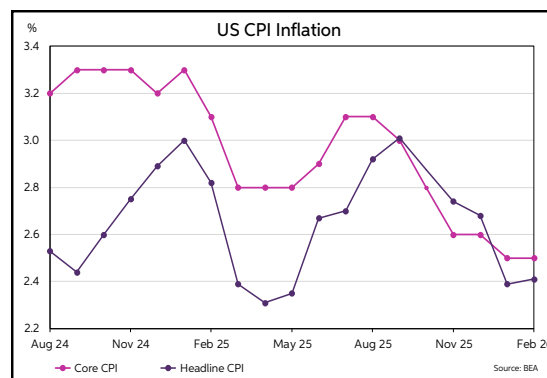


Suffer Europe

- **As further hard data trickle out amid the ongoing Iran conflict, it appears the European economy is suffering most from the impact, outside of the immediate Middle East region.** Economic surprise indices point to a sharply diverging trend in the incoming European data versus expectations compared to the US and global metrics. This has also been reflected in equity markets, with the benchmark Euro Stoxx 50 down nearly 3% since the start of March, compared to a near 7% gain in US equities. UK markets have fared even worse down 5-6% over the same period, with the UK buffeted by structurally higher inflation and political uncertainty.
- **US markets have benefited from the economy's relative insulation to geopolitical risks and solid corporate earnings, which have underpinned stocks.** However, these gains have become increasingly concentrated within large cap tech stocks, while rising domestic inflation might yet dampen already softer consumer spending. In Europe, corporates are already internalising grim readings from business and consumer sentiment surveys within an economy only emerging from the successive shocks of Covid and the war in Ukraine.
- **This week's final reading of S&P Global Eurozone Composite PMI confirmed business activity contracted for first time in almost a year-and-a-half as inflation continued to rise in April.** Additionally, business confidence slipped to a 31-month low and there was a further fall in employment. This negative out-turn in the Eurozone PMI, contrasts with a relatively resilient picture in the US survey, which showed a small uptick in activity in April.
- **These fiscal pressures are now crystallising in rising sovereign bond yields.** UK gilt yields are 50-80 bps higher across the curve since end-February, with 40-50bps increase for major Eurozone sovereigns. That means the private sector could bear a proportionately larger cost than in 2022, while windfall taxes on energy companies could also feature more prominently, as governments seeks to fund energy supports.
- **Turning to the week ahead, the main release of note will be US CPI inflation for April.** Before the war in the Middle East broke out and energy prices spiked, CPI inflation was trending lower. However, in March consumer prices rose markedly, with the headline rate jumping to 3.3% from 2.4%. The increase at the end of Q1 was the largest since June 2022. It was primarily driven by a 21.2% surge in gasoline prices - which is the biggest monthly jump since records began in 1967. The core rate also rose (albeit at a much more modest pace) to 2.6% in March, from 2.5%. The consensus is for a further increase in both rates to 3.7% and 2.7%, in April.
- **Elsewhere in the US, retail sales figures for April are due.** Headline sales rose at a solid pace throughout Q1, albeit similar to the CPI data, the March estimate was inflated by the sharp rise in fuel prices. Underlying sales also remained robust though, with the control group measure - a key core sales metric, increasing by 0.5-0.7% per month during the opening quarter of the year. Both metrics are forecast to expand more slowly in April, rising by 0.6% and 0.3% respectively. Meanwhile, industrial production is projected to rebound by a modest 0.3% in April, having declined by 0.5% in March.
- **In the UK, the highlight will be the first reading of GDP for Q1.** Economic growth slowed drastically in the second half of last year, with GDP rising by just 0.1% q/q in the final two quarters of the year. The monthly estimates of GDP indicate that the economy may have gathered some steam in the early part of 2026. GDP rose by 0.1% m/m in January and jumped by 0.5% m/m in February. However, a 0.2% contraction is pencilled in for March, albeit this would still result in a 0.6% q/q rise overall in Q1. Meantime, industrial production, which has been somewhat volatile recently, is forecast to fall by 0.4% m/m in March.
- **In the Eurozone, industrial production figures for March will also feature.** A second consecutive monthly increase is expected in the month, with output set to expand by 0.2% in March. Elsewhere, the second reading of Eurozone GDP is anticipated to confirm that the economy expanded by just 0.1% q/q in Q1. Meanwhile, a slight 0.1% q/q increase in the level of employment is forecast in the opening three months of the year. This would mean employment would be 0.6% higher in annual terms, and that the Eurozone economy would have created an additional 9.6 million jobs so far in this decade.
- **On the home front, the AIB Irish Construction PMI (April) and the CSO residential price data for March will be released.**



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q2 2026 | End Q3 2026 | End Q4 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 | 3.50 |
| 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 2026 | End Q3 2026 | End Q4 2026 |
| EUR/USD | 1.1773 | 1.18 | 1.19 | 1.20 |
| EUR/GBP | 0.8645 | 0.87 | 0.88 | 0.88 |
| EUR/JPY | 184.34 | 185 | 187 | 187 |
| GBP/USD | 1.3611 | 1.36 | 1.35 | 1.36 |
| USD/JPY | 156.57 | 157 | 157 | 156 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|----------------------------|-----------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| This Week: | ECB Speakers: | Lagarde (Wed) | | |
| | BoE Speakers: | Mann (Wed); Pill (Thu) | | |
| | Fed Speakers: | Kashkari (Wed) | | |
| Mon 11th | US: | 15:00 Existing Home Sales (April) | 3.98m / -3.6% | 4.06m / +1.8% |
| Tue 12th | IRE: | 01:01 AIB Irish Construction PMI (April) | 53.2 | |
| | GER: | 07:00 Final HICP Inflation (April) | +0.6% (+2.9%) | +0.6% (+2.9%) |
| | ITA: | 09:00 Industrial Output (March) | +0.1% (+0.5%) | +0.2% (|
| | GER: | 10:00 ZEW Economic Sentiment (May) | -17.2 | -19.8 |
| | US: | 11:00 NFIB Small Business Optimism (April) | 95.8 | |
| | US: | 13:30 CPI Inflation (April) - Core-CPI | +0.9% (+3.3%) +0.2% (+2.6%) | +0.6% (+3.7%) +0.3% (+2.7%) |
| Wed 13th | JPN: | 06:00 Economy Watchers Poll (April) | 42.2 | |
| | FRA: | 07:45 Final CPI Inflation (April) | +1.2% (+2.5%) | +1.2% (+2.5%) |
| | EU-21: | 10:00 Employment (Q1: Flash Reading) | +0.2% (+0.7%) | +0.1% (+0.6%) |
| | EU-21: | 10:00 GDP (Q1: Second Reading) | +0.1% (+0.8%) | +0.1% (+0.8%) |
| | EU-21: | 10:00 Industrial Production (March) | +0.4% (-0.6%) | +0.2% (-1.8%) |
| | IRE: | 11:00 Residential Property Price Index (March) | -0.2% (+6.8%) | +0.2% (+6.9%) |
| | US: | 13:30 PPI Final Demand (April) - Ex-Food & Energy | +0.5% (+4.0%) +0.1% (+3.8%) | +0.5% (+5.0%) +0.3% (+4.4%) |
| Thu 14th | UK: | 07:00 GDP (Q1: Preliminary Reading) - March | +0.1% (+1.0%) +0.5% (+1.0%) | +0.6% (+0.8%) -0.2% (+0.7%) |
| | UK: | 07:00 Industrial Output (March) - Manufacturing Output | +0.5% (-0.4%) -0.5% (+1.0%) | -0.4% (+0.1%) -0.2% (+0.0%) |
| | SPA: | 08:00 Final HICP Inflation (April) | +0.7% (+3.5%) | +0.7% (+3.5%) |
| | US: | 13:30 Initial Jobless Claims (w/e 4th May) | +200,000 | +205,000 |
| | US: | 13:30 Retail Sales (April) - Ex-Autos - Control Group | +1.7% +1.9% +0.7% | +0.5% +0.6% +0.3% |
| Fri 15th | ITA: | 09:00 Final HICP Inflation (April) | +1.2% (+2.8%) | +1.2% (+2.8%) |
| | US: | 13:30 NY Fed / Empire State Index (May) | 11.0 | 7.50 |
| | US: | 14:15 Industrial Production (April) - Manufacturing Output - Capacity Utilisation | -0.5% -0.1% 75.7% | +0.3% 75.9% |

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