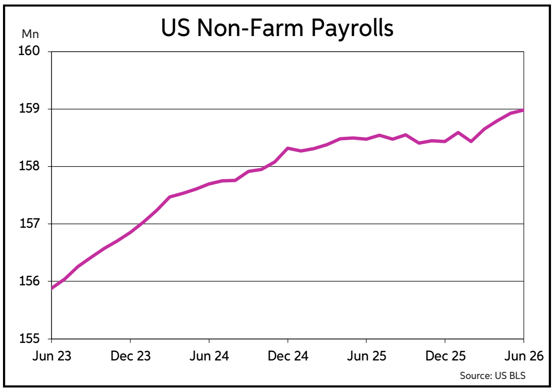
Weekly Market Brief

AIB Treasury Economic Research Unit

3rd – 7th August 2026

Green and Red

- **Following the latest Bank of England (BoE) meeting, the central bank's analysis suggests both green and red signals on the health of the UK economy, with underlying inflationary pressures muted, despite the ongoing energy shock.**
- **On the positive side, the economy appears to have come through the initial energy price shock relatively unscathed.** Inflation spiked in March and has since fallen; although the BoE has warned that inflation could pick up once more later this year. GDP contracted by 0.1% m/m in April, before rebounding by 0.1% in May. Meanwhile, retail sales fell sharply in April, amid lower fuel consumption due to the increase costs at the pump, because of the war in the Middle East. However, it rebounded sharply in May and June, suggesting the key consumer sector has been resilient.
- **More worrying are flashing red indicators for the labour market, which has been on a weakening trend since the middle of 2025.** Unemployment has been around 5% in recent months, rising from near 4% at the beginning of 2025. More worryingly, payroll employment has contracted in seven of the past twelve months to June, and in all bar two months this year. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +4.3% y/y in the three months to May, compared to +4.9% over the same period last year.
- **It is in this subdued macro context that BoE Governor Andrew Bailey stated that there is, as yet, very little evidence of second round inflation.** We also got a more detailed insight on the BoE's assessment of the economic outlook in the Monetary Policy Report. In terms of its central scenario which assumes only "moderate second-round inflation effects, it has upgraded its growth outlook compared to its April forecasts.
- **While policy was left unchanged, there was a further hawkish shift in the voting breakdown, with the decision to hold Bank Rate at 3.75% split 6:3,** with three members in favour of a 25bps rate hike (there were two votes for this at the June MPC). For the majority, they were of the view that the combined effect of keeping official interest rates steady and the tightening in financial conditions since the Middle East conflict began was "providing sufficient insurance against the upside risks to inflation" arising the energy price shock. For the three dissenters, they were "less assured" on the underlying disinflationary process and were worried that "second-round effects could be material" and were of the view that a "proactive increase" in rates was warranted.
- **Our view remains unchanged. We believe that the BoE will not hike interest rates this year.** Looking further ahead, we anticipate that the next policy move from the BoE could be a rate cut, to resume its easing cycle which has been paused since December 2025. However, we do not expect this to happen until the first quarter of 2027 at the earliest. Of course, the evolution of the Middle East conflict and energy prices will very much determine the near-term policy outlook for the BoE.



- **Turning to the week ahead, the main highlight will be the US labour market report for July.** Conditions in the labour market have firmed in recent months following a weak second half last year, which carried over into early 2026. In the March-May period they posted solid growth expanding by 137k per month on average. This compares to an average of just 12k per month last year. More recently, they rose again in June but by a more modest amount (+57k). Elsewhere, the unemployment rate declined to 4.2% in June, having oscillated between 4.3-4.5% since July. Meantime, wage growth has slowed. Average earnings growth printed at +3.5% year-on-year in June, compared to +3.9% y/y in the same month last year. The consensus is for payrolls to rise by 80k in July, while the unemployment rate is expected to edge up to 4.3%. Average earnings growth is forecast to be unchanged at +3.5% year-on-year.
- **Aside from the raft of labour market updates, the US diary also features the manufacturing and non-manufacturing ISMs for July.** Both metrics eased somewhat in June, albeit they remained firmly in expansion territory. Only slight changes are forecast in July, with a modest improvement pencilled in for both sectors.
- **Elsewhere, the macro data calendar is quite sparse across the other main economies, including the Eurozone and UK.** On the home front though, despite it being a holiday shortened week, a busy release schedule includes the Irish manufacturing and services PMIs, the unemployment rate and the Exchequer returns figures for July.

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	1.1474	1.15	1.16	1.17
EUR/GBP	0.8550	0.87	0.88	0.88
EUR/JPY	182.96	184	184	185
GBP/USD	1.3418	1.34	1.33	1.33
USD/JPY	159.43	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 3rd - Friday 7th August

AIB Treasury Economic Research

David McNamara
Chief Economist

John Fahey
Senior Economist

Daniel Noonan
Economist

Date		*UK & Irish Time (GMT+1)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**				
	BoE Speakers:				
	Fed Speakers:		Cook (Wed); Musalem (Thur); Barkin (Fri)		
Mon 3rd	***IRE/UK:***		***August Bank Holiday (Public Holiday)***		
	EU-21:	09:00	Final Manufacturing PMI (July)	52.0	52.0
	UK:	09:30	Final S&P Manufacturing PMI (July)	52.8	52.8
	US:	14:45	Final S&P Manufacturing PMI (July)	53.8	53.8
	US:	15:00	Manufacturing ISM (July)	53.3	53.6
Tue 4th	***IRE:***	***01:01***	***AIB Irish Manufacturing PMI (July)***	***54.9***	
	US:	13:30	International Trade (June)	-$77.6bn	-$73.4bn
	US:	15:00	JOLTS Job Openings (June)	7.594m	
Wed 5th	**JPN:**	01:30	Final S&P Composite PMI (July)	53.1	53.1
	FRA:	07:45	Industrial Output (June)	-0.1%	
	ITA:	08:45	Final S&P Composite PMI (July)	50.8	50.8
	FRA:	08:50	Final S&P Composite PMI (July)	49.6	49.6
	GER:	08:55	Final S&P Composite PMI (July)	51.2	51.2
	EU-21:	09:00	Final S&P Composite PMI (July)	51.9	51.9
			- Final S&P Services PMI	51.6	51.6
	UK:	09:30	Final S&P Composite PMI (July)	52.1	52.1
			- Final S&P Services PMI	51.8	51.8
	EU-21:	10:00	Producer Prices (June)	+0.2% (+5.9%)	
	US:	13:15	ADP National Employment (July)	98,000	70,000
	US:	14:45	Final S&P Composite PMI (July)	53.6	53.6
			- Final S&P Services PMI	53.6	53.6
		15:00	Non-Manufacturing ISM (July)	54.0	54.4
Thu 6th	***IRE:***	***01:01***	***AIB Irish Services PMI (July)***	***54.2***	
	GER:	07:00	Industrial Orders (June)	+1.9%	+0.0%
	ITA:	09:00	Industrial Output (June)	-0.3% (+1.1%)	
	EU-21:	10:00	Retail Sales (June)	+0.2% (+1.6%)	+0.2%
	IRE:	***11:00***	***Unemployment Rate (July)***	***5.0%***	
	US:	13:30	Initial Jobless Claims (w/e 27th July)	197,000	201,000
	IRE:	***17:30***	***Exchequer Returns (July)***	***+€0.700bn***	
Fri 7th	**GER:**	07:00	Industrial Output (June)	+0.9%	+0.0%
	GER:	07:00	Trade Balance (June)	+€19.1bn	
			- Exports	+0.9%	+0.2%
	US:	13:30	Non-Farm Payrolls (July)	+57,000	+80,000
			- Unemployment Rate	4.2%	4.3%
			- Average Earnings	+0.3% (+3.5%)	+0.3%

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