Weekly Market Brief

AIB Treasury Economic Research Unit

10th – 14th August 2026

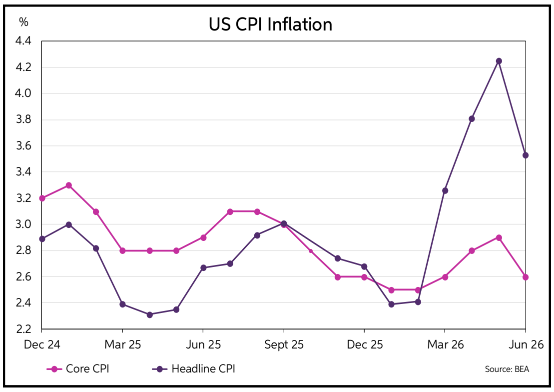
When you say nothing at all

- **In the week since the most recent US Fed monetary policy decision, pressure has mounted on new Chair Kevin Warsh's 'say nothing' strategy.** The abrupt departure from any form of forward guidance has rattled bond markets and contributed to the rise in long-dated US Treasury yields. US 30-year yields are now trading around 5.2%, and while off last week's near 5.3% peak, are over c.20bps higher since Warsh assumed the Chair in May.

- **Most notably, Chair Warsh eschewed providing forecasts for the Fed's June macro projections, and the Fed has dramatically reduced the length of its monetary policy statements since his arrival.** In July, the statement dryly noted that the economy was "expanding at a solid pace" despite "elevated uncertainty", job growth "kept pace with the workforce", while inflation remains high in part due to supply shocks. **Aside from a firm commitment at his press conferences to achieve price stability, the new Chair's inaction has brought criticism on the Fed, but Warsh is set to stick with the new approach despite the building pressure in bond markets.** However, his long-term strategy is unlikely to be fully fleshed out until the conclusion of five taskforces he has set-up to evaluate the Fed's communications, balance sheet policies, data sources, productivity and the inflation framework. These taskforces may not report until end-2026 or early 2027. At that point, Warsh could use the findings as cover to remake an institution which has failed to hit its 2% inflation target for five years.

- **That strategy is likely to entail a renewed focus on interest rates as the primary monetary policy tool, with a reduction in open market bond purchases and a commensurate shrinking of the Fed's balance sheet,** which currently sits above $6 trillion. Based on recent speeches, it also appears Warsh favours lower interest rates in the medium term, believing that AI and other technological advances will drive a surge in productivity, ultimately reducing inflationary pressures.

- **This productivity prediction was likely the platform upon which President Trump selected Warsh as Chair,** but it has brought charges of political interference too. Indeed, the recent intervention by US and Japanese authorities in the currency markets to support the yen has drawn the Fed into the political sphere once again. The Wall Street Journal reported that US Treasury Secretary Scott Bessent wants the Fed to drop a cap on an emergency lending facility Japan may use to support its currency further. This facility allows the Fed to lend Japan dollars in return for US Treasurys as temporary collateral. However, as with QE this arrangement expands the Fed balance sheet, the opposite of the stated goals of Chair Warsh. **The big picture is the US economy continues to outperform its peers and generate above-target inflation.** For now, markets expect that will lead to near term rate hikes, despite Warsh's long-term disinflation thesis.



- **Turning to the week ahead, a busy US macro calendar includes a number of updates on the key consumer side of the economy.** In terms of inflation, CPI was trending lower before the war in the Middle East broke out, but it jumped higher as the conflict escalated amid the subsequent spike in energy prices. Headline CPI inflation peaked at 4.2% in May, up from just 2.4% in January/February. The core rate also increased, albeit at a slower pace. It rose to 2.9% in May, having printed at 2.5% at the start of the year. However, both rates fell by more than anticipated in June, with the headline rate easing to 3.5% and the core rate to 2.6%. The consensus is for both rates to edge lower again in July, to 3.4% and 2.5%, respectively. In terms of household spending, retail sales continued to increase at a solid pace during Q2. Further growth is anticipated at the start of Q3, with 0.2% m/m growth rate being pencilled in for headline sales in July.

- **In the UK, the main release of note will be the preliminary reading of GDP for Q2.** In the first quarter of the year, the economy gathered some momentum, with GDP rising by 0.6% q/q, supported by growth in consumption, government expenditure and investment. However, the available monthly readings of GDP for Q2 have been mixed. GDP contracted by 0.1% m/m in April, it rebounded by 0.1% m/m in May. However, a 0.1% m/m rise in June is projected to result in a quarterly growth rate of 0.4% for Q2. At the same time, industrial production has been weak during Q2. Output rose by 0.2% in April but contracted by 0.5% in May. A very modest recovery of 0.1% is forecast for June.

- **Meantime in the Eurozone, the second reading of GDP is set to confirm the economy expanded by 0.4% in Q2.** Meanwhile, the first reading of Q2 employment data may garner closer attention. The level of employment has increased in the EU in each of the last twenty quarters, meaning the number of people at work has risen by 5.8% so far this decade. In Q1 though, employment growth slowed markedly to just 0.1% q/q. The consensus is for it to inch 0.1% higher in Q2. In terms of more timely data, the first survey indicator for August is due with the EU Sentix indicator expected to improve to -1.2 this month.

Interest Rate Forecasts

	Current	End Q3 2026	End Q4 2026	End Q1 2027
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.25	2.50	2.50	2.50
BoE Repo	3.75	3.75	3.75	3.50
BoJ OCR	1.00	1.00	1.25	1.25

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q3 2026	End Q4 2026	End Q1 2027
EUR/USD	1.1573	1.15	1.16	1.17
EUR/GBP	0.8566	0.87	0.88	0.88
EUR/JPY	182.14	184	184	185
GBP/USD	1.3505	1.34	1.33	1.33
USD/JPY	157.37	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 10th - Friday 14th August

AIB Treasury Economic Research

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Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**				
	BoE Speakers:				
	Fed Speakers:		Hammack, Barkin (Thur)		
Mon 10th	**JPN:**	06:00	Economy Watchers Poll (July)	44.0	
	EU-21:	09:30	EU Sentix Index (August)	-3.1	-1.6
Tue 11th	***IRE:***	***01:01***	***AIB Irish Construction PMI (July)***	***45.4***	
	US:	11:00	NFIB Small Business Optimism (July)	97.4	
	US:	15:00	Existing Home Sales (July)	4.09m	4.04m
Wed 12th	**GER:**	07:00	Final HICP Inflation (July)	+0.9% (+2.8%)	+0.9% (+2.8%)
	ITA:	09:00	Final HICP Inflation (July)	-1.0% (+2.9%)	-1.0% (+2.9%)
	US:	13:30	CPI Inflation (July)	-0.4% (+3.5%)	+0.1% (+3.4%)
			- Core-CPI	+0.0% (+2.6%)	+0.2% (+2.5%)
Thu 13th	**UK:**	07:00	GDP (Q2: Preliminary Reading)	+0.6% (+0.9%)	+0.4% (+1.1%)
	UK:	07:00	Industrial Output (June)	-0.5% (+1.0%)	+0.1% (+0.2%)
			- Manufacturing Output	+0.1% (+2.3%)	-0.3% (+1.2%)
	SPA:	08:00	Final HICP Inflation (July)	-0.1% (+3.8%)	-0.1% (+3.8%)
	EU-21:	10:00	Industrial Production (June)	-0.2% (-1.2%)	+0.0% (-0.9%)
	IRE:	***11:00***	***CPI Inflation (July)***	***+0.3% (+3.4%)***	
			- HICP Inflation (July)	***Flash: +0.3% (+3.2%)***	
	US:	13:30	PPI Final Demand (July)	-0.3% (+5.5%)	+0.2% (+4.9%)
			- Ex-Food & Energy	+0.2% (+4.7%)	+0.3%
Fri 14th	**FRA:**	07:45	Final HICP Inflation (July)	+0.6% (+2.4%)	+0.6% (+2.4%)
	EU-21:	10:00	Employment (Q2: Flash Reading)	+0.1% (+0.5%)	+0.1%
	EU-21:	10:00	Total Trade Balance (June)	-€5.0bn	
			- EuroStat Trade	-€7.8bn	
	EU-21:	10:00	Flash GDP Estimate (Q2 2026)	+0.4% (+1.0%)	+0.4% (+1.0%)
	US:	13:30	Retail Sales (July)	+0.2%	+0.2%
			- Ex-Autos	-0.2%	+0.3%
			- Control Group	+0.5%	+0.3%
	US:	15:00	Preli. Uni. Michigan Consumer Sentiment (Aug)	55.2	54.0

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