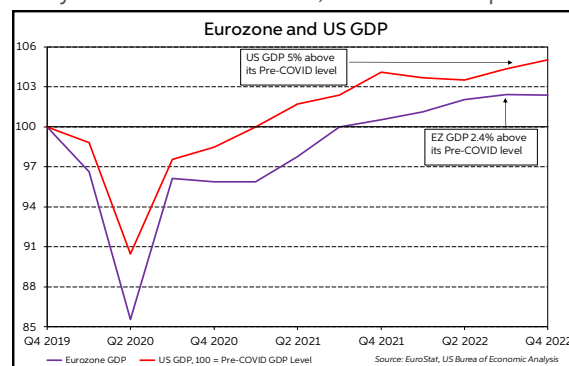


Peak Expectations

- It is a tricky balancing act for central banks in trying to engineer a slowdown in economic activity to lower inflation, by tightening monetary policy, without going too far in hiking rates, and having an even greater contractionary impact on demand. The IMF, as well as the OECD, amongst others, continue to warn about this risk with the possibility that 'sticky' core inflation and tight labour markets could necessitate even higher rates. During their current tightening cycles, the Fed has hiked rates by 475bps so far, the BoE has raised rates by 415bps, while the ECB has executed 350bps worth of rate hikes. This has seen official rates rise to 4.875%, 4.25% and 3.00% in the US, UK and Eurozone, respectively.
- More recently, central banker's policy deliberations have been further complicated by the stresses that emerged in the global banking system in March and the substantial market volatility that followed, after the aforementioned sharp rises in interest rates exposed underlying financial vulnerabilities for certain sectors of the system. Stress in the banking sector could see a further tightening of credit conditions, which may in turn have a significant dampening affect on the real economy, especially in the US. The initial impact of concerns regarding the banking sector saw markets anticipate less tightening and earlier rate cuts, as a result of tighter credit conditions.
- However, the apparent easing of concerns in relation to the global banking sector, combined with some upside surprises to macro data has seen some renewed firming in market rate expectations over the last fortnight. Indeed, with central banks now espousing a data dependent, meeting-by-meeting approach to their policy decisions, markets have become much more reactive to key data releases and central banker's comments. We have seen an example of this over the past week. The higher than expected print of UK inflation for March saw an immediate hardening of BoE rate expectations, with futures contracts now reflecting a view that the Bank rate could peak at nearer to 5%. The previous week, hawkish ECB comments saw Eurozone futures contracts envisage Eurozone rates rising by 75bps (rather than 50bps), from their current levels. Meanwhile, US futures contracts are now pricing in the possibility of another 25bps increase from the Fed, whereas in the immediate aftermath of the SVB fallout, the market had started to assume the Fed funds rate had peaked. The market though continues to expect the Fed to start cutting rates in the second half of the year, although, the extent of rate cuts pencilled in for this year is now nearer to 50bps compared to 75bps at the end of March. Both the ECB and BoE are not anticipated to cut rates until the first half of 2024.
- Overall, the outlook for official rates has a fair degree of uncertainty attached to it, with the trajectory of 'core inflation' being a key determinant, as well as evolving credit conditions in the banking sector. What is certain, is that market expectations/futures contracts pricing will remain sensitive to important data releases, especially in relation to inflation, central bank speakers comments, as well as, any further issues in the global banking system.
- Thus, this week's reading of US core-PCE inflation for March, the Fed's preferred measure of inflation, will warrant attention. Core-PCE edged lower throughout Q4, falling from 5.2% in September to 4.6% by year end. However, in recent months it has proven to be stubbornly sticky, printing at 4.7% in January and 4.6% in February. The consensus is for a second consecutive 0.3% m/m increase in March, leading to a slight fall in the core-PCE annual rate to 4.5%. Meanwhile, in terms of wage inflation, the employment cost index is expected to remain elevated, rising by 1.1% in Q1, consistent with a 4.5% annualised increase in earnings. Elsewhere in the US, personal consumption is forecast to fall by 0.1% in nominal terms, in March, despite a 0.2% rise in income. The Conference Board measure of consumer confidence is projected to be unchanged in April. In terms of more lagging indicators, the first reading of US GDP for Q1 is also due. US GDP, is projected to expand by 2% in annualised terms, compared to 2.6% in the final quarter of last year.
- The first reading of Eurozone Q1 GDP also features this week. The Eurozone economy lost considerable momentum in the second half of 2022, with GDP stagnating in Q4 of last year. Growth is set to remain sluggish, with a meagre 0.2% quarterly expansion pencilled in for Q1. With regard to the largest national economies, Germany, France, Italy and Spain are all set to register slight increases in GDP in Q1. Flash HICP inflation data for April in Germany, France and Spain are due as well, with headline inflation projected to ease further across the board. Meantime, the EC sentiment indices are forecast to be little changed in April, as is the bellwether German Ifo survey.
- Elsewhere, the first monetary policy meeting headed by new BoJ Governor Ueda will be monitored closely. Pressure has been building on the BoJ to move away from its ultra-accommodative policy stance over the past year. This is against the backdrop of rates rising sharply elsewhere and Japanese inflation becoming more broad based, albeit, it still remains very low compared to many other advanced economies, at 3.2% in March. No changes in monetary policy from the BoJ are expected this week.



| | Interest Rate Forecasts | | | |
|--|-------------------------|--------|--------|--------|
| | Current | End Q2 | End Q3 | End Q4 |
| | 2023 | 2023 | 2023 | 2023 |
| Fed Funds | 4.875 | 5.125 | 5.125 | 4.625 |
| ECB Deposit | 3.00 | 3.50 | 3.50 | 3.50 |
| BoE Repo | 4.25 | 4.50 | 4.50 | 4.50 |
| BoJ OCR | -0.10 | -0.10 | -0.10 | -0.10 |
| Current Rates Reuters, Forecasts AIB's ERU | | | | |

| | Exchange Rate Forecasts (Mid-Point of Range) | | | |
|--|--|--------|--------|--------|
| | Current | End Q2 | End Q3 | End Q4 |
| | 2023 | 2023 | 2023 | 2023 |
| EUR/USD | 1.0970 | 1.11 | 1.13 | 1.14 |
| EUR/GBP | 0.8841 | 0.88 | 0.88 | 0.88 |
| EUR/JPY | 147.36 | 144 | 145 | 143 |
| GBP/USD | 1.2406 | 1.26 | 1.28 | 1.30 |
| USD/JPY | 134.31 | 130 | 128 | 125 |
| Current Rates Reuters, Forecasts AIB's ERU | | | | |

ECONOMIC DIARY

Monday 24th - Friday 28th April

| Date | UK & Irish Time | | Release | Previous | Forecast |
|-------------------|----------------------|-------|--|--------------------|-------------------|
| This Week: | ECB Speakers: | | De Guindos (Wed); Lagarde (Fri) | | |
| | BoE Speakers: | | | | |
| | Fed Speakers: | | | | |
| Mon 24th | GER: | 09:00 | IFO Business Climate (April) | 99.3 | 94.0 |
| Tue 25th | UK: | 11:00 | CBI Trends –Orders (April) | -20.0 | |
| | UK: | 11:00 | CBI Business Optimism (Q2) | -5.0 | |
| | US: | 14:00 | Case-Shiller House Prices (February) | -0.4% (+2.5%) | |
| | US: | 15:00 | Conference Board Consummr Confidence (April) | 104.2 | 104.2 |
| | US: | 15:00 | New Home Sales (March) | +0.64m / +1.1% | +0.63m / -1.6% |
| Wed 26th | GER: | 07:00 | Gfk Consumer Sentiment (May) | -29.5 | -27.5 |
| | FRA: | 07:45 | INSEE Consumer Confidence (April) | 81 | 82 |
| | US: | 13:30 | Durable Goods (March) | -1.0% | +0.8% |
| | | | - Ex-Transport | -0.1% | +0.0% |
| | | | - Ex-Defence | -0.5% | |
| Thu 27th | SPA: | 08:00 | Retail Sales (March) | (+4.0%) | |
| | ITA: | 09:00 | ISTAT Business Confidence (April) | 104.2 | 104.0 |
| | ITA: | 09:00 | ISTAT Consumer Confidence (April) | 105.1 | 105.8 |
| | EU-20: | 10:00 | EC Economic Sentiment (April) | 99.3 | 99.9 |
| | | | - Consumer / Industrial / Services | -17.5 / -0.2 / 9.4 | -17.5 / 0.3 / 9.5 |
| | US: | 13:30 | GDP (Q1: Advance Reading) | +2.6% s.a.a.r. | +2.0% s.a.a.r. |
| | US: | 13:30 | PCE Prices (Q1: Advance Reading) | +3.7% s.a.a.r. | |
| | | | - Core PCE Prices (Q1: Advance Reading) | +4.4% s.a.a.r. | |
| | US: | 13:30 | Initial Jobless Claims (w/e 17th April) | +245,000 | +245,000 |
| | US: | 15:00 | Pending Home Sales (March) | 83.2 | |
| Fri 28th | JPN: | 00:30 | Jobs /Applicants Ratio (March) | 1.34 | 1.34 |
| | JPN: | 00:30 | Unemployment Rate (March) | 2.6% | 2.5% |
| | JPN: | 00:50 | Industrial Output (March) | +4.6% (-1.4%) | +0.5% (-1.2%) |
| | JPN: | 00:50 | Retail Sales (March) | (+6.6%) | (+5.8%) |
| | JPN: | 03:00 | BoJ Interest Rate Decision | -0.10% | -0.10% |
| | FRA: | 06:30 | GDP (Q1: Preliminary Reading) | +0.1% (+0.5%) | +0.2% (+1.3%) |
| | GER: | 07:00 | GDP (Q1: Preliminary Reading) | -0.4% (+0.9%) | +0.2% (+0.3%) |
| | FRA: | 07:45 | Flash HICP Inflation (April) | +1.0% (+6.7%) | +0.4% (+6.5%) |
| | SPA: | 08:00 | GDP (Q1: Preliminary Reading) | +0.2% (+2.6%) | +0.3% (+3.0%) |
| | SPA: | 08:00 | Flash HICP (April) | +1.1% (+3.1%) | +0.4% (+4.0%) |
| | GER: | 08:55 | Unemployment Rate (April) | 5.6% | 5.6% |
| | ITA: | 09:00 | GDP (Q1: Preliminary Reading) | -0.1% (+1.4%) | +0.2% (+1.4%) |
| | EU-20: | 10:00 | GDP (Q1: Preliminary Reading) | +0.0% (+1.8%) | +0.2% (+1.4%) |
| | GER: | 13:00 | Flash HICP (April) | +1.1% (+7.8%) | +0.6% (+7.7%) |
| | US: | 13:30 | Personal Income / Consumption | +0.3% / +0.2% | +0.2% / -0.1% |
| | US: | 13:30 | PCE Prices (March) | +0.3% (+5.0%) | |
| | | | - Core-PCE Prices | +0.3% (+4.6%) | +0.3% (+4.5%) |
| | US: | 13:30 | Employment Cost Index (Q1) | +1.0% | +1.1% |
| | | | - ECI –Wages | +1.0% | |
| | US: | 15:00 | Final Uni. Michigan Consumer Sentiment (Apr) | 63.5 | 63.5 |

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.

AIB
Treasury
Economic
Research

Oliver
Mangan
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist