Weekly Market Brief

AIB Treasury Economic Research Unit

24th – 28th August 2026

Turning Japanese

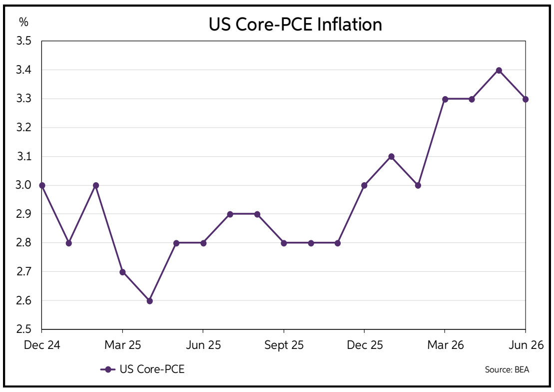
- **This past week, the US Treasury announced that it would at least double its liquidity buyback operations for longer-dated Treasury bonds,** increasing the maximum size from $2 billion to at least $4 billion per operation for maturities in the 10-20 year and 20-30 year sectors. The move came after long-dated bonds, particularly 30-year Treasury yields rose above 5.3%, their highest level since 2007. Investors have become increasingly concerned about large fiscal deficits being run by the federal government, inflation risks, and rising Treasury issuance to meet this yawning gap in the deficit.

- **The size of the liquidity support announced is a highly unusual move by the US Treasury, somewhat akin to the activist policies of the Japanese authorities to support their bond and currency markets.** The immediate impact saw Treasury yields fall by around 10bps. However, subsequent to this initial impact, yields ground higher once more and stocks fell across US markets. Bond-buying has typically been the preserve of central banks, with the US Federal Reserve highly active in the Treasury market in the aftermath of the global financial crisis in 2008.

- **This saw the Fed's balance sheet expand sharply, with a further leg up during the pandemic in 2020**. With the Fed now reducing its balance sheet from a peak of nearly $9 trillion in 2021 to around $6.5 trillion today, the pressure of increased issuance being absorbed by the market has driven yields higher, spurring the action by the US Treasury Department.

- **Indeed, this action can be seen as the second leg of recent interventions, the first being the joint intervention with the Japanese Ministry of Finance in the currency market to prop up the yen a few weeks ago.** This action stemmed from fears that the Japanese authorities would be forced to liquidate some of their large US Treasury holdings in order to underpin their currency. This scenario could have resulted in a major dislocation in the US Treasuries market, a risk that Secretary Scott Bessent was unwilling to take.

- **The question remains as to how far the Department of the Treasury can go, without fundamental repair of the US fiscal deficit by a divided and partisan Congress.** The federal deficit is currently running at roughly $1.8-1.9 trillion, equivalent to about 6% of GDP in 2026. Successive presidents have failed to grasp the nettle on fiscal policy, instead relying on the Fed to cap yields via its quantitative easing programmes, and the dollar's status as the global reserve currency, which may now be diminishing to some extent.



- **Looking ahead to this week's macro diary, given the recent sensitivity of US rate expectations to price pressure metrics, the release of the Fed's preferred measure of inflation, Core-PCE, for August will be very much in focus.** Core-PCE had been on an upward trajectory even before the Middle East conflict got underway, rising to 3% by the end of last year. It reached 3.4% in May, its highest rate since October 2023. However, it has shown some signs of easing since then, edging back down to 3.3% in June. It is expected to remain at 3.3% in July.

- **We also get a number of updates from the all-important consumer spending side of the US economy which will provide some detail into how this segment performed at the start of Q3**, with the release of personal income and spending figures for July. Meantime, the Conference Board measure of consumer confidence for August will offer a timely snapshot of the level of sentiment amongst US households.

- **On the monetary policy front, Fed Chair Warsh's speech at the Jackson Hole Economic Symposium (scheduled for Friday) will be closely followed** to see if he provides any meaningful insight into what to expect from US Fed interest rate policy over the remainder of the year. So far, in his tenure, as Fed Chair, he has deliberately refrained from providing any form of forward guidance. Following recent benign CPI and PPI inflation data, the market is now attaching around a 35% probability to a 25bps rate hike at the Fed's next meeting in mid-September.

- **From a Eurozone perspective, after last week's flash PMIs, there is another batch of key survey data due this week.** This includes the publication of the EC economic sentiment report for August. The July EC survey marked the third consecutive month of improvement in the index, with the gains relatively broad-based, driven by increased confidence in industry, services, retail trade and among consumers. However, the headline index is still consistent with ongoing modest growth in quarterly GDP. The consensus forecast is for the improving trend to continue for a fourth month in August, with a reading of 97.5 being pencilled in. The German Ifo index will also provide a useful update on economic conditions in the Eurozone's largest economy midway through Q3. **Meanwhile, after last week's busy release diary, the UK macro schedule is sparse over the coming days.**

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	1.1680	1.15	1.16	1.17
EUR/GBP	0.8562	0.87	0.88	0.88
EUR/JPY	185.56	184	184	185
GBP/USD	1.3637	1.34	1.33	1.33
USD/JPY	158.86	159	159	158

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 24th - Friday 28th August

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Cipollone (Wed); Schnabel (Fri)		
	BoE Speakers:				
	Fed Speakers:		Barkin (Tue)		
			Jackson Hole Economic Symposium 27th– 29th August		
Mon 24th					
Tue 25th	**GER:**	07:00	GDP (Q2: Detailed Reading)	+0.2% (+0.9%)	+0.2% (+0.9%)
	FRA:	07:45	INSEE Consumer Confidence (August)	86.0	87.0
	GER:	09:00	Ifo Business Climate (August)	86.6	87.1
	US:	15:00	Conference Board Consumer Confidence	90.8	91.2
Wed 26th	**UK:**	11:00	CBI - Distributive Trades (August)	-26.0	
	US:	13:30	Personal Income / Consumption (July)	+0.2% / +0.3%	+0.3% / +0.2%
	US:	13:30	PCE Prices (July)	-0.1% (+3.7%)	+0.1%
			- Core-PCE Prices	+0.1% (+3.3%)	+0.2% (+3.3%)
	US:	13:30	GDP (Q2: Advanced Reading)	+1.5% s.a.a.r	+1.5% s.a.a.r
	US:	13:30	Durable Goods (July)	+0.5%	+0.7%
Thu 27th	**GER:**	07:00	Gfk Consumer Sentiment (September)	-29.6	-30.0
	EU-21:	09:00	M3 Annual Money Growth (July)	+3.3%	+3.4%
			- Loans to Households	+3.0%	+3.0%
	US:	13:30	Initial Jobless Claims (w/e 17th August)	206,000	204,000
Fri 28th	**JPN:**	00:30	Unemployment Rate (July)	2.5%	2.5%
	JPN:	00:30	Jobs/Applicants Ratio	1.18	1.19
	FRA:	07:45	GDP (Q2: Final Reading)	+0.2% (+0.7%)	+0.2% (+0.7%)
	FRA:	07:45	Flash HICP Inflation (August)	+2.4%	
	SPA:	08:00	Flash HICP Inflation (August)	+3.8%	
	EU-21:	09:00	EC Economic Sentiment (August)	96.9	97.5
			Industrial / Services	-6.1 / 4.7	-5.8 / +5.0
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Aug)	51.0	56.1

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