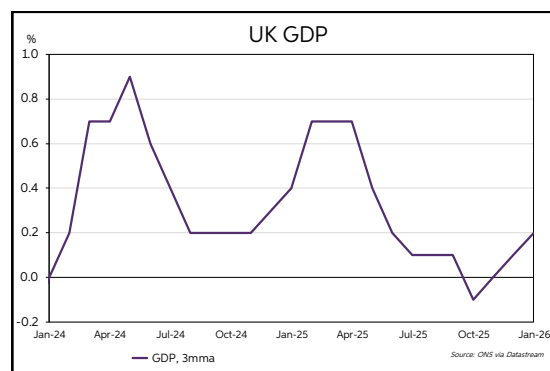


On Shaky Ground

- **With a tenuous ceasefire agreed by both sides in the Middle East conflict, markets experienced a massive relief rally on Wednesday.** Equity markets surged, with the Euro Stoxx 50 gaining 5% on the day and the S&P 500 rising by 2.5%. Oil prices saw one of the largest one-day falls in recent history, falling 13% to \$93 per barrel from \$110, while natural gas prices also moved sharply lower.
- **The question is how durable this accord will be, and whether the shift in power in the Strait of Hormuz might permanently dent trade flows through the key channel,** as happened to oil and gas flows from Russia to Europe, post the invasion of Ukraine in 2022. Early indications suggest little seaborne traffic has moved through the Strait, as Iran has asserted its control in the aftermath of the ceasefire.
- **With Gulf nations already pivoting towards more expensive overland trade routes to global markets, the outcome of the conflict could be a structurally higher cost of oil, gas and other key industrial inputs,** while remaining susceptible to geopolitical flashpoints. This is evidenced in the premium to the global benchmark price that Saudi Arabia is now charging on oil exports through its Red Sea ports, supplied by a vulnerable East-West pipeline across the country. The presence of other pipelines or overland trade routes are scarce in the Middle East and would require cooperation between regional powers to develop them further.
- **This scenario implies the risk of a longer lasting inflationary shock, as global supply chains reorganise.** However, the magnitude of the shock to commodity prices remains below that of 2022, and the de-risking of supply chains towards ‘onshoring’ or ‘friendshoring’ has been in train for several years. In Europe, energy systems have all but replaced Russian oil and gas with (largely) US imports, alongside a further outright reduction in fossil fuel demand, as industries slowly decarbonise. With the US seen as an unreliable ally of late, the current shock might yet spur a faster transition to renewables and nuclear power in Europe, although the immediate oil price shock has drawn pressure to unwind ‘green’ policies such as carbon taxes in Ireland and elsewhere.
- **In 2022-23, European governments on average spent nearly 3% of GDP on energy support packages.** In the UK, the figure was 4.5% of GDP, while in Ireland a similar 4.5% of GNI* package was implemented. These sums are unlikely to be repeated as the fiscal space no longer exists for most European countries. This means short-term relief measures may have to be scaled back at the expense of longer-term energy resilience policies.
- **Turning to the week ahead, developments regarding the Middle East conflict will continue to warrant close attention.** From a macro data perspective, the main highlight of a relatively quiet week will be the UK GDP reading for February. In the second half of last year, UK growth slowed materially, with GDP rising by just 0.1% q/q in Q3 and in Q4. Furthermore, GDP stagnated in January. Overall, February could see a modest pick-up in growth. Meanwhile, UK industrial production has been volatile, partly due to a cyberattack at a major car manufacturing facility last September. However, output declined for a second consecutive month in January, falling by 0.1% m/m. This should unwind in February though, albeit the sector now faces clear headwinds from the war in the Middle East.
- **In the Eurozone, industrial production figures for February are also due.** In January, output fell by a marked 1.5%, following a chunky 0.8% contraction in December. Worryingly, the decline in February was broad-based across regions and sectors. Indeed, France was the only one of the “Big-Four” Eurozone economies to register an expansion in output, while energy production was the only sector to record an increase in output levels. Furthermore, even if the sector were to recover somewhat in February, it faces a challenging outlook due to the war in the Middle East. Elsewhere in the Eurozone, the final reading of HICP inflation is set to confirm the headline rate jumped to 2.5% and the core rate slowed to 2.2% in March. On the monetary policy front, the ECB meeting account from March will garner some attention, as investors try and assess the central bank’s reaction function to the recent surge in energy prices.
- **In the US, industrial production for March is the main data release of note.** Unlike in Europe, US industrial output has been performing robustly lately. Production rose by 0.2% m/m in February, and by 0.7% m/m in January, meaning industrial production was 1.4% higher in annual terms midway through the first quarter. Elsewhere in the US, NFIB small business optimism and producer price inflation data for March are also due this week.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2026	2026	2026
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.00	2.00	2.00	2.00
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	1.1682	1.17	1.19	1.19
EUR/GBP	0.8702	0.87	0.88	0.88
EUR/JPY	185.80	185	186	186
GBP/USD	1.3422	1.34	1.35	1.35
USD/JPY	159.04	158	156	156

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Goolsbee (Tue); Williams (Wed); Barkin (Fri)		
Mon 13th	US:	15:00 Existing Home Sales (March)	+4.09m / +1.7%	
Tue 14th	IRE:	00:01 AIB Irish Construction PMI (March)	52.1	
	SPA:	08:00 Final HICP Inflation (March)	+1.5% (+3.3%)	+1.5% (+3.3%)
	US:	11:00 NFIB Small Business Optimism (March)	98.8	
	US:	13:30 PPI Final Demand (March) - Ex-Food & Energy	+0.7% (+3.4%) +0.5% (+3.9%)	
Wed 15th	JPN:	00:50 Machinery Orders (February)	-5.5% (+13.7%)	
	FRA:	07:45 Final HICP Inflation (March)	+1.1% (+1.9%)	+1.1% (+1.9%)
	EU-21:	10:00 Industrial Production (February)	-1.5% (-1.2%)	
	IRE:	11:00 Residential Property Price Index (February)	+0.3% (+7.0%)	
	US:	13:30 NY Fed / Empire State Index (April)	-0.20	
	US:	15:00 NAHB Homebuilder Sentiment (April)	38.0	
Thu 16th	UK:	07:00 GDP (February) - 3m / 3m	+0.0% (+0.8%) +0.2%	+0.1% +0.3%
	UK:	07:00 Industrial Output (February) - Manufacturing	-0.1% (+0.4%) +0.1% (+1.3%)	
	UK:	07:00 Goods Trade Balance (February) - Non-EU	-£14.4bn -£3.5bn	
	ITA:	09:00 Final HICP Inflation (March)	+1.6% (+1.5%)	+1.6% (+1.5%)
	EU-21:	10:00 Final HICP Inflation (March) - Ex-Food & Energy	+0.6% (2.5%) +0.6% (+2.2%)	+0.6% (+2.5%) +0.6% (+2.2%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.8% (+2.3%)	+0.8% (+2.3%)
	EU-21:	10:00 ECB Monetary Policy Meeting Account		
	US:	13:30 Initial Jobless Claims (w/e 6th April)	219,000	215,000
	US:	13:30 Philly Fed Business Index (March)	18.1	
	US:	14:15 Industrial Production Index (March) - Manufacturing Output	+0.2% +0.2%	
		- Capacity Utilisation	76.3%	
Fri 17th	EU-21:	10:00 Total Trade Balance (February) - Eurostat Trade	€12.1bn -€1.9bn	

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

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