Weekly Market Brief

AIB Treasury Economic Research Unit

14th – 18th September 2026

The House Always Wins?

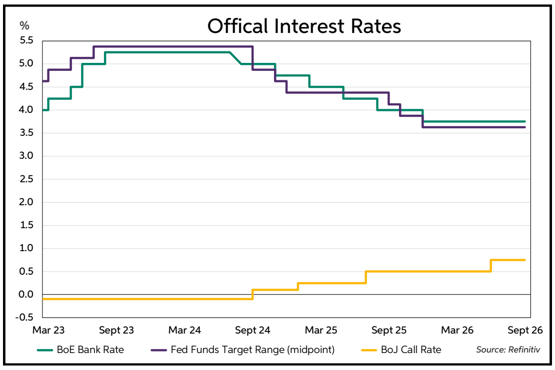
- **Amid a tumultuous week on markets, the ramp up in interest rates has raised fresh risks around sovereign and corporate debt.** Despite forceful interventions by the US Treasury Secretary Scott Bessant in recent weeks, including the "I am the house now" comment on currency market intervention, the Treasury buyback scheme has so far proven less successful in stemming the sell-off in bond markets than the US support of the yen. More broadly, the energy crisis created by the conflicts in the Middle East has resurfaced investor fears around inflation. At the same time, questions regarding fiscal sustainability, owing to deficits which have yet to be repaired since the pandemic in many G7 countries also remain.

- **These two ingredients are a recipe for bond market kryptonite.** It comes as no surprise then, that the moves in yields have been dramatic over the past week. The yield on the US 10-year Treasury is c.15bps higher, testing 5% for the first time since 2007. In Europe, the rise in bond yields has been turbocharged by the sharp rise in energy prices and the vulnerability of large net energy importers in Germany and the UK, in particular. The UK 10-year gilt yield is over 20bps higher on the week at 5.3%, while the German 10-year has topped 3.5% for the first time since the euro crisis in 2011.

- **At the front end of the curve, the hike and hawkish rhetoric from the ECB have seen a firming in rate futures.** The ECB's updated macro forecasts incorporated upward revisions to its inflation projections. Its expectation for inflation to average 3.0% this year was unchanged, but it now anticipates it averaging 2.5% next year (was 2.3%), and 2.1% in 2028 (was 2.0%). Meanwhile, it continues to forecast that core inflation will run above the 2% target over the coming period, averaging 2.5% this year (no change) and 2.6% in 2027 (from 2.5%), before easing slightly to 2.3% (was 2.2%) in 2028. The meeting statement noted that the central bank now views the "risks to the upside for inflation".

- **Following the meeting markets are now fully pricing in a further 75bps of hikes, implying a deposit rate of 3.25% by mid-2027.** This looks somewhat divorced from the fundamentals of an economy which remains stuck in a low growth trajectory, with very muted signs of second-round inflation emerging from the current energy price shock. Nevertheless, with an ECB Governing Council very much in a "fighting the last war" mindset, markets are taking the hawkish rhetoric at face value for now.

- **Turning to the week ahead, the monetary spotlight will be on the US Federal Reserve, Bank of England and the Bank of Japan.** At its last meeting in July, the Fed left rates unchanged at 3.50-3.75% for a fifth successive meeting. However, the decision was not unanimous, as three officials voted in favour of a 25bps hike. Since then, US market rate expectations have been somewhat volatile, amid mixed rhetoric (hawkish remarks from Chair Warsh and others, but less hawkish soundings from some FOMC members) and signs of disinflation, despite the recent rise in oil prices owing to the re-escalation of the War in the Middle East. **Against this backdrop, current pricing indicates the market sees an 80% chance of a rate hike this week. However, polling shows 70% of analysts think the Fed will leave rates unchanged. In short, this is a live Fed meeting, where the outcome is likely to be a close call.**



- **Meanwhile, the BoE is widely expected to keep rates on hold for a sixth successive meeting.** However, the voting breakdown will be in focus, in light of the split decision in July (6:3, with the dissenters preferring to hike rates by 25bps). **Elsewhere, pressure has mounted on the BoJ to deliver a 25bps rate hike, which would bring the policy rate up to 1.25%.** In recent weeks, Japanese and US authorities have been co-ordinating support for the yen, which had depreciated severely. A failure to hike rates and provide hawkish guidance may see the currency come under renewed downward pressure.

- **On the data front, a busy UK calendar includes updates on the labour market, inflation and retail sales.** In terms of the labour market, the unemployment rate has remained relatively steady this year. It fell from 5.2% in January to 4.9% in February, and it has printed in a 4.9-5.0% range since then. However, this has partly been driven by people leaving the labour force. Payrolls have contracted in each of the last six months to July. Despite this though, wage inflation has been broadly static this year, with average earnings growth running at 4.1% y/y in Q2, having been at 4.4% y/y and 4.2% y/y in the last two quarters. The consensus is for the unemployment rate to rise to 5.0% in July, and for average earnings growth to slow to 3.9% y/y in the three months to July. Meanwhile, CPI inflation is forecast to increase for a second successive month, up to 3.1% in August from 2.9% in July. Core inflation is also expected to edge higher to 2.7% from 2.6%. The recent resurgence in inflation is projected to weigh on retail sales, as a minor 0.2% contraction is pencilled in for August.

- **Meantime in the US, retail sales data will also feature.** Headline retail sales are forecast to rise sharply by 0.9% in August, having contracted by 0.6% in July. Control group sales are also projected to rebound by 0.4% in the month.

Interest Rate Forecasts

	Current	End Q3 2026	End Q4 2026	End Q1 2027
Fed Funds	3.625	3.625	3.625	3.625
ECB Deposit	2.50	2.50	2.50	2.50
BoE Repo	3.75	3.75	3.75	3.75
BoJ OCR	1.00	1.25	1.25	1.50

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	1.1608	1.16	1.17	1.18
EUR/GBP	0.8582	0.86	0.87	0.87
EUR/JPY	178.32	182	182	183
GBP/USD	1.3523	1.35	1.34	1.36
USD/JPY	153.60	157	156	155

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 14th - Friday 18th September

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Cipollone (Tue); Vujcic (Wed); Lane (thu)		
	BoE Speakers:				
	Fed Speakers:				
Mon 14th					
Tue 15th	**UK:**	07:00	Unemployment Rate (July)	4.9%	5.0%
	UK:	07:00	Employment Change (July)	+83,000	
	UK:	07:00	HMRC Payrolls (August)	-13,000	
			- Claimant Count	-11,000	
	UK:	07:00	Average Earnings (July)	(+4.1%)	(+3.9%)
			- Ex-Bonus	(+3.5%)	(+3.5%)
	FRA:	07:45	Final HICP Inflation (August)	+0.8% (+2.7%)	+0.8% (+2.7%)
	SPA:	07:45	Final HICP Inflation (August)	+0.7% (+4.3%)	+0.7% (+4.3%)
	EU-21:	10:00	Total Trade Balance (July)	+€1.8bn	
			- EuroStat Trade	+€8.6bn	
	GER:	10:00	ZEW Economic Sentiment (September)	34.2	40.2
	US:	13:30	NY Fed / Empire State Index (September)	20.60	
Wed 16th	**JPN:**	00:50	Machinery Orders (July)	+9.7% (+16.9%)	-2.8% (+15.3%)
	UK:	07:00	CPI Inflation (August)	+0.3% (+2.9%)	+0.5% (+3.1%)
			- Core-CPI	+0.2% (+2.6%)	(+2.7%)
			- Services CPI	+0.6% (+3.4%)	(+3.6%)
	UK:	07:00	PPI Output Prices (August)	+0.2% (+4.9%)	
			- PPI Input Prices	-1.7% (+4.9%)	
	ITA:	09:00	Final HICP Inflation (August)	+0.1% (+3.2%)	+0.1% (+3.2%)
	EU-21:	10:00	Industrial Production (July)	+0.0% (+0.1%)	-0.5% (-0.4%)
	EU-21:	10:00	Labour Costs (Q2: First Reading)	(+3.2%)	
			- Wages	(+3.4%)	
	IRE:	***11:00***	***Residential Property Price Index (September)***	***+0.5% (+5.6%)***	
	US:	13:30	Retail Sales (August)	-0.6%	+0.9%
			- Ex-Autos	-0.3%	+0.6%
			- Control Group	-0.4%	+0.4%
	US:	15:00	NAHB Homebuilder Sentiment (September)	35.0	
	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 17th	**EU-21:**	10:00	Final HICP Inflation (August)	+0.2% (+3.3%)	+0.2% (+3.3%)
			- Ex-Food & Energy	+0.0% (+2.1%)	+0.0% (+2.1%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+2.4%)	+0.2% (+2.4%)
	UK:	12:00	BoE Monetary Policy Announcement		
			- Bank Rate	3.75%	3.75%
	US:	13:30	Housing Starts (August)	+1.24m / -12.4%	+1.32m / +6.4%
			- Building Permits	+1.43m / +4.3%	+1.41m / -1.6%
	US:	13:30	Philly Fed Business Index (September)	47.4	32.8
	US:	13:30	Initial Jobless Claims (w/e 12th September)	+206,000	+206,000
Fri 18th	**JPN:**		BoJ Interest Rate Decision		
			- Call Rate	1.00%	1.25%
	JPN:	00:30	CPI Inflation (August)	(+1.9%)	
			- Core-CPI	(+1.8%)	
	UK:	07:00	Retail Sales (August)	-0.5% (+1.6%)	-0.2% (+1.9%)
			- Ex-Fuel	-0.9% (+2.3%)	-0.1% (+1.9%)
	US:	14:15	Industrial Production (August)	+0.2%	+0.3%
			- Manufacturing Output	+0.2%	+0.3%
			- Capacity Utilisation	76.3%	76.4%

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