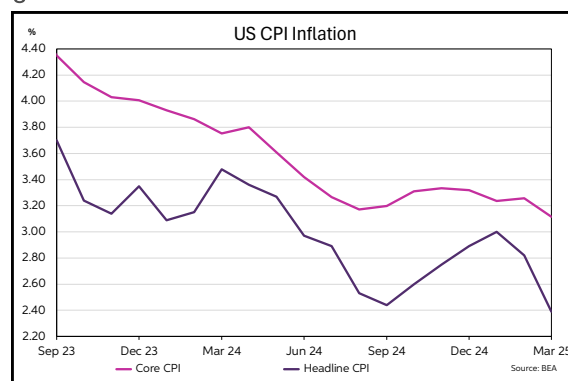


## Stuck in the middle

- **Despite warnings that the impact of US tariffs would hit the US economy hardest, the Fed sat on its hands this week, using the cover of uncertainty on the outlook to continue it near six-month pause on interest rates.** Elsewhere, the Bank of England, citing similar reasons, cut Bank rate by 25bps, but its members were split three ways, ending in a knife edge 5-4 vote, while the Bank gave no firm guidance on future moves. The takeaway from the week's announcements is that central banks are stuck in a bind amid heightened uncertainty on global trade and economic prospects and are playing for time until a settled US trade policy emerges.
- **Fed Chair Powell delivered another rhetorical masterclass in hedging his bets on future rate moves, noting the risks to both "higher unemployment and inflation have risen", potentially increasing "tension" on the Fed's dual mandate of maximum employment and stable prices.** When pushed by reporters, Powell was loathe to provide details of a scenario where the Fed might cut rates more aggressively, given the uncertain economic outlook. He noted that the hard economic data remain robust, but that tariffs could be damaging to the economy, depending on the ultimate scale of these trade barriers. An implicit assumption from the Fed pause could be that it is placing a low probability on a return to the full "reciprocal" tariffs measures which were halted for 90 days in mid-April. If the Fed expected a return to these measures, it may have chosen to pre-emptively cuts rates to support the economy at this juncture.
- **In that context, the US administration is engaging in trade negotiations with key partners.** The announcement of a very limited deal with the UK was the first such agreement. This gives the US market access to the UK for some products (beef, autos), in exchange for some reductions in announced tariffs. However, it appears the UK remains in a relatively worse position versus the January 2025 baseline, with 10% US tariffs in place for most sectors, ahead of further detailed negotiations in the coming months. There have also been further media reports of upcoming negotiations with China, and the potential for trade deals with other major economic blocks, such as India. However, media reports also suggest little engagement with the EU so far. In the absence of a deal, the European Commission has announced a list of tariffs it may introduce on US products, worth €95 billion, covering a broad range of industrial and agricultural goods.
- **Overall, the UK deal suggests US tariffs are unlikely to return to the January 2025 baseline in the trade agreements expected to be finalised in the coming months.** However, the UK deal also implies even threadbare trade frameworks might provide President Trump with an "off-ramp" from reapplying the more damaging reciprocal tariffs paused in April.
- **Turning to the week ahead, a busy US data schedule includes updates on inflation, retail sales and industrial production.** Regarding inflation, the disinflationary process gathered steam in Q1 but CPI rates remain elevated. Headline CPI inflation printed between 2.6-3.0% during October to February before it fell to 2.4% in March, matching its low from September 2024. Similarly, core-CPI was stuck in a narrow 3.2-3.3% range since last June, until it eased to 3.1% in February and slowed to 2.8% in March. The consensus is for both rates to remain unchanged at 2.4% and 2.8%, respectively in April. Meantime, retail sales were somewhat volatile during Q1. Headline sales contracted sharply by 0.9% in January, before stagnating in February and expanding markedly by 1.4% in March. However, the control group metric - a key underlying sales figure - performed better, falling by a more moderate 0.5% in January and rebounding by a cumulative 1.9% over the past two months. A modest fall of 0.1% is pencilled in for the headline number in April, while the core metric is forecast to rise by 0.3%. In contrast, industrial production enjoyed a strong start to 2025, expanding in the first two months of the year before falling by 0.3% in March. A meagre 0.2% rise in output is expected in April. Elsewhere in the US, the Michigan measure of consumer sentiment is forecast to be little changed in May, having plunged lower in April.
- **In the UK, GDP and labour market data will be in focus.** GDP essentially flat-lined in the second half of 2024, following a strong start to the year. The monthly readings available for 2025 show that growth stagnated in January but rose by 0.5% m/m in February. A 0.1% m/m expansion is forecast in March, resulting in a 0.6% rise in GDP in Q1. Meanwhile, conditions in the labour market appear to have stabilised. The unemployment rate has stayed at 4.4% since August. At the same time, three-month average annual earnings growth has printed at +5.6% in January and February. The unemployment rate is projected to edge slightly higher to 4.5%, while earnings growth is seen slowing to +5.3% y/y in March.
- **In the Eurozone, the second reading of GDP is set to confirm the economy expanded by 0.4% in the first quarter of 2025.** Elsewhere, the first estimate of Eurozone employment for Q1 is due for release. Meantime, industrial production is forecast to rise by 1.6% in March, lifting the annual rate to +2.2%.



	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	1.1248	1.09	1.10	1.11
EUR/GBP	0.8470	0.85	0.85	0.85
EUR/JPY	163.37	160	161	161
GBP/USD	1.3274	1.28	1.29	1.31
USD/JPY	145.23	147	146	145

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		de Guindos, Cipollone (Thu); Lane (Fri)		
	<b>BoE Speakers:</b>		<b>Bailey</b> (Tue); Lombardelli (Fri)		
	<b>Fed Speakers:</b>		Kugler (Mon); Daly (Wed); <b>Powell</b> (Thu); Barkin (Fri)		
<b>Mon 12th</b>					
<b>Tue 13th</b>	<b>IRE:</b>	<b>01:01</b>	<b>AIB Irish Construction PMI (April)</b>	<b>53.9</b>	
	<b>UK:</b>	07:00	ILO Unemployment Rate (March)	4.4%	4.5%
	<b>UK:</b>	07:00	Employment Change (March)	+206,000	
	<b>UK:</b>	07:00	Average Earnings (Mach)	(+5.6%)	(+5.3%)
			- Ex-Bonus	(+5.9%)	(+5.7%)
	<b>UK:</b>	07:00	Claimant Count (March)	+18,700	
	<b>GER:</b>	10:00	ZEW Economic Sentiment (May)	-14.0	13.7
	<b>US:</b>	11:00	NFIB Small Business Optimism (April)	97.4	
	<b>US:</b>	13:30	CPI Inflation (April)	-0.1% (+2.4%)	+0.3% (+2.4%)
			- Core-CPI	+0.1% (+2.8%)	+0.3% (+2.8%)
<b>Wed 14th</b>	<b>GER:</b>	07:00	Final HICP Inflation (April)	+0.5% (+2.2%)	+0.5% (+2.2%)
	<b>SPA:</b>	07:00	Final HICP Inflation (April)	+0.6% (+2.2%)	+0.6% (+2.2%)
<b>Thu 15th</b>	<b>UK:</b>	07:00	GDP (Q1:First Reading)	+0.1% (+1.5%)	+0.6% (+1.2%)
			- March	+0.5% (+1.4%)	+0.1%
	<b>UK:</b>	07:00	Industrial Output (March)	+1.5% (0.1%)	-0.7% (-1.3%)
			- Manufacturing Output	+2.2% (+0.3%)	+1.1%
	<b>UK:</b>	07:00	Goods Trade Balance (March)	-£20.8bn	
			- Non-EU	-£8.6bn	
	<b>FRA:</b>	07:45	Final HICP Inflation (April)	+0.6% (+0.8%)	+0.6% (+0.8%)
	<b>EU-20:</b>	10:00	Employment (Q1 2025)	+0.1% (+0.7%)	+0.1%
	<b>EU-20:</b>	10:00	GDP (Q1: Second Reading)	+0.4% (+1.2%)	+0.4% (+1.2%)
	<b>EU-20:</b>	10:00	Industrial Production (March)	+1.1% (+1.2%)	+1.6% (+2.2%)
	<b>US:</b>	13:30	NY Fed / Empire State Index (May)	-8.1	-10.0
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 5th May)	+228,000	+230,000
	<b>US:</b>	13:30	Philly Fed Manufacturing Index (April)	-26.4	-11.0
	<b>US:</b>	13:30	PPI Final Demand (April)	-0.4% (+2.7%)	+0.3% (+2.6%)
			- Ex-Food & Energy	-0.1% (+3.3%)	+0.3%
	<b>US:</b>	13:30	Retail Sales (April)	+1.4% (+4.6%)	-0.1%
			- Ex-Autos	+0.5%	+0.3%
			- Control Group	+0.4%	+0.3%
	<b>US:</b>	14:15	Industrial Production (April)	-0.3% (+1.3%)	+0.2%
			- Manufacturing Output	+0.3%	
			- Capacity Utilisation	77.8%	77.9%
	<b>US:</b>	15:00	NAHB Homebuilder Sentiment (May)	40.0	40.0
<b>Fri 16th</b>	<b>JPN:</b>	00:50	GDP (Q1: First Reading)	+0.6%	-0.1%
	<b>ITA:</b>	09:00	Final HICP Inflation (April)	+0.5% (2.1%)	+0.5% (+2.1%)
	<b>EU-20:</b>	10:00	Total Trade Balance (March)	+€21.0bn	
			- EuroStat Trade	+€24.0bn	
	<b>US:</b>	13:30	Housing Starts (April)	+1.324m / -11.4%	+1.370m
			- Building Permits	+1.467m / +0.5%	+1.450m
	<b>US:</b>	15:00	Preli. Uni. Michigan Consumer Sentiment (May)	52.2	53.1

♦ 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.