:	07:00	Employment Change (April)	+112,000	
	UK:	07:00	Average Earnings (April)	(+5.5%)	(+5.5%)
			-Ex-Bonus	(+5.6%)	(+5.4%)
	UK:	07:00	Claimant Count (April)	+5,200	
	ITA:	09:00	Industrial Output (April)	+0.1% (-1.8%)	-0.2%
	EU-20:	09:30	EU Sentix Index (June)	-8.1	-6.0
	US:	11:00	NFIB Small Business optimism (May)	95.8	95.7
Wed 11th	US:	13:30	CPI Inflation (May)	+0.2% (+2.3%)	+0.3% (+2.5%)
			- Core-CPI	+0.2% (+2.8%)	+0.2% (+2.9%)
Thu 12th	UK:	07:00	GDP (April)	+0.2% (+1.1%)	-0.1%
			- 3mth/3mth	+0.7%	+0.7%
	UK:	07:00	Industrial Output (April)	-0.7% (-0.7%)	-0.5% (-0.2%)
			- Manufacturing Output	-0.8% (-0.8%)	-0.8% (+0.5%)
	US:	13:30	Initial Jobless Claims (w/e 2nd June)	+247,000	+240,000
	US:	13:30	PPI Inflation (May)	-0.5% (+2.4%)	+0.2% (+2.6%)
			- Ex-Food & Energy	-0.4% (+3.1%)	+0.3% (+3.0%)
Fri 13th	GER:	07:00	Final HICP Inflation (May)	+0.2% (+2.1%)	+0.2% (+2.1%)
	FRA:	07:45	Final HICP Inflation (May)	-0.2% (+0.6%)	-0.2% (+0.6%)
	SPA:	08:00	Final HICP Inflation (May)	-0.1% (+1.9%)	-0.1% (+1.9%)
	EU-20:	10:00	Trade Balance (April)	+€27.9bn	
	EU-20:	10:00	Industrial Production (April)	+2.6% (+3.6%)	-1.3% (+1.4%)
	US:	15:00	Preli. Uni. Michigan Consumer Sentiment (Jun)	52.2	53.5

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

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AIB Treasury
Economic
Research

David
McNamara
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist