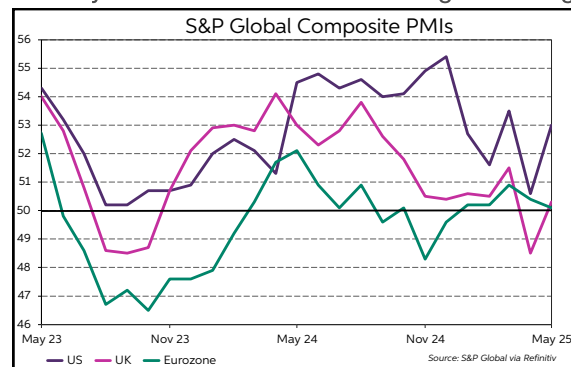


Central banks kick to touch

- **This week's US Fed and Bank of England meetings left monetary policy unchanged, as expected**, with both central banks playing for time over the summer months, amid heightened uncertainty.
- **The Fed's decision to leave rates on hold at 4.25-4.50% was unanimous, leaving it on hold since December 2024.** More instructive was its latest set of economic projections, including the much-watched interest rate 'dot plot'. This showed the median projection of FOMC members was for a 50bps cut by year-end, identical to the March 2025 forecast. However, the dots also showed a growing minority of members expect no rate cuts in 2025, while the overall median projection for 2026 and 2027 shows a more gradual trajectory to a terminal rate of 3% in the long term.
- **While Chair Powell largely kicked to touch on tariff-related questions in his press conference, it is clear some members are now factoring higher inflation into their outlook and adjusting their rate expectations accordingly.** Powell himself placed something of a deadline on his thinking, stating "we're going to learn a great deal more over the summer on tariffs". This brings the Jackson Hole symposium in late-August into play as the next potential juncture where Powell might elaborate further on the impact of Trump's tariffs on the Fed's policy outlook.
- **For his part, President Trump continued to criticise the "stupid" Powell, stating "it would be nice to be 2½ points lower".** So far, the Fed Chair has asserted its independence, but his departure date is fast approaching in May 2026, with attention now turning to potential successors. While there are some fears of a 'patsy pick' by the President, the next Chair will be just one of 12 voters on the FOMC, with the others insulated from political pressure by terms mostly running into the 2030s for the seven Board of Governors members, and the decentralised nature of the Federal Reserve system from which the remaining five voting Presidents are drawn.
- **As for the Bank of England, the decision to hold rates at 4.25% remained a disputed decision, with three members of its MPC favouring a 25bps cut.** Despite persistently weak GDP growth, the BoE is still grappling with domestic inflationary pressures, with CPI running at an annual rate of 3.5%. For now, most members retain a bias to "squeeze out" these lingering price pressures, as Governor Bailey described it. However, the signs of a loosening in the labour market, including easing wage growth, might persuade the BoE to resume its rate cutting cycle at its next meeting in August, ahead of the market pricing for a pause until September. A cut here would also align with its recent form coinciding policy moves with its quarterly economic forecasts. While the market is not pricing in an August move yet, this remains a distinct possibility if the UK economy and inflation continue to trend as expected over the summer.
- **Turning to the week ahead, the main data highlight will be the flash PMIs for June.** In the Eurozone, the manufacturing PMI has remained firmly in contraction mode so far in Q2, albeit while maintaining an upward trend that has emerged this year. In contrast, the services PMI has been on a softening trajectory throughout Q2, falling to 49.7 in May, its weakest reading since last November. A modest improvement is pencilled in for each sector in June, with the services PMI expected to rise to 50.0. In the UK, the services PMI is also at a higher level than the manufacturing PMI. The former rebounded to 50.9 in May having slipped into contraction in April, while the latter remained weak, at 46.4 in the middle of Q2. As in the Eurozone, both of the PMIs are forecast to rise slightly in June, albeit with manufacturing remaining below the key 50 threshold. Meantime, the US PMIs both moved higher and printed in expansion territory in May, following sharp declines in March and April. The consensus is for the pair to stay above 50 but edge marginally lower in June.
- **In terms of other survey data, a slew of sentiment indicators are also due in the Eurozone.** Most notably the EC sentiment indicators for June will be released. A very modest increase is expected across the industrial and services sectors in the month. Regarding some key data from some of the large national economies in the Eurozone, the flash reading of HICP inflation for June in France and Spain will feature. Both measures are projected to hold steady, at 0.7% and 2.0%, respectively.
- **An update on inflation in the form of core-PCE inflation will also warrant attention in the US.** Having been stuck in a narrow 2.6-2.9% range since last June, core-PCE fell to 2.5% in April, its lowest level since March 2021. The consensus is for it to rise back to 2.6% in May. Elsewhere in the US, personal income and consumption data are due. Both metrics have remained robust during the first four months of 2025. In May though, a slowdown is anticipated, with incomes rising by 0.3% and consumption by just 0.1% in the month. Meantime, the Conference Board measure of consumer confidence is projected to inch higher to 98.9 in June, from 98.0. On the monetary policy front, Fed Chair Powell provides testimony to both Houses of Congress.



	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	2.00	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	1.1514	1.13	1.14	1.14
EUR/GBP	0.8537	0.84	0.84	0.83
EUR/JPY	167.93	164	164	163
GBP/USD	1.3482	1.35	1.36	1.37
USD/JPY	145.84	145	144	143

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Mon); Lagarde ; Lane, de Guindos (Tue); Lagarde , Schnabel; de Guindos (Thu)		
	BoE Speakers:				
	Fed Speakers:		Waller, Bowman, Williams; Kugler (Mon); Powell , Williams, Hammack, Barr (Tue); Powell (Wed) Barkin, Barr (Thu); Williams, Hammack, Cook (Fri)		
			NATO Summit (Tue-Wed)		
Mon 23rd	JPN:	01:30	Flash Composite PMI (June)	50.2	
	SPA:	08:00	Overnight Stays (May)	May'24: 37.75m	
	FRA:	08:15	Flash HCOB Composite PMI (June)	49.3	49.3
	GER:	08:30	Flash HCOB Composite PMI (June)	48.5	49.0
	EU-20:	09:00	Flash HCOB Composite PMI (June)	50.2	50.5
			- Manufacturing / Services	49.4 / 49.7	49.8 / 50.0
	UK:	09:30	Flash Composite PMI (June)	50.3	50.5
			- Manufacturing / Services	46.4 / 50.9	46.6 / 51.3
	US:	14:45	Flash S&P Composite PMI (June)	53.0	52.1
Tue 24th			- Manufacturing / Services	52.0 / 53.7	51.0 / 52.9
	US:	15:00	Existing Home Sales (May)	+4.00m / -0.5%	+3.95m / -1.3%
	GER:	09:00	Ifo Business Climate (June)	87.5	88.2
	UK:	11:00	CBI Trends - Orders (June)	-30.0	
Wed 25th	US:	14:00	Case-Shiller House Price Index (April)	+1.1% (+4.1%)	
	US:	15:00	Conference Board Consumer Confidence (Jun)	98.0	99.8
	SPA:	08:00	GDP (Q1: Final reading)	+0.6% (+2.8%)	+0.6% (+2.8%)
Thu 26th	US:	15:00	New Home Sales (May)	+074m / +10.9%	+0.70m / -6.2%
	GER:	07:00	Gfk Consumer Sentiment (July)	-19.9	-19.3
	UK:	11:00	CBI Distributive Trades (June)	-27.0	
	US:	13:30	Durable Goods (May)	-6.3%	+7.2%
			- Ex-transport	+0.2%	+0.1%
			- Ex-Defence	-7.5%	
	US:	13:30	GDP (Q1: Final Reading)	-0.2% S.a.a.r.	-0.2% S.a.a.r.
	US:	13:30	PCE Prices (Q1: Final Reading)	+3.6% S.a.a.r.	+3.6% S.a.a.r.
			- Core-PCE Prices	+3.4% S.a.a.r.	+3.4% S.a.a.r.
Fri 27th	US:	13:30	Initial Jobless Claims (w/e 16th June)	+245,000	+247,000
	US:	15:00	Pending Sales (May)	-6.3%	-0.3%
	JPN:	00:30	CPI Tokyo Inflation (June)	(+3.4%)	(+3.3%)
			- Ex-Food & Energy	(+2.1%)	
	JPN:	00:30	Unemployment rate (May)	2.5%	2.5%
	JPN:	00:30	Jobs/Applicants Ratio	1.26	1.26
	JPN:	00:50	Retail Sales (May)	(+3.3%)	(+2.7%)
	UK:	07:00	GDP (Q1: Second Reading)	+0.7% (+1.3%)	+0.7% (+1.3%)
	FRA:	07:45	Flash HICP Inflation (June)	-0.2% (+0.6%)	+0.2% (+0.7%)
	SPA:	08:00	Flash HICP Inflation (June)	+0.0% (+2.0%)	(+2.0%)
	ITA:	09:00	ISTAT Business Confidence (June)	86.5	87.0
	ITA:	09:00	ISTAT Consume Confidence (June)	96.5	
EU-20:	EU-20:	10:00	EC Economic Sentiment (June)	94.8	95.3
			- Consumer /Industrial / Services	-15.3 / -10.3 / 1.5	-15.3 / -9.8 / 1.6
	US:	13:30	Personal income / Consumption (May)	+0.8% / +0.3%	+0.3% / +0.1%
	US:	13:30	PCE Prices (May)	+0.1% (+2.1%)	+0.1% (+2.3%)
			- Core-PCE Prices	+0.1% (+2.5%)	+0.1% (+2.6%)
	US:	15:00	Final Uni. Consumer Sentiment (June)	60.5	60.3

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

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