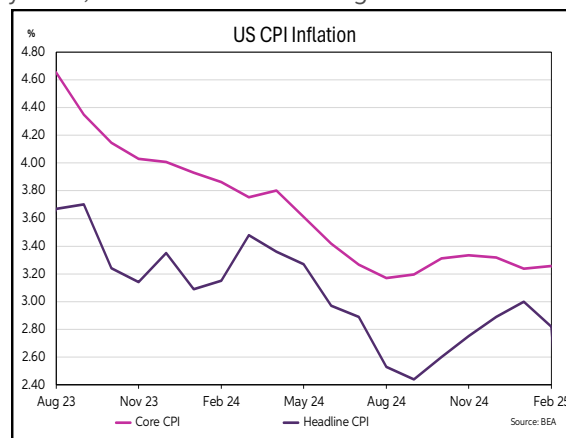


Know when to hold ‘em?

- **This week’s salvo of tariffs by the Trump administration raised the stakes for global trade partners, particularly those hit hardest in Asia and Europe.** The EU tariff is to be set at 20%, with a carve out in some areas for now, such as semiconductors, lumber, and crucially for Ireland, pharmaceuticals. In Asia, major exporters such as China, Vietnam and Japan will have tariffs at much higher rates than the EU. Comparatively, the UK has fared better, with a tariff rate of 10%.
- **The choice for these countries now is to fulminate and retaliate, running the risk of a further escalation from the US, or hold fire and seek to negotiate.** For now, institutional forecasters predict the greatest damage from unilateral US tariffs will be to the US economy. These models show the damage accumulates as other regions respond in kind to the US tariffs. In that context, further market turmoil or a rapid deterioration in the US economy might yet persuade Trump to row back on the announced tariffs. However, even if Trump relents somewhat, both markets and global trade partners must now price in a higher baseline for US tariffs and lower GDP growth in the short-to-medium term.
- **The question now is whether the global economy can absorb the impact of the isolationist turn by the US.** The dollar remains the key currency for global financial transactions, involved in 90% of FX transactions and c.85% of swap market trades, according to the Bank for International Settlements. Nonetheless, the proportion of global FX reserves held in dollars has fallen steadily in recent decades from 73% in 2000 to less than 60% by 2023, according to the IMF. Indeed, while the dollar still dominates financial markets and global reserves, the US economy accounts for a much lower share of global GDP at 25%. Moreover, and crucially in the current climate, US imports as a proportion of total global imports is even lower at less than 15% and set to shrink further. That leaves 85% of global trade unimpacted by the ‘Liberation Day’ tariffs.
- **Therefore, the challenge for the other major economic blocs in Europe and Asia is to double-down on the rules-based global trade order, going it alone without the US, or seek to retaliate against the US and follow suit with each other.** The first test will come soon for the EU. Given the level of tariffs applied to South East Asian countries, the EU will likely introduce some short term trade barriers to prevent product dumping. However, the long-term opportunity for Europe might be in completing more comprehensive trade deals with these trading blocs which boosts the remaining 85% of global trade. At the same time policymakers should now accelerate the competitiveness agenda within the EU, as laid out in last year’s Draghi Report.
- **Turning to the week ahead, the data calendar is somewhat sparse on both sides of the Atlantic.** In the US, CPI inflation data for March will be in focus. Headline CPI trended down to a low of 2.4% last September, but it has printed between 2.6-3.0% in the five months since. It stood at 2.8% in February. Meantime, core-CPI fell to 3.1% in February, after being stuck in a narrow 3.2-3.3% range since June. Encouragingly, both rates are projected to decline in March, with the headline moving back to 2.6% and core-CPI to 3.0%. In contrast, producer price inflation is forecast to edge marginally higher to 3.3% in March, from 3.2%. Furthermore, despite the expected improvement in CPI inflation, the Michigan measure of consumer sentiment is set to deteriorate once again, amid the on-going high levels of economic uncertainty. A move back to 54.9 is pencilled-in for April. On the monetary policy front, the Fed FOMC meeting minutes from the March gathering will garner attention this week.
- **In the UK, the main highlight will be the monthly reading of GDP for February.** UK growth has broadly flat-lined since mid-2024. Worryingly, the monthly reading of GDP contracted by 0.1% m/m in January. A modest rebound of 0.1% is pencilled in for February. Similarly, UK industrial production is expected to recover by a meagre 0.1% in the month, having declined by 0.9% in January, leaving output down by 2.3% in year-on-year terms.
- **In the Eurozone, industrial production data for Germany and Italy are also due.** Both measures increased sharply at the start of the year, rising by 2.0% and 1.0%, respectively in January. However, the expansion is not expected to be maintained, with a 1.0% drop in production anticipated for the pair in February. In terms of some bloc-wide indicators, Eurozone retail sales are projected to increase by 0.4% in February, having failed to expand in the previous four months. Regarding more timely data, the March reading of the EU Sentix index is set to register a sharp deterioration in sentiment, falling to –9.5 from –2.9.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.50	2.25	2.00	2.00
BoE Repo	4.50	4.25	4.00	3.75
BoJ OCR	0.50	0.75	0.75	1.00

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
EUR/USD	1.0986	1.09	1.10	1.10
EUR/GBP	0.8488	0.83	0.84	0.84
EUR/JPY	159.83	162	161	160
GBP/USD	1.2936	1.31	1.31	1.31
USD/JPY	145.45	149	146	145

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Cipollone (Mon); de Guindos, Cipollone (Tue); Cipollone (Wed); Lagarde (Fri)		
	BoE Speakers:		Lombardelli (Tue); Breeden (Thu)		
	Fed Speakers:		Daly (Tue); Barkin (Wed); Logan, Goolsbee, Harker (Thu); Musalem, Williams (Fri)		
Mon 7th	GER:	07:00	Industrial Production (February)	+2.0% (-1.5%)	-1.0% (-3.7%)
	GER:	07:00	Trade Balance (February)	+€16.0bn	
			- Exports	-2.5%	+1.5%
	EU-20:	09:30	EU Sentix (April)	-2.9	-9.5
	EU-20:	10:00	Retail Sales (February)	-0.3% (+1.5%)	+0.4% (+1.9%)
Tue 8th	IRE:	01:01	AIB Irish Construction PMI (March)	48.7	
	US:	11:00	NFIB Small Business Optimism (March)	100.7	
Wed 9th	US:		19:00 Fed FOMC Meeting Minutes (18-19th March)		
Thu 10th	UK:	00:01	RICS Housing Survey (March)	11.0	
	ITA:	09:00	Industrial Output (February)	+1.0% (+3.2%)	-1.0% (-2.3%)
	IRE:	11:00	CPI Inflation (March)	+0.9% (+1.8%)	
			- HICP Inflation	+0.8% (+1.4%)	
	US:	13:30	CPI Inflation (March)	+0.2% (+2.8%)	+0.1% (+2.6%)
			- Core-CPI	+0.2% (+3.1%)	+0.3% (+3.0%)
	US:	13:30	Initial Jobless Claims (w/e 31st March)	+219,000	
Fri 11th	GER:	07:00	Final HICP Inflation (March)	+0.4% (+2.3%)	+0.4% (+2.3%)
	UK:	07:00	GDP (February)	-0.1% (+1.0%)	+0.1%
			- 3mth /3mth	+0.2%	+0.4%
	UK:	07:00	Industrial Output (February)	-0.9% (-1.5%)	+0.1% (-2.3%)
			- Manufacturing Output	-1.1% (-1.5%)	+0.2%
	UK:	07:00	Goods Trade Balance (February)	-£17.9bn	
			- Non-EU Trade Balance	-£7.1bn	
	SPA:	08:00	Final HICP Inflation (March)	+0.7% (+2.2%)	+0.7% (+2.2%)
	US:	13:30	PPI Final Demand (March)	+0.0% (+3.2%)	+0.2% (+3.3%)
			- Ex-Food & Energy	-0.1% (+3.4%)	+0.3% (+3.6%)
	US:	15:00	Prelim. Uni. Michigan Consumer Sentiment (April)	57.0	54.9

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

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