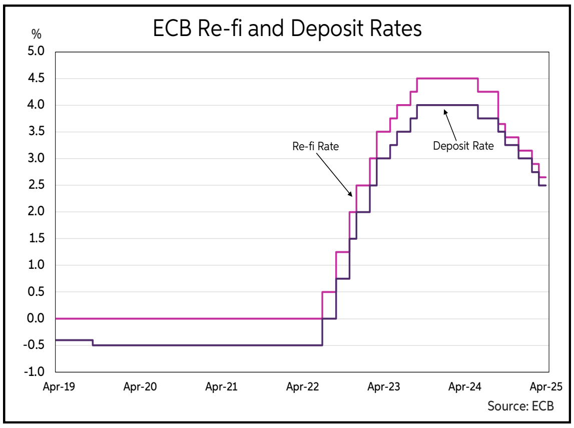
Weekly Market Brief

AIB Treasury Economic Research Unit

14th – 18th April 2025

Market puts a guardrail on Trump

- **Following a tumultuous week on financial markets, with President Trump unwinding some tariff measures and ratcheting up others, uncertainty abounds, with little clarity on the future path of policy.** However, as we discussed in our Weekly publication last Friday, the markets have found the pain threshold for the Trump administration and have potentially set a guardrail on future policy.
- **To recap, a simultaneous sell-off in riskier assets (US stocks) and supposedly safe-haven assets (US treasuries), alongside a depreciation in the dollar, brought markets to a precipice of a potential contagion event.** In particular, the deterioration in the Treasuries market risked material consequences for other credit and money markets it underpins. The moves in the US bond market very much reflected the pattern of an emerging market economy in periods of stress, instead of the more predictable behaviour of a 'flight to safety' in Treasuries observed during prior stock market corrections. Most critically, the large twin deficits in the US fiscal and current accounts implied the 'kindness of strangers' on which the US system relies, was wearing thin.
- **The positive outcome of the week's events is that the administration was eventually constrained by the markets.** President Trump unwound most of the country-level tariffs back to a baseline of 10% for a period of 90 days to allow negotiations. Whatever the outcome of any trade talks, it may prove difficult for Trump to re-enact these tariffs.
- **However, following the initial market surge post the U-turn, trading has been choppy as investors digest the fact that the remaining tariffs are substantially higher than the January 2025 baseline,** including the 25% rate on autos and steel tariffs. Moreover, the US and China have ratcheted up tariffs on a tit-for-tat basis to levels (nearly 150% on US imports from China) which are likely to cause a significant dislocation in trade flows in global trade flows. The further slide in the dollar towards the end of the week reflects the continued shift in capital from US assets to other markets in recent days, as the market era of 'US exceptionalism' is firmly extinguished.
- **So, while the U-turn is something of a reprieve, for now, for European trade partners, the clock ticks for a further 90 days,** with little certainty on the eventual landing zone for US trade policy. In this environment consumer and business sentiment will likely fall, with repercussions for global GDP growth and the US economy most at risk of a severe economic outcome.
- **Turning to the week ahead, the monetary policy spotlight will be on the ECB meeting.** The last gathering of the Governing Council resulted in a second consecutive interest rate cut this year, and a sixth cut in total this easing cycle. As a result, the deposit rate was lowered to 2.50% and the re-fi rate to 2.65%. However, the overarching message from the ECB in March, was that the policy outlook had become less clear, given significant levels of uncertainty regarding the outlook, and given the stance of monetary policy had already become "meaningfully less restrictive". Notably, President Lagarde stated that, "if the data points to a pause, we will pause. If the data points to a cut, we will cut". Against this backdrop, at the time, futures pricing suggested that a rate cut this month was not the market's base case, although further easing was anticipated later this year. **Yet, despite inflation falling further, hard data improving slightly, and sentiment indicators being mixed, a rate cut is now fully priced-in for Thursday's meeting.** This is largely due to recent dovish rhetoric from a number of Governing Council members, in the face of significant volatility sparked by US tariff policy. It should be noted though, that a decision to pause cannot be fully ruled-out. Aside from the decision, the post-meeting press conference with President Lagarde will garner close attention for any guidance on the policy outlook.



- **Important updates on the UK labour market and inflation will be the main data highlights.** Owing to a low survey response rate, the labour market data are somewhat less reliable currently. Nevertheless, having softened throughout the end of last year, conditions appear to have stabilised recently. This is expected to continue in February, with the unemployment rate staying at 4.4%. Meantime, average earnings growth is forecast to stay elevated, edging back to 5.8% y/y in the three months to February, from +5.9%. In terms of the CPI data, there have been signs of stickiness so far this year, particularly in the core rate. The consensus is for headline CPI to edge slightly lower to 2.7% from 2.8%, while the core rate is forecast to be unchanged at 3.5%.
- **In the US, retail sales and industrial production data are due.** So far in in 2025, retail sales have been quite erratic. The headline measure contracted by 1.2% in January before rebounding by a modest 0.2% in February. Similarly, the control group metric, rose by 1% in February, all but erasing a similar sized fall at the start of the year. Both are expected to increase sharply in March. Elsewhere, industrial production is projected to contract by 0.3% in March, ending a three month run of expansion.

Interest Rate Forecasts

	Current	End Q2 2025	End Q3 2025	End Q4 2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.50	2.25	2.00	2.00
BoE Repo	4.50	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 2025	End Q3 2025	End Q4 2025
EUR/USD	1.1355	1.09	1.10	1.11
EUR/GBP	0.8688	0.85	0.85	0.85
EUR/JPY	162.64	160	161	161
GBP/USD	1.3066	1.28	1.29	1.31
USD/JPY	143.22	147	146	145

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 14th - Friday 18th April

AIB Treasury Economic Research

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Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**				
	BoE Speakers:				
	Fed Speakers:		Waller (Mon); Harker, Bostic (Tue); **Powell** (Wed); Daly (Fri)		
Mon 14th	**UK:**	00:01	Rightmove House Prices (April)	+1.1% (+1.0%)	
Tue 15th	**UK:**	07:00	ILO Unemployment Rate (February)	4.4%	4.4%
	UK:	07:00	Employment Change (February)	+144,000	
	UK:	07:00	Average Earnings (February)	(+5.8%)	(+5.7%)
			- Ex-Bonus	(+5.9%)	(+6.0%)
	UK:	07:00	Claimant Count (February)	+22,000	
	FRA:	07:45	Final HICP Inflation (March)	+0.2% (+0.9%)	+0.2% (+0.9%)
	EU-20:	10:00	Industrial Production (February)	+0.0% (+0.8%)	+0.2% (-0.8%)
	GER:	10:00	ZEW Economic Sentiment (April)	51.6	9.3
	US:	13:30	NY Fed / Empire State Index (April)	-20.0	-15.0
Wed 16th	**UK:**	07:00	CPI Inflation (March)	+0.4% (+2.8%)	+0.4% (+2.7%)
			- Core-CPI	+0.4% (+3.5%)	+0.6% (+3.5%)
			- Services CPI	+0.5% (+5.0%)	(+4.9%)
	ITA:	09:00	Final HICP Inflation (March)	+1.6% (+2.1%)	+1.6% (+2.1%)
	EU-20:	10:00	Final HICP Inflation (March)	+0.4% (+2.2%)	+0.4% (+2.2%)
			- Ex-Food & Energy	+0.5% (+2.4%)	+0.5% (+2.4%)
			- Ex-Food, Energy, Alcohol & Tobacco	+1.0% (+2.4%)	+1.0% (+2.4%)
	US:	13:30	Retail Sales (March)	+0.2% (+3.1%)	+1.3% (+4.0%)
			- Ex-Autos	+0.3%	+0.2%
			- Control Group	+1.0%	+0.6%
	US:	14:15	Industrial Production (March)	+0.7% (+1.4%)	-0.3% (+1.3%)
			- Manufacturing Output	+0.9%	+0.3%
			- Capacity Utilisation	78.2%	77.9%
	US:	15:00	NAHB Homebuilder Sentiment (April)	39.0	38.0
Thu 17th	**JPN:**	00:50	Trade Balance (March)	+¥584.5bn	+¥485.3bn
			- Exports	(+11.4%)	(+4.5%)
	US:	13:30	Housing Starts (March)	+1.50m / +11.2%	+1.42m / -5.4%
			- Building Permits	+1.46m / -1.0%	+1.46m / -0.5%
	US:	13:30	Initial Jobless Claims (w/e 7th April)	+223,000	
	US:	13:30	Philly Fed Manufacturing Index (April)	12.5	2.0
	EU-20:	14:15	ECB Governing Council Monetary Policy Meeting		
			- Re-fi Rate	2.65%	2.40%
			- Deposit Rate	2.50%	2.25%
Fri 18th	***IRE/UK/US***		***Good Friday (Market Holiday)***		
	JPN:	00:30	CPI Inflation (March)	(+3.0%)	(+3.2%)
			- Ex-Food & Energy	(+2.6%)	

♦ *Month-on-month changes (year-on-year shown in brackets)*