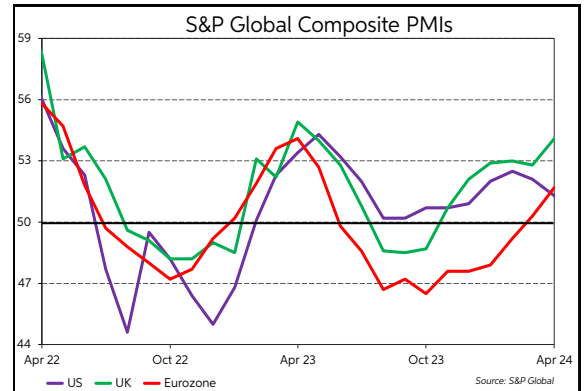


Data give comfort ahead of June ECB decision

- With the market leaning towards a June rate cut, the latest inflation and wage data for the Eurozone suggest price pressure continues to ease in line with expectations, building the case for a shift in ECB policy at its next meeting.** Friday's Eurozone inflation release confirms the initial estimate of a 2.4% rise in consumer prices in April. The data also detail the sectoral contributions to inflation, and show broad-based disinflation continuing across most areas, including a welcome fall in annual services inflation to 3.7% from the 4% rate which had prevailed for several months prior. Energy prices continue to contract, down 0.6% in the year to April, but the deflationary impact here is waning, following a 1.8% decline in energy CPI in March.
- Nevertheless, while some bumps in the road to a sustainable 2% inflation rate can be expected, the drivers of the inflationary surge in recent years have now largely dissipated.** Firstly, the Eurozone has managed to diversify its energy mix and suppliers, particularly in relation to natural gas, and while exposed to price shocks as a net importer of energy, the region has much more resilience than before the Russian invasion of Ukraine. Secondly, the supply chain pressures evident post the pandemic in 2021/22, which drove up wholesale and consumer prices have also dissipated, as consumer demand normalised and firms built in resilience to geopolitical and trade disruption. This is evidenced in the relatively muted impact of the Red Sea trade disruption so far in 2024.
- Thirdly, the sharp rise in wages across the Eurozone in recent years, which has underpinned core inflation, appears to be moderating sharply.** With official Eurozone wage data released at a significant lag, surveys such as the Indeed Wage Tracker signal a slowdown in pay growth in recent months. In April, the Indeed data showed a slowdown in advertised wages to 3.4% y/y in the Eurozone, easing from a 3.7% rise in March. Notably, the slowdown in wage growth is evident across all of the major Eurozone economies.
- Taken together, the data should give ECB policymakers comfort that a first rate cut is necessary in June.** Indeed, even the hawks on the Governing Council are now indicating a June cut is likely, including influential board member Isabel Schnabel in media comments in recent days. If the ECB does move in June, attention will quickly turn to the near term trajectory, with markets currently pricing in around 70bps of cuts in 2024.
- Turning to the week ahead, the main releases of note will be the flash PMI readings for May in the Eurozone, UK and US.** In the Eurozone, the manufacturing PMI has been in contraction mode for 23 straight months. Furthermore, it has moved lower in the last three months, falling to 45.7 in April. In contrast, the services reading has improved for the past three months, moving into expansion territory in the process and printing at 53.3 in April, its highest level since May 2023. A slight move higher for both sector PMIs is pencilled in for May. Similarly in the UK, the services PMI has outperformed the manufacturing PMI for the past number of months, jumping to 54.1 in April. The manufacturing reading rose above 50 in March but edged down to 49.1 in April. Both UK PMIs are forecast to be broadly unchanged in May. In the US, the PMIs were in expansion mode throughout Q1. However, the manufacturing PMI printed at 50.0 in April, indicating no change in the level of activity from March. The consensus is for little change in the US PMIs in May, with the manufacturing sector staying just above the key 50 level.



- Meanwhile, UK CPI inflation data for April will also be in focus.** Inflation has continued to trend lower so far in 2024, with the headline rate declining to 3.2% in March from 4.0% at the start of the year. Furthermore, owing to an already announced reduction in the energy price cap, headline CPI is forecast to fall to 2.1% in April. Core-CPI inflation, which has been quite sticky, dropped to 4.2% in March from 5.1% in December. It is projected to decline to 3.6% in April. However, we would note that services inflation remains very high, running at 6.0% in February and March. Thus, the risks around the core rate remain tilted to the upside. Elsewhere in the UK, retail sales are expected to fall by 0.3% in April, having essentially flat-lined in February and March. Meantime, Gfk consumer confidence is expected to improve to -18 in May, its highest level since December 2021.
- In the Eurozone, amid a relatively sparse release schedule aside from the aforementioned PMI data, the flash reading of consumer confidence for May is also due.** The consensus is for the index inch slightly higher in the month. On the monetary policy front, the Fed meeting minutes from the May FOMC meeting will garner some attention. Elsewhere in the US, an update on the housing market in the form of new and existing home sales (both April) will also feature.

	Interest Rate Forecasts			
	Current	End Q2 2024	End Q3 2024	End Q4 2024
Fed Funds	5.375	5.375	5.125	4.625
ECB Deposit	4.00	3.75	3.50	3.00
BoE Repo	5.25	5.00	4.75	4.50
BoJ OCR	0.10	0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2 2024	End Q3 2024	End Q4 2024
EUR/USD	1.0871	1.08	1.09	1.10
EUR/GBP	0.8562	0.86	0.87	0.88
EUR/JPY	168.97	166	167	167
GBP/USD	1.2693	1.25	1.25	1.25
USD/JPY	155.42	154	153	152

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
This Week:	ECB Speakers:	Lagarde (Mon); Schnabel (Fri)			
	BoE Speakers:	Bailey (Tue); Breeden (Wed); Pill (Thu)			
	Fed Speakers:	Bostic, Waller, Jefferson, Barr (Mon); Barkin, Waller, Williams, Bostic, Collins, Mester (Tue); Goolsbee (Wed); Bostic (Thu); Waller (Fri)			
Mon 20th					
Tue 21st	GER:	07:00	Producer Prices (April)	+0.2% (-2.9%)	+0.2% (-3.2%)
	EU-20:	10:00	Total Trade Balance (March)	+€17.9bn	
Wed 22nd	JPN:	00:50	Machinery Orders (March)	+7.7%	-2.2%
	JPN:	00:50	Trade Balance (April)	+¥387bn	+¥340bn
	UK:	07:00	CPI Inflation (April)	+0.6% (+3.2%)	+0.2% (+2.1%)
			- Core-CPI	+0.6% (+4.2%)	+0.7% (+3.6%)
	UK:	07:00	PPI Output Price Inflation (April)	+0.2% (+0.6%)	
			- PPI Input Price Inflation	-0.1% (-2.5%)	
US:	15:00	Existing Home Sales (April)	+4.19m / -4.3%	+4.21m / +0.5%	
US:	19:00	Fed FOMC Meeting Minutes (April 30th-May 1st)			
Thu 23rd	JPN:	01:30	Flash Jibun Composite PMI (May)	52.3	
	FRA:	08:15	Flash HCOB Composite PMI (May)	50.5	51.0
	GER:	08:30	Flash HCOB Composite PMI (May)	50.6	51.2
	EU-20:	09:00	Flash HCOB Composite PMI (May)	51.7	52.0
			- Manufacturing / Services	45.7 / 53.3	46.2 / 53.4
	UK:	09:30	Flash HCOB Composite PMI (May)	54.1	54.0
			- Manufacturing / Services	49.1 / 55.0	49.4 / 54.7
	US:	13:30	Initial Jobless Claims (w/e 13th May)	+222,000	+220,000
	US:	14:45	Flash S&P Composite PMI (May)	51.3	51.2
			- Manufacturing / Services	50.0 / 51.3	50.1 / 51.0
EU-20:	15:00	Flash Consumer Confidence (May)	-14.7	-14.0	
US:	15:00	New Home Sales (April)	+0.69m / +8.8%	+0.67m / -2.9%	
Fri 24th	UK:	00:01	Gfk Consumer Confidence (May)	-19.0	-18.0
	GER:	07:00	GDP (Q1: Detailed Reading)	+0.2% (-0.2%)	+0.2% (-0.2%)
	UK:	07:00	Retail Sales (April)	+0.0% (+0.8%)	-0.3% (-0.1%)
			- Ex-Fuel	-0.3% (+0.4%)	-0.5% (-1.0%)
	UK:	07:45	INSEE Business Climate (May)	99.0	99.0
	US:	13:30	Durable Goods (April)	2.6%	-0.7%
			- Ex-Transport	+0.2%	+0.1%
	US:	15:00	Final Uni. Michigan Sentiment (May)	67.4	67.4

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

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