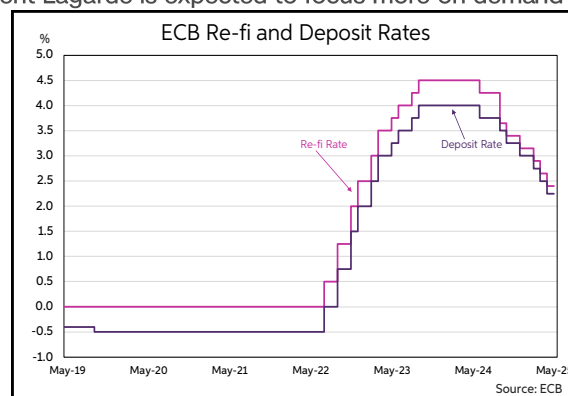


Rollercoaster of Trade

- **The recent ruling by a US trade court rescinding much of President Trump's tariffs has thrown US trade policy into further uncertainty.** The ruling annulled many of the reciprocal tariffs announced in April, leaving in place only limited sectoral tariffs on cars, steel, and aluminium. A federal appeals court has allowed reciprocal tariffs to remain in effect for now though, while the Trump Administration pursues an appeal. With the dispute likely to reach the US Supreme Court, a resolution may not be known for several weeks or even months.
- **At first glance, this ruling could weaken the U.S. position in ongoing negotiations with trade partners, including the EU and China.** However, legal experts suggest there are several alternative mechanisms the US administration could use to impose tariffs. One such mechanism—Section 232, which is not subject to the trade court ruling—is currently being used in trade investigations into pharmaceuticals, semiconductors, and other strategic sectors. These investigations will likely result in a fresh round of tariffs on US trade partners. The administration has also explored other tools, including a most-favoured-nation principle to align US drug pricing with the lowest price available in any OECD country with a GDP per capita of at least 60% of the US.
- **The latest bout of trade uncertainty also complicates the outlook for central banks as they prepare for their next policy meetings in June.** In particular, the upcoming ECB (June 5th) and Fed (June 18th) decisions will include key macroeconomic forecasts for the first time since the initial tariff salvos on Liberation Day. In the US, some FOMC members have adopted a somewhat hawkish tone regarding interest rates, emphasising the inflationary impact of tariffs. However, Fed Chair Powell has taken a more neutral stance, not committing to a predetermined path. In that context, the Fed's dot plot will reveal the range of views on how tariffs may affect the economic outlook.
- **For the ECB, the June macroeconomic forecasts could also include a further downgrade to near-term growth projections, with Governing Council members striking a relatively dovish tone in recent weeks.** A combination of a stronger euro and weaker energy prices is likely to lower headline inflation forecasts, but President Lagarde is expected to focus more on demand-driven and core inflation measures during her regular press conference.
- **Indeed, the focus of the week ahead will be on the aforementioned ECB monetary policy meeting.** Last time round, the Governing Council opted to cut rates for the third time this year and for the seventh time this cycle, bringing the deposit rate down to 2.25%. Furthermore, while the overarching message from the ECB was that the policy outlook was unclear, there was a dovish tilt to its guidance. This was reflected in increased concerns on the growth outlook that changes in global trade patterns may have on the Eurozone. Since then, survey data available for Q2 have been mixed, albeit key activity indicators have deteriorated. **Against this backdrop, the market is fully pricing-in another 25bps rate cut this week.** Further out, futures contracts indicate that the Deposit rate will end the year back at circa 1.75%. Thus, the press conference with President Lagarde and the updated economic projections will be of keen interest to investors, for any guidance on the outlook.
- **Ahead of the ECB meeting, a busy data schedule in the Eurozone includes updates on inflation and the labour market.** In terms of inflation, a clear downward trend re-emerged in Q1, with the headline rate falling to 2.2% and the core rate declining to 2.5%, respectively in March. However, the core rate re-accelerated in April to 2.7%, albeit this was largely attributable to a rise in services inflation due to the timing of Easter this year. The headline rate remained at 2.2% in the month. The consensus is for headline inflation to fall to 2.0% in May, while the core rate is projected to move back to 2.5%. Meanwhile, the Eurozone unemployment rate is forecast to stay at its all-time low of 6.2% in April. At the end of the week, Eurozone retail sales are expected to expand by 0.2% in April, having broadly flat-lined since September.
- **In the US, the main data highlight will be the labour market report for May.** Overall, labour market conditions appear to have continued to soften, in-line with the overarching trend seen in 2024. The pace of payroll expansion has slowed, averaging 144k per month in the first four months 2025 compared to 168k last year. Meanwhile, the unemployment rate remained at 4.2% in April, having oscillated between 4.0-4.3% since last May. Amid the softening in labour demand, average earnings growth has eased slightly, to +3.8% y/y in March/April, compared to +4.2% y/y a year ago. The consensus is for payrolls to rise by 130k in May, while the unemployment rate is set to be unchanged, and earnings growth is projected to slow to +3.7% y/y. Regarding other labour market indicators, JOLTS job openings for April are due. Elsewhere, the manufacturing and the non-manufacturing ISMs are projected to improve in May, albeit the former is set to stay below the key 50 mark.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2025	2025	2025
Fed Funds	4.375	4.375	4.125	3.875
ECB Deposit	2.25	2.00	2.00	2.00
BoE Repo	4.25	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	End Q3	End Q4
		2025	2025	2025
EUR/USD	1.1336	1.13	1.14	1.14
EUR/GBP	0.8408	0.84	0.84	0.83
EUR/JPY	163.27	164	164	163
GBP/USD	1.3474	1.35	1.36	1.37
USD/JPY	144.02	145	144	143

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:		Mann (Mon); Greene, Breeden (Thu)		
	Fed Speakers:		Powell , Logan, Goolsbee (Mon); Logan, Goolsbee (Tue); Bostic, Cook (Wed); Kugler, Harker (Thu)		
Mon 2nd	IRE:		June Bank Holiday		
	EU-20:	09:00	Final HCOB Manufacturing PMI (May)	49.4	49.4
	UK:	09:30	Final S&P Manufacturing PMI (May)	45.1	45.1
	UK:	09:30	Mortgage Approvals (May)	64,309	63,000
	US:	14:45	Final S&P Manufacturing PMI (May)	52.3	52.3
	US:	15:00	Manufacturing ISM (May)	48.7	49.3
Tue 3rd	IRE:	01:01	AIB Manufacturing PMI (May)	53.0	
	ITA:	09:00	Unemployment rate (April)	6.0%	
	EU-20:	10:00	Flash HICP Inflation (May)	(+2.2%)	(+2.0%)
			- Ex-Food & Energy	(+2.7%)	(+2.5%)
			- Ex-Food, Energy, Alcohol & Tobacco	(+2.7%)	(+2.5%)
	EU-20:	10:00	Unemployment rate (April)	6.2%	6.2
	US:	15:00	JOLTS Job Openings (April)	+7.192m	
Wed 4th	JPN:	01:30	Final Jibun Composite PMI (May)	49.8	49.8
	ITA:	08:45	HCOB Composite PMI (May)	52.1	51.6
	FRA:	08:50	Final HCOB Composite PMI (May)	48.0	48.0
	GER:	08:55	Final HCOB Composite PMI (May)	48.6	48.6
	EU-20:	09:00	Final HCOB Composite PMI (May)	49.5	49.5
			- Final HCOB Services PMI	48.9	48.9
	UK:	09:30	Final S&P Composite PMI (May)	49.4	49.4
			- Final S&P Services PMI	50.2	50.2
	US:	13:15	ADP Employment (May)	+62,000	+110,000
	US:	14:45	Final S&P Composite PMI (May)	52.1	52.1
			- Final S&P Services PMI	52.3	52.3
	US:	15:00	Non-Manufacturing ISM (May)	51.6	52.0
Thu 5th	IRE:	01:01	AIB Services PMI (May)	52.8	
	GER:	07:00	German Industrial Orders (April)	+3.6%	-1.0%
	EU-20:	10:00	Producer Price Inflation (April)	-1.6% (+1.9%)	-1.8% (+1.2%)
	IRE:	11:00	Unemployment Rate (May)	4.1%	4.2%
	IRE:	11:00	National Accounts (Q1 2025)		
	EU-20:	13:15	ECB Monetary Policy Decision Announcement		
			- Re-fi Rate	2.25%	2.00%
			- Deposit Rate	2.40%	2.15%
	US:	13:30	Initial Jobless Claims (w/e 26th May)	+240,000	
	US:	13:30	International Trade (April)	-\$140.5bn	-\$117.5bn
	EU-20:	13:45	ECB Post-Meeting Press Conference		
	IRE:	16:30	Exchequer Returns (May 2025)		
Fri 6th	GER:	07:00	Industrial Output (April)	+3.0% (-0.4%)	-0.9%
	GER:	07:00	Trade Balance (April)	+€21.1bn	
			- Exports	+1.1%	-0.5%
	EU-20:	10:00	Employment (Q1: Final Reading)	+0.3% (+0.8%)	+0.3% (+0.8%)
	EU-20:	10:00	GDP (Q1: Revised Reading)	+0.3% (+1.2%)	+0.3% (+1.2%)
	EU-20:	10:00	Retail Sales (April)	-0.1% (+1.5%)	+0.2% (+1.5%)
	US:	13:30	Non-Farm Payrolls (May)	+177,000	+130,000
			- Unemployment Rate	4.2%	4.2%
			- Average Earnings	+0.2% (+3.8%)	+0.3% (+3.7%)

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

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