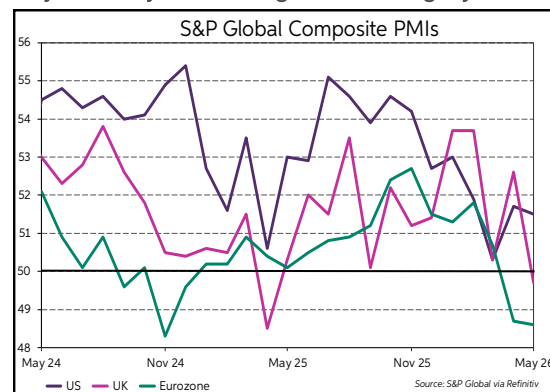


## Hold the line

- At this week's US Fed and Bank of England meetings, both held rates steady, in stark contrast to the hike delivered by the ECB last week.** The macro context for the US and UK rate decisions differed, but policymakers in each benefitted from the knowledge of a US-Iran deal which reopens the Strait of Hormuz and has seen energy prices plummet in recent days. While conjecture at this point, the ECB may have chosen a different path if it was aware of the extent of the deal and market reaction.
- For the Fed, it held rates at 3.5-3.75%.** Notably, its policy statement was slimmed down to its lowest word count in nearly 20 years, bar some brief Covid-era communications. This is in line with new Chair Kevin Warsh's mantra of "less is more" and is a portend of his aim to return the Fed to its inflation and employment mandates. This was summed up in the statement's concluding sentence of "the Committee will deliver price stability".
- Overall, nine members of the FOMC are pencilling in rate hikes this year, eight think policy will be left unchanged this year, while just one expects a cut.** It should be noted though, that Chair Warsh refrained from submitting any economic projections, an unusual step, and likely a tactic to play for time as he seeks to remake the Fed. Wasting no time, Warsh also announced a task force in five areas: Fed communications, balance sheet policy, data sources, productivity and jobs; and the Fed's inflation framework. **The Fed continues to view the economy as expanding "at a solid pace despite elevated uncertainty"**. Core-PCE inflation is now expected to be 2.5% in Q4 2027 (was 2.2% in March), and 2.1% in Q4 2028 (was 2.0%). Meantime, the Fed is pencilling in slightly more modest GDP growth.
- For the Bank of England, the June policy meeting of the Monetary Policy Committee saw the central bank leave Bank Rate unchanged at 3.75%.** The decision to leave rates on hold was not unanimous once again with a split 7:2. Two members voted for a 25bps rate hike, citing concerns around rising inflation. On the inflation front, while member's views diverged, the majority of the BoE still view the risks of second-round inflation as relatively muted compared to the last price shock in 2021/22. The statement emphasised two key factors: 1) the labour market continues to loosen "gradually", with wage growth slightly weaker than expected; and 2) already "material tightening" in financial conditions, with significant pass through of market rate rises to household and business lending pricing. The BoE now expects inflation to peak at 3.25% in Q4 '26, below the path expected in the April Monetary Policy Report.
- Taken together, the higher starting point for the Fed and Bank of England in terms of rates gives both the space to react to evolving events in the Middle East;** while the ECB, which had cut aggressively to 2%, likely viewed last week's hike to 2.25% as a precautionary move to ward off inflationary risks. This may yet prove a policy error by the ECB given the fragility of the Eurozone economy.
- Turning to the week ahead, the main highlight will be the flash PMIs for June in the main advanced economies.** Across the board, the manufacturing sector has outperformed services in recent months. Indeed, in the Eurozone, the manufacturing PMI remained firmly in expansion mode in May, albeit it edged slightly lower. In contrast, the services index has been in contraction territory for the past two months, despite moving slightly higher in May. The recent trend for both surveys is set to continue in June. In the UK, the services PMI was also in contraction mode in May, whereas the manufacturing PMI rose to 53.9 in the month, a four-year high. The former is expected to move back into expansion territory in June, while the latter is forecast to be little changed. In the US, both sectors were above the key 50 threshold in May, but the manufacturing PMI was much stronger. However, the gap between the indices is projected to narrow in June, as the services PMI is set to rise and the manufacturing PMI is set to fall.
- Elsewhere in the US, the May reading of core-PCE inflation will garner close attention.** Core-PCE was already on an upward trajectory before the conflict in the Middle East broke out, and it has continued to move higher in recent months also. Having troughed at 2.6% last April, it stayed in a narrow 2.7-2.9% range between May-November, before printing between 3.0-3.3% over the December to April period. A further rise to 3.4% is pencilled in for May. Meantime, personal consumption and income data for May will also be released. Consumption has risen by a sharp 0.3-1.0% per month so far in 2026. In contrast, incomes have twice increased by 0.5% m/m, but they have stagnated twice also. Both are forecast to expand by a solid 0.6% and 0.4%, respectively in May.
- In the Eurozone, the flash reading of consumer confidence for June will feature.** Th consensus is for a modest improvement to -17.5 from -19.0. Aside from that, a number of important surveys from some of the large national economies for June are due.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
Fed Funds	3.625	3.625	3.625	3.625
ECB Deposit	2.25	2.25	2.50	2.50
BoE Repo	3.75	3.75	3.75	3.75
BoJ OCR	0.75	0.75	1.00	1.00

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
EUR/USD	1.1462	1.18	1.19	1.20
EUR/GBP	0.8667	0.87	0.88	0.88
EUR/JPY	184.86	185	187	187
GBP/USD	1.3221	1.36	1.35	1.36
USD/JPY	161.26	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde</b> (Mon); Lane (Tue); Cipollone (Wed); Lane, Cipollone (Thu); Schnabel (Fri)		
	<b>BoE Speakers:</b>	Taylor, Dhingra (Tue); Breeden, Dhingra (Wed);		
	<b>Fed Speakers:</b>	Waller (Mon); Williams, Goolsbee (Thu); Kashkari (Fri)		
<b>Mon 22nd</b>	<b>EU-21:</b>	15:00 Flash Consumer Confidence (June)	-19.0	-17.5
<b>Tue 23rd</b>	<b>JPN:</b>	01:30 Flash S&P Composite PMI (June)	51.1	
	<b>FRA:</b>	07:45 INSEE Business Climate (June)	94.0	95.0
	<b>SPA:</b>	08:00 Overnight Stays (May)	29.3m	
	<b>FRA:</b>	08:15 Flash HCOB Composite PMI (June)	44.9	46.0
	<b>GER:</b>	08:30 Flash HCOB Composite PMI (June)	48.8	48.9
	<b>EU-21:</b>	09:00 Flash HCOB Composite PMI (June)	48.5	49.1
		- Manufacturing / Services	51.6 / 47.7	51.2 / 48.5
	<b>UK:</b>	09:30 Flash S&P Composite PMI (June)	49.7	50.6
		- Manufacturing / Services	53.9 / 49.3	53.8 / 50.5
	<b>US:</b>	14:45 Flash S&P Composite PMI (June)	51.5	
		- Manufacturing / Services	55.1 / 50.7	
<b>Wed 24th</b>	<b>GER:</b>	09:00 Ifo Business Climate (June)	84.9	85.6
	<b>US:</b>	15:00 Housing Starts (May)	+0.62M / -6.2%	+0.64m / +2.9%
		- Building Permits		
<b>Thu 25th</b>	<b>GER:</b>	07:00 Gfk Consumer Sentiment (July)	-29.8	-27.5
	<b>FRA:</b>	07:45 INSEE Consumer Confidence (June)	82.0	84.0
	<b>SPA:</b>	08:00 GDP (Q1: Final Reading)	+0.6% (+2.7%)	+0.6% (+2.7%)
	<b>US:</b>	13:30 GDP (Q1: Final Reading)	+1.6% S.a.a.r.	+1.6% S.a.a.r.
	<b>US:</b>	13:30 Personal Income / Consumption (May)	+0.0% / +0.4%	+0.4% / +0.6%
	<b>US:</b>	13:30 PCE Prices (May)	+0.4% (+3.8%)	+0.5% (+4.1%)
		- Core-PCE	+0.2% (+3.3%)	+0.3% (+3.4%)
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 15th June)	+226,000	+225,000
<b>Fri 26th</b>	<b>JPN:</b>	00:30 Tokyo CPI Inflation (June)	+1.4%	
	<b>ITA:</b>	10:00 ISTAT Business Confidence (June)	87.9	
	<b>ITA:</b>	10:00 ISTAT Consumer Confidence (June)	93.4	
	<b>US:</b>	15:00 Final Uni. Michigan Consumer Sentiment (Jun)	48.9	50.3

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

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