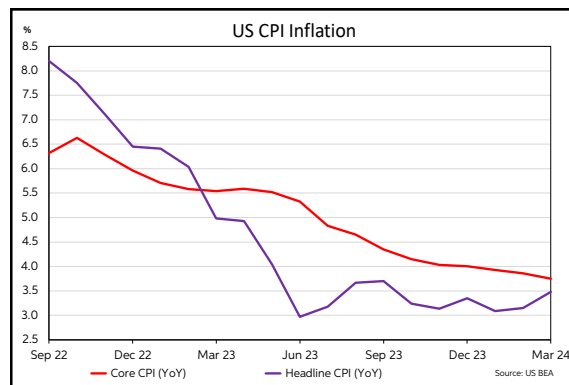


## Bank of England on the cusp of rate cuts

- As discussed in our latest BoE Watch (May 9th), the May meeting of the Monetary Policy Committee (MPC) was an important staging post towards a first rate cut this summer.** To recap, the Bank published its MPC statement and minutes, as well as its latest Monetary Policy Report (MPR). The vote split was 7:2 in favour of no change, but represented a dovish shift, with two MPC members (Dhingra and Ramsden) now voting for a rate cut compared to just one (Dhingra) at its previous meeting in March. Ramsden's dissenting vote was notable, given his senior role as a Deputy Governor, in which his voting record is usually in lockstep with the Governor and other internal members.
- Moreover, Governor Bailey struck a dovish tone at his press conference, as he outlined stronger GDP growth forecasts compared to the last MPR in February, alongside lower inflation projections over the forecast horizon, based on current market rate expectations.** He noted that there would likely be a need for rate cuts over the coming quarters and that these could be to a greater degree than currently priced into market rates. UK interest rate futures have softened on the back of the release, with markets now pricing in nearly 60bps of cuts in 2024 compared to 50bps beforehand. Friday's stronger-than-expected GDP data for the UK appear to have done little to dampen this move in rate expectations, with the focus now on April and May inflation prints for the UK ahead of the next MPC meeting in June.
- On the UK GDP data, the out-turn for Q1 2024 was stronger than expected,** with GDP growing by 0.6% on the quarter (consensus: +0.4%), and annual growth turning positive at +0.2%, up from -0.2% in Q4 2023. At a sectoral level, services were the key driver of the upturn in growth, up 0.6% q/q, supported by a recovery in consumer spending in early 2024. This had been flagged in recent consumer and PMI surveys, and this momentum appears to have continued into Q2 2023, too.
- While stronger GDP data might give the BOE pause ahead of its June meeting, the focus will be on inflation rather than growth out-turns.** The lowering of the household energy price cap by the regulator Ofgem will certainly pull down headline CPI, but the key focus will be the trajectory for core and services inflation in the near term. If these measures continue to show moderating inflation as expected, the market may be underestimating the potential for a rate cut as soon as June. If this does materialise, end-2024 rate expectations may also have to be reassessed, with 75bps being a more reasonable expectation in our view.
- Turning to the week ahead, a busy US data schedule includes updates on inflation, retail sales and industrial production.** The highlight will be US CPI data for April. It became apparent in Q1 that disinflation had stalled. Services inflation (particularly in relation to higher insurance premiums and increased shelter costs) has largely contributed to the recent bout of sticky CPI inflation in the US, with the headline CPI rate rising to 3.5% in March from 3.1% in January. Meantime, despite falling in 16 of the last 18 months, core-CPI remained elevated, and was unchanged at 3.8% in March. However, the consensus is for both the headline and core rates to decline in April, to 3.4% and 3.6%, respectively. Elsewhere, retail sales are forecast to increase for a third consecutive month, up by 0.4% in April. Importantly, the control group measure, a key indicator of underlying retail activity which feeds directly into the GDP calculation is projected to increase by 0.3%. Similarly, a 0.2% rise in industrial production is pencilled in for April. In terms of some housing market indicators, housing starts (April) and Homebuilder sentiment (May) are due.
- In the UK, the focus will be on the labour market.** Overall, the UK labour market remains quite tight, but there have been some signs of softening in recent months. The unemployment rate has increased so far in 2024, rising to 4.2% in February from 3.8% in December. Furthermore, the number of people in employment has fallen by over 190k since November. At the same time, average earnings growth remains elevated at +5.6% y/y in the three months to February, albeit this is well below its recent peak of 8.5% last July. However, it should be noted that the reliability of the ONS labour market statistics has been questioned in recent months, owing to a low response rate to its surveys. In any case, a further modest increase in the unemployment rate to 4.3% is expected in March, with average earnings growth forecast to slow slightly to +5.5% y/y.
- There is a quieter look to the Eurozone macro calendar.** Industrial production, which can be volatile, is projected to fall by 0.2% in March. Meantime, employment growth is forecast at +0.3% q/q in Q1, matching its Q4'23 rate of increase. Elsewhere, the second reading of GDP is set to confirm the Eurozone economy expanded by 0.3% in the first quarter. At the same time, the final reading HICP inflation for April is expected to affirm prices were 2.4% higher year-on-year, and that the core rate fell to 2.8%.



	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	1.0774	1.08	1.09	1.10
EUR/GBP	0.8602	0.86	0.87	0.88
EUR/JPY	167.78	166	167	167
GBP/USD	1.2522	1.25	1.25	1.25
USD/JPY	155.69	154	153	152

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
<b>This Week:</b>	<b>ECB Speakers:</b>	Cipollone, Buch (Mon); de Guindos, Schnabel (Tue); de Guindos (Fri)			
	<b>BoE Speakers:</b>	Pill (Tue); Greene (Thu); Mann (Fri)			
	<b>Fed Speakers:</b>	Mester, Jefferson (Mon); Kashkari (Wed); Mester, Bostic (Thu);			
<b>Mon 13th</b>					
<b>Tue 14th</b>	<b>GER:</b>	07:00	Final HICP (April)	+0.6% (+2.4%)	+0.6% (+2.4%)
	<b>UK:</b>	07:00	ILO Unemployment Rate (March)	4.2%	4.3%
	<b>UK:</b>	07:00	Employment Change (March)	-156,000	-215,000
	<b>UK:</b>	07:00	Claimant Count (March)	+10,900	
	<b>UK:</b>	07:00	Average Earnings (March)	(+5.6%)	(+5.5%)
			- Ex-Bonus	(+6.0%)	(+5.9%)
	<b>SPA:</b>	08:00	Final HICP Inflation (April)	+0.6% (+3.4%)	+0.6% (+3.4%)
	<b>GER:</b>	10:00	ZEW Economic Sentiment (May)	42.9	46.3
	<b>US:</b>	11:00	NFIB Business Optimism (April)	88.50	88.0
	<b>US:</b>	13:30	PPI Final Demand (April)	+0.2% (+2.1%)	+0.2% (+2.2%)
			- Ex-Food & Energy	+0.2% (+2.4%)	+0.2% (+2.5%)
<b>Wed 15th</b>	<b>FRA:</b>	07:45	Final HICP Inflation (April)	+0.6% (+2.4%)	+0.6% (+2.4%)
	<b>EU-20:</b>	10:00	GDP (Q1: Second Reading)	+0.3% (+0.4%)	+0.3% (+0.4%)
	<b>EU-20:</b>	10:00	Employment (Q1)	+0.3% (+1.2%)	+0.3%
	<b>EU-20:</b>	10:00	Industrial Production (March)	+0.8% (-6.4%)	-0.2% (-1.8%)
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Price Index (March)</b>	<b>+0.3% (+6.1%)</b>	<b>+0.3% (+7.1%)</b>
	<b>US:</b>	13:30	CPI Inflation (April)	+0.4% (+3.5%)	+0.4% (+3.4%)
			- Core-CPI	+0.4% (+3.8%)	+0.3% (+3.6%)
	<b>US:</b>	13:30	Retail Sales (April)	+0.7% (+4.0%)	+0.4%
			- Ex-Autos	+1.1%	+0.2%
			- Control Group	+1.1%	+0.3%
	<b>US:</b>	15:00	NAHB Homebuilder Sentiment (May)	51.0	51.0
<b>Thu 16th</b>	<b>JPN:</b>	00:50	GDP (Q1: First Reading)	+0.4% annualised	-1.5% annualised
	<b>ITA:</b>	09:00	Final HICP Inflation (April)	+0.6% (+1.0%)	+0.6% (+1.0%)
	<b>US:</b>	13:30	Housing Starts (April)	+1.321m (-14.7%)	+1.428m (+8.1%)
			-Building Permits	+1.467m (-3.7%)	+1.486m (+1.5%)
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 6th May)	+231,000	+220,000
	<b>US:</b>	14:15	Industrial Production (April)	+0.4% (+0.0%)	+0.2%
			- Capacity Utilisation	78.4%	78.5
			- Manufacturing Output	+0.5%	
<b>Fri 17th</b>	<b>EU-20:</b>	10:00	Final HICP Inflation (April)	+0.8% (+2.4%)	+0.6% (+2.4%)
			- Ex-Food & Energy	+0.9% (+2.8%)	+0.9% (+2.8%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.7% (+2.7%)	+0.7% (+2.7%)

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