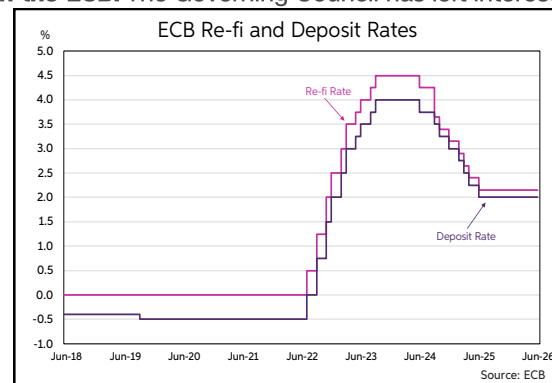


## Paper Tiger

- The latest set of national accounts data for Ireland released by the Central Statistics Office (CSO), provide further evidence of the volatility of GDP growth on paper, masking more benign trends in the real economy.** As ever, a small number of very large multinationals continue to drive the headline trends. GDP growth collapsed in Q1 2026, down 12.1% in the quarter, and by 17% on an annual basis. This was driven by the unwinding in goods export growth (-27.5% y/y), following the tariff and pharma related surge in the first half of 2025. Specifically, it appears the export sales of Eli Lilly, related to its blockbuster weight-loss drug ingredient manufactured in its Cork facility, has contributed to the exceptional peak and trough in Irish exports and GDP over the past year.
- This was also demonstrated in the 28.5% annual fall in multinational sector output.** However, beneath the noisy data, domestic indicators point to a moderate growth picture so far in 2026. Domestic sector output rose 1.4% y/y in Q1. Modified Domestic Demand (MDD), which strips out some of the volatility of the multinational sector, rose by 0.6% q/q. On an annual basis, MDD is up by 4.3% compared to Q1 2025.
- Within this, consumer spending was also up 0.6% q/q and 2.6% y/y, pointing to solid underlying domestic demand in the economy in Q1, despite rising geopolitical risks.** Modified investment rose 9.4% y/y, reflecting strong annual gains in building and construction machinery and equipment, as well as intangibles. The CSO has previously noted that much of this surge in investment relates to the fit-out of data centres and related software, suggesting some structural uplift in capex in the FDI sector, perhaps related to the AI investment cycle. Other reliable domestic indicators point to continued growth in the Irish economy. Average weekly earnings rose by 4% y/y in Q1. This is in line with the 2% growth in annual payroll employment, albeit last week's Labour Force Survey pointed to flat annual jobs growth in the opening three months of the year.
- Exchequer returns data also continue to point to a robust fiscal position.** In May, tax receipts totalled €10.7bn, up 11% on May 2025. Year-to-date, revenues were up 7.0% versus the same period in 2026. Within this, corporation tax receipts were up 9%, while both income taxes and VAT are growing in excess of 7%. However, spending growth is once again overshooting budget projections, by 7.2% y/y in May. Overall, as has been the case for a number of years, the continued surge in tax revenues is more than compensating for this, and crucially, the domestic economy remains solid.
- Turning to the week ahead, the monetary policy spotlight will be focused on the ECB.** The Governing Council has left interest rates on hold at its last seven meetings, albeit, the overarching tone of its communications has turned more hawkish recently, amid the ongoing increase in energy prices. Indeed, last time around at the April meeting, President Lagarde laid the groundwork for a potential rate hike this week, if energy prices remained elevated. Since then, remarks from a number of other ECB officials has indicated that the central bank is very likely to hike rates on Thursday. Against this backdrop, markets are now fully pricing in a 25bps hike from the ECB, which would see the deposit rate rise to 2.25%. Aside from the decision, market participants will be keeping a very close eye on the updated staff macroeconomic projections, the meeting statement, and comments at the post-meeting press conference, for any guidance on the potential for further policy tightening. Current futures pricing indicates that the market sees circa 60bps of hikes from the ECB this year.



- On the data front, the main release of note will be US CPI inflation for May.** 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 to 3.3% from 2.4%, amid the largest monthly jump in gasoline prices since records began in 1967. The core rate also rose (albeit at a much more modest pace) to 2.6%, in March. Furthermore, both metrics increased again in April, and by more than anticipated, to 3.8% and 2.8%, respectively. A marked jump in the headline rate to 4.2% is pencilled in for May, while the core rate is projected to increase to 2.9%. Elsewhere in the US, NFIB small business optimism (May) and the preliminary reading of the Michigan measure of consumer sentiment (June) will be released.
- In the UK, the monthly reading of GDP for April will feature.** Having endured a slow start the year, GDP gathered some momentum in February and March, rising by 0.4% and 0.3%. However, the consensus is for a marginal 0.1% contraction in April. Meantime, UK industrial production, which has been somewhat volatile recently, is forecast to inch 0.1% higher in April.
- Data-wise, the Eurozone calendar is quite sparse.** The only release to highlight will be the EU sentix survey for June. Elsewhere, German industrial orders and production data for April will also warrant some attention.

|                                            | 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                    | 2.25   | 2.25   | 2.25   |
| 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 | End Q3 | End Q4 |
|                                            |                                              | 2026   | 2026   | 2026   |
| EUR/USD                                    | 1.1556                                       | 1.18   | 1.19   | 1.20   |
| EUR/GBP                                    | 0.8632                                       | 0.87   | 0.88   | 0.88   |
| EUR/JPY                                    | 185.14                                       | 185    | 187    | 187    |
| GBP/USD                                    | 1.3380                                       | 1.36   | 1.35   | 1.36   |
| USD/JPY                                    | 160.20                                       | 157    | 157    | 156    |
| Current Rates Reuters, Forecasts AIB's ERU |                                              |        |        |        |

| Date       | UK & Irish Time<br>(GMT+1)                      |       | Release                                       | Previous             | Forecast      |
|------------|-------------------------------------------------|-------|-----------------------------------------------|----------------------|---------------|
| This Week: | ECB Speakers:<br>BoE Speakers:<br>Fed Speakers: |       |                                               |                      |               |
| Mon 8th    | JPN:                                            | 00:50 | GDP (Q1: Revised Reading)                     | +0.5%                | +0.5%         |
|            | GER:                                            | 07:00 | Industrial Orders (April)                     | +5.0%                | -2.0%         |
|            | EU-21:                                          | 09:30 | Sentix Index (June)                           | -16.4                | -14.2         |
| Tue 9th    | IRE:                                            | 01:01 | AIB Irish Construction PMI (May)              | 47.1                 |               |
|            | GER:                                            | 07:00 | Industrial Output MM (April)                  | -0.7% (-3.0%)        | +0.5%         |
|            | GER:                                            | 07:00 | Trade Balance (April)                         | +€14.3Bn             |               |
|            |                                                 |       | - Exports                                     | +0.5%                | -0.5%         |
|            | US:                                             | 11:00 | NFIB Small Business Optimism (May)            | 95.9                 |               |
|            | US:                                             | 13:55 | International Trade (April)                   | -\$60.3Bn            | -\$57.3bn     |
| Wed 10th   | ITA:                                            | 09:00 | Industrial Output MM (April)                  | +0.7% (+1.5%)        | +0.1%         |
|            | US:                                             | 13:30 | CPI Inflation (May)                           | +0.6% (+3.8%)        | +0.5% (+4.2%) |
|            |                                                 |       | - Core CPI                                    | +0.4% (2.8%)         | +0.3% (+2.9%) |
| Thu 11th   | UK:                                             | 00:01 | RICS Housing Survey (May)                     | -34.0                |               |
|            | IRE:                                            | 11:00 | CPI Inflation (May)                           | +0.5% (+3.7%)        | -0.1% (+3.6%) |
|            |                                                 |       | - HICP Inflation                              | Flash: -0.1% (+3.5%) | -0.1% (+3.5%) |
|            | EU-21:                                          | 13:15 | ECB Monetary Policy Decision                  |                      |               |
|            |                                                 |       | - Deposit Rate                                | 2.00%                | 2.25%         |
|            |                                                 |       | - Re-fi Rate                                  | 2.15%                | 2.40%         |
|            | US:                                             | 13:30 | Initial Jobless Claim (w/e 1st June)          | +225,000             | +217,000      |
|            | US:                                             | 13:30 | PPI Final Demand (May)                        | +1.4% (+6.0%)        | +0.6% (+6.4%) |
|            |                                                 |       | - Ex-Food & Energy                            | +1.0% (+4.4%)        | +0.4% (+5.2%) |
|            | EU-21:                                          | 13:45 | ECB Post-Meeting Press Conference             |                      |               |
| Fri 12th   | GER:                                            | 07:00 | Final HICP Inflation (May)                    | -0.1% (+2.7%)        | -0.1% (+2.7%) |
|            | UK:                                             | 07:00 | GDP (April)                                   | +0.3% (+1.2%)        | -0.1%         |
|            |                                                 |       | - 3M/3M                                       | +0.6%                | +0.7%         |
|            | UK:                                             | 07:00 | Industrial Output (April)                     | -0.2% (+0.0%)        | +0.1% (-0.1%) |
|            |                                                 |       | - Manufacturing Output                        | +1.2% (+1.2%)        | -0.2% (+0.4%) |
|            | FRA:                                            | 07:45 | Final HICP Inflation (May)                    | +0.1% (+2.8%)        | +0.1% (+2.8%) |
|            | SPA:                                            | 08:00 | Final HICP Inflation (May)                    | +0.1% (+3.6%)        | +0.1% (+3.6%) |
|            | US:                                             | 15:00 | Preli. Uni. Michigan Consumer Sentiment (Jun) | 44.8                 | 45.5          |

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

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