Weekly Market Brief

AIB Treasury Economic Research Unit

AIB

27th – 31st July 2026

Believe the hype

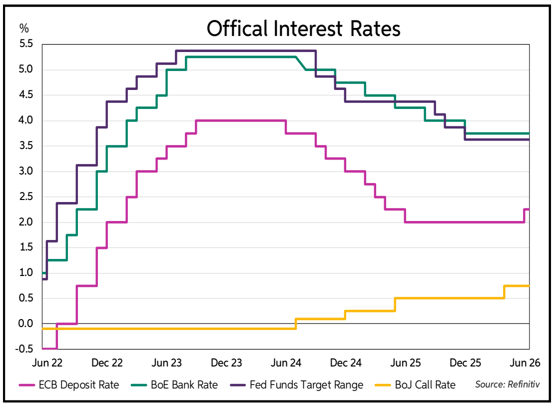
- **The July meeting of the ECB's Governing Council saw the central bank leave its key interest rates unchanged and simultaneously leave the door open to a rate hike in September.** The deposit and refi rates were maintained at 2.25% and 2.40%, respectively. This was very much in line with market expectations. The decision to remain on hold was unanimous. However, President Lagarde commented that some Governing Council members did discuss if the central bank should consider a hike. The meeting statement also showed that the Governing Council remains concerned about the upside risks to inflation. It noted that "uncertainty remains high, and the full inflationary impact of the energy shock has yet to play out".

- **At the post-meeting press conference, President Lagarde continued to stress that the ECB will take a "meeting-by-meeting" approach to any rate changes and that it was not pre-committing.** She stated that the current policy setting was "positioned adequately to wait". In this regard, President Lagarde noted that there would be some key data published over the next few weeks that will inform its decision on whether to raise rates or not in September.

- **In response to whether markets have correctly priced in near term rates, Lagarde responded that "our understanding is that our reaction function is very well understood by markets".** However, it was also notable that she stated that the ECB is not currently seeing the emergence of second round effects and that inflation expectations are "broadly anchored". **The market continues to anticipate further rate hikes from the ECB.** Pricing has become more volatile over the past week though. In the aftermath of the meeting, futures contracts indicate that there is around a 70% probability to a 25bps rate increase at the next meeting on September 10th (was nearer to 90% before the meeting). This suggests that the market had envisaged a stronger signal from the ECB regarding a September hike. Further out, the market is pricing in another 25bps increase during the first quarter of next year, and around 65bps of policy tightening overall.

- **Given the communications from the ECB, it seems reasonable to factor in a 25bps rate hike over the coming months if the incoming data justify this policy action.** Any additional policy tightening though from that point on, will be very much dependent on the duration of the Middle East conflict and emergence of the fabled 'second round' effects. As we have highlighted before though, there remains a very real risk that the ECB could be embarking on a flawed policy path, if these additional inflationary pressures do not materialise and the economy weakens further in the face of tighter monetary policy.

- **Turning to the week ahead, and the monetary spotlight will shift to the US Federal Reserve, the Bank of England and the Bank of Japan.** The Fed is widely expected to leave policy on hold for a sixth successive meeting. However, it should be noted that market interest rate expectations have been volatile in recent weeks, amid weaker than anticipated inflation and the recent re-escalation of the conflict in the Middle East. Against this backdrop, attention will be on Chair Warsh's post-meeting press conference, albeit he is unlikely to offer firm forward guidance once again. **Meanwhile, the BoE is also anticipated to leave policy on hold.** However, there appears to be a range of differing opinions amongst the MPC members regarding the future path of policy. In this regard, the updated Monetary Policy Report and the press conference will be in focus. Similarly, it is envisaged that the BoJ will leave rates unaltered, having hiked to 1.00% last time round.



- **On the data front, the flash reading of Eurozone HICP inflation for July will be released.** Amid the war in the Middle East, headline inflation has increased sharply in the past four months, rising from just 1.9% in February to a peak of 3.2% in May, before falling to 2.8% in June. In contrast though, core inflation has edged only slightly higher, and stood at 2.4% in June, up from 2.1% in April, its lowest level since October 2021. The consensus is for the headline rate to rise in July, to 2.9%, with the core rate staying at 2.1%. Elsewhere in the Eurozone, the first reading of GDP for Q2 will feature. A broad based slowdown in activity meant that output declined by 0.2% in Q1, the first quarterly contraction since Q4 2022. A modest 0.2% rebound is pencilled in for Q2. Meantime, the unemployment rate is forecast to stay at 6.2% for the third successive month in June.

- **A busy data schedule in the US also includes updates on inflation and GDP.** Core-PCE inflation was already on an upward trajectory in the months before the war in the Middle East started, and it has continued to accelerate since. It has printed at 3.0% or above since December, and climbed to 3.4% in May, its highest level since October 2023. However, it is expected to ease slightly, to 3.1% in June. In terms of GDP, the US economy expanded by 2.1% annualised in Q1, amid a continued rise in consumption and a significant increase in investment linked to the AI build-out. These factors are anticipated to drive US GDP growth again in Q2, with a 2.1% annualised increase in output anticipated for a second consecutive quarter.

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	1.1377	1.15	1.16	1.17
EUR/GBP	0.8538	0.87	0.88	0.88
EUR/JPY	186.30	184	184	185
GBP/USD	1.3323	1.34	1.33	1.33
USD/JPY	163.75	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 27th - Friday 31st July

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Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**				
	BoE Speakers:				
	Fed Speakers:				
Mon 27th	**EU-21:**	09:00	M3 Annual Money Growth (June)	(+3.2%)	(+3.3%)
			- Loans to Households	(+3.1%)	
	GER:	09:00	Ifo Business Climate (July)	85.6	86.0
	UK:	11:00	CBI - Distributive Trades (June)	-54.0	
	US:	13.30	Durable Goods (June)	-4.5%	+2.7
Tue 28th	**FRA:**	07:45	INSEE Consumer Confidence (July)	84.0	84.0
	US:	15:00	Conference Board Consumer Confidence (Jul)	91.2	92.0
Wed 29th	**UK:**	09:30	BoE Mortgage Approvals (June)	56,205	56,500
	US:	19:00	Fed FOMC policy Announcement		
			- Fed Funds Target Range	3.50-3.75%	3.50-3.75%
	US:	19:30	FOMC Post-meeting Press Conference		
Thu 30th	**FRA:**	06:30	GDP (Q2: Preliminary Reading)	-0.1% (+0.9%)	+0.2%
	SPA:	08:00	GDP (Q2: Preliminary Reading)	+0.6% (+2.7%)	+0.6%
	SPA:	08:00	Flash HICP Inflation (July)	+0.6% (+3.6%)	-0.1% (+3.7%)
	GER:	09:00	GDP (Q2: Preliminary Reading)	+0.3% (+0.5%)	+0.0% (+0.6%)
	ITA:	09:00	GDP (Q2: Preliminary Reading)	+0.3% (+0.8%)	+0.0%
	EU-21:	10:00	GDP (Q2: Preliminary Reading)	-0.2% (+0.3%)	+0.2% (+0.4%)
	EU-21:	10:00	EC Business Climate (July)	-0.38	
	EU-21:	10:00	EC Economic Sentiment (July)	95.0	96.0
			- Consumer / Industrial / Services	-15.9 / -7.7 / 3.2	-15.9 / -7.0 / 3.6
	EU-21:	10:00	Unemployment Rate (June)	6.2%	6.2%
	UK:	12:00	BoE Monetary Policy Announcement	3.75%	3.75%
			- Monetary Policy Report		
	UK:	12:30	BoE Monetary Policy Report Press Conference		
	GER:	13:00	Flash HICP Inflation (July)	-0.2% (+2.4%)	+0.8% (+2.8%)
	US:	13:30	Personal Income / Consumption (June)	+0.7% / +0.3%	+0.3% / +0.3%
	US:	13:30	PCE Prices (June)	+0.4% (+4.1%)	-0.1% (+3.7%)
			- Core-PCE Prices	+0.3% (+3.4%)	-0.2% (+3.3%)
	US:	13:30	GDP (Q2: Advanced Reading)	+2.1% S.a.a.r.	+2.1% S.a.a.r.
	US:	13:30	Initial Jobless Claims (w/e 20th July)	+187,000	+210,000
Fri 31st	**JPN:**		BoJ Interest Rate Decision	1.00%	1.00%
	JPN:	00:30	Tokyo CPI Inflation (July)	(+1.7%)	
			- Ex-Fresh Food	(+1.6%)	
	JPN:	00:30	Unemployment Rate (June)	2.5%	2.5%
	JPN:	00:30	Jobs/Applicants Ratio	1.17	1.17
	FRA:	07:45	Flash HICP Inflation (July)	-0.3% (+2.0%)	+0.3% (+2.1%)
	GER:	08:55	Unemployment Rate (July)	6.3%	6.3%
	EU-21:	10:00	Flash HICP Inflation (July)	(+2.8%)	(+2.9%)
			- Ex-Food & Energy	(+2.1%)	(+2.1%)
			- Ex-Food, Energy, Alcohol & Tobacco	(+2.4%)	(+2.4%)
	ITA:	10:00	Flash HICP Inflation (July)	+0.0% (+3.0%)	-1.1% (+2.7%)
	US:	13:30	Employment Cost Index (Q2)	+0.9%	+0.8%
	US:	15:00	Final Uni. Michigan Consumer Sentiment (July)	54.4	54.0

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

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