Weekly Market Brief

AIB Treasury Economic Research Unit

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20th – 24th July 2026

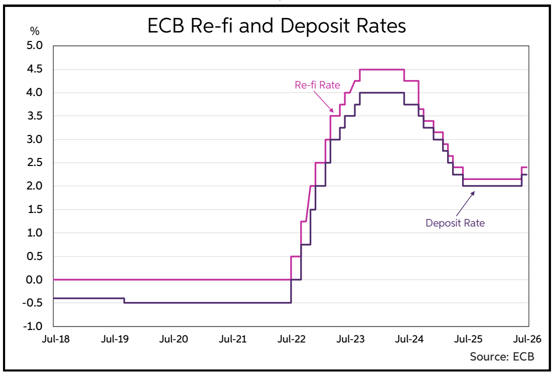
Total eclipse of the doves

- **The Middle East conflict, which has seen a re-escalation of tensions, has had a significant impact on central banks as well as market expectations regarding their respective policy stances.** Most of the main central banks came into 2026 with a bias to either cut rates further or to maintain rates at low levels. Similarly, futures markets indicated that investors were anticipating further rate cuts over the course of this year.

- **Monetary policymakers were already operating in a volatile global macroeconomic environment amid the trade-related uncertainty that developed last year,** as the new US administration overhauled their trade policy with the introduction of tariffs. However, the war in Middle East has produced an energy price shock for the global economy which, in turn, has resulted in elevated inflation risks for central bankers to deal with. In the case of the European Central Bank, they decided to hike rates in June, by 25bps to 2.25%. Meanwhile, both the US Federal Reserve and Bank of England have paused their easing cycles, whilst at the same time, neither has ruled out raising rates. Against this backdrop, there has been a notable firming in market rate expectations, with pricing no longer reflecting rate cuts, but instead rate hikes during the second half of the year.

- **The market is very much leaning towards the prospect of higher rates between now and year end.** From an ECB perspective, futures contracts are pricing in the deposit rate getting to at least 2.50% by December. In terms of the BoE, the market envisages the UK official rate rising from its current 3.75% level to 4.0%. Meanwhile, the market is expecting the Fed to raise rates back nearer to 4.0%, albeit the timing of this 25bps rate hike has been pushed out from October to December on the back of lower than expected CPI inflation numbers for June.

- **In terms of the actual evolution of official interest rates over the remainder of 2026, the direction of travel will be in a large part determined by developments in the Middle East conflict.** A scenario in which tensions escalate further, oil prices see sustained increases again and the limited progress in re-opening the Strait of Hormuz goes into reverse, would ramp up pressure on central banks to raise rates to meet their inflation targets. However, if the recent 'escalation' is relatively contained and talks resume to find a long-term peace deal, including increased ship flows in the Strait, then the 'tightening' pressure on central banks may abate. In such a scenario where the conflict de-escalation becomes more sustained, attention could turn to when rates may start to fall again.



- **Turning to the week ahead, monetary policy will remain in focus, with the ECB policy meeting.** As mentioned above, the ECB hiked rates by 25bps, bringing the deposit rate up to 2.25%. It was the first change in policy since June 2025, and the first rate hike since September 2023. Furthermore, President Lagarde suggested at the post-meeting press conference that it was unlikely to be a "one and done" increase, indicating that it may be the start of a hiking cycle. Since then, market rates have been somewhat volatile, amid the recent de-escalation and re-escalation of the conflict in the Middle East. Expectations are that the ECB will leave rates on hold this month. However, a rate hike is almost fully priced-in for the next meeting in September. Given this backdrop, the key focus for markets will be on the meeting statement and the press conference with President Lagarde, as investors look for guidance on the future path of policy.

- **On the data front, the flash PMIs for July in the main advanced economies are due.** Across the board, the manufacturing sector has outperformed services in recent months. Indeed, in the Eurozone, the manufacturing PMI has remained firmly in expansion mode, albeit it edged lower in May and June. In contrast, the services index has been in contraction territory for the past three months, despite moving higher in each of the last two. The consensus is for the manufacturing PMI to be unchanged at 51.4 in July, with the services PMI rising to 49.8. Similarly, the UK services PMI has also been in contraction mode recently, whereas the manufacturing has been solidly above 50. This trend is set to continue in July as well. In the US, both sector PMIs have been north of the key 50 threshold since April. They are projected to move modestly higher in July

- **Meanwhile, a very busy schedule in the UK also includes a number of key data releases.** In terms of the labour market, conditions appear to have stabilised somewhat, having softened over the past year. The unemployment peaked at 5.2% in December/January, and more recently has operated between 4.9-5.0%. Against this backdrop, wage inflation rose slightly to +4.4% y/y in the three months to March, and stayed at that level in April. The acceleration in March in wage inflation was the first since August. The unemployment rate is forecast to rise to 5.0% in May, while wage inflation is expected to tick higher to 4.5% y/y. Meantime, UK CPI inflation has surprisingly moved lower in recent months. A slight decline in the headline and core rates to 2.7% and 2.5%, respectively, is pencilled in for June. Retail sales (June) and consumer confidence (May) are also due. Political developments in the UK will also be in focus, as MP Burnham is set to takeover as Primer Minister on Monday.

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	1.1441	1.15	1.16	1.17
EUR/GBP	0.8506	0.87	0.88	0.88
EUR/JPY	185.80	184	184	185
GBP/USD	1.3447	1.34	1.33	1.33
USD/JPY	162.37	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

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AIB Treasury Economic Research

David McNamara
Chief Economist

John Fahey
Senior Economist

Daniel Noonan
Economist

ECONOMIC DIARY

Monday 20th - Friday 24th July

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Lane (Fri)		
	BoE Speakers:				
	Fed Speakers:				
Mon 20th					
Tue 21st	**UK:**	07:00	Unemployment Rate (May)	4.9%	5.0%
	UK:	07:00	Average Earnings 3m (May)	(+4.4%)	(+4.5%)
			- Ex-Bonus	(+3.4%)	(+3.4%)
	UK:	07:00	HMRC Payrolls (June)	2,000	
			- Claimant Count	31,200	
	GER:	10:00	ZEW Economic Sentiment (July)	10.5	18.0
Wed 22nd	**JPN:**	00:50	Total Trade Balance (June)	-¥391.8bn	-¥120.0bn
			- Exports	(+16.8%)	(+18.6%)
	UK:	07:00	CPI Inflation (June)	+0.2% (+2.8%)	+0.1% (+2.7%)
			- Core-CPI	+0.3% (+2.6%)	+0.3% (+2.5%)
			- Services	+0.4% (+3.7%)	(+3.5%)
	UK:	07:00	PPI Output Prices (June)	+0.5% (+4.0%)	
			- Input Prices	+0.2% (+8.7%)	
Thu 23rd	**FRA:**	07:45	INSEE Business Climate (July)	94.0	94.0
	UK:	11:00	CBI - Distributive Trades (July)	-45.0	
	EU-21:	13:15	ECB Monetary Policy Decision		
			- Deposit Rate	2.25%	2.25%
			- Re-fi Rate	2.40%	2.40%
	EU-21:	13:45	ECB Post-Meeting Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 13th July)	+208,000	+216,000
	EU-21:	15:00	Flash Consumer Confidence (July)	-17.7	-16.8
Fri 24th	**UK:**	00:01	Gfk Consumer Confidence (July)	-23.0	-21.0
	JPN:	00:30	CPI Inflation (June)	(+1.5%)	(+1.6%)
			- Core-CPI	(+1.4%)	
	JPN:	01:30	Flash S&P Composite PMI (July)	52.8	
	UK:	07:00	Retail Sales (June)	+1.2% (+3.2%)	-0.2% (+2.4%)
			- Ex-Fuel	+1.2% (+4.6%)	-0.3% (+3.4%)
	GER:	08:00	Gfk Consumer Sentiment (August)	-29.2	-28.5
	SPA:	08:00	Overnight Stays (June)	June'25: 39.0m	
	FRA:	08:15	Flash S&P Composite PMI (July)	47.2	47.5
	GER:	08:30	Flash S&P Composite PMI (July)	49.5	49.6
	EU-21:	09:00	Flash S&P Composite PMI (July)	50.0	50.2
			- Manufacturing / Services	51.4 / 49.4	51.4 / 49.8
	UK:	09:30	Flash Composite PMI (July)	49.3	49.7
			- Manufacturing / Services	52.5 / 48.8	52.0 / 49.3
	US:	14:45	Flash S&P Composite PMI (July)	51.9	
			- Manufacturing / Services	53.9 / 51.2	54.0 / 51.5
	US:	13:00	Housing Starts (June)	+0.58m / -7.3%	+0.61m / +5.7%

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