Weekly Market Brief

AIB Treasury Economic Research Unit

AIB

9th – 13th February 2026

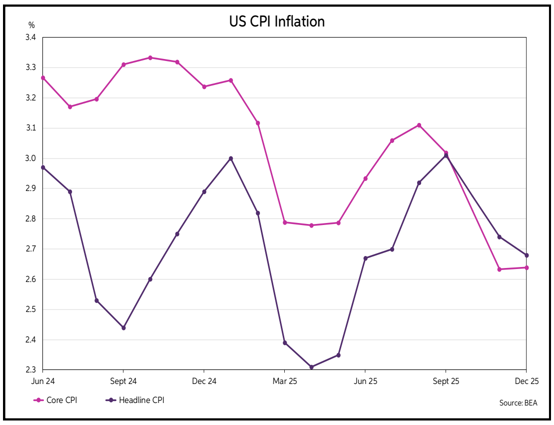
Go your own way

- **With the first set of central bank meetings this year now in the rearview mirror, its worth taking stock of where each of the Fed, Bank of England and ECB stands in relation to one another.** The Fed and Bank of England can be grouped in the 'active' mode, with further rate cuts expected in 2026, despite both holding at their recent meetings. This makes some sense given both retain relatively (in a recent sense) tight monetary policy, with base rates in the 3.50-3.75% range. In contrast the ECB cut faster, from a lower peak, to the current 2% deposit rate, and appears content at this level for the foreseeable future.

- **With the US economy continuing to outperform, despite some softening in the labour market, relatively higher rates appear merited, albeit the incoming Fed Chair Kevin Warsh would like them lower.** However, the UK economy is nowhere near the performance of the US, with growth more in league with the Eurozone, so a Bank of England rate of 3.75% on the face of it looks stifling to an economy which has averaged less than 1% GDP growth over the past three years.

- **This was a question put to the Bank of England's Monetary Policy Committee (MPC) at its quarterly press conference yesterday in relation to much lower rates in the Eurozone.** The somewhat muddled answer from MPC member Clare Lombardelli was that the structure of each economy was different, and both were at "different points in the cycle". One other point raised was that "supply capacity" in the UK diverges from the Eurozone. This 'central bank speak' alludes to the lack of public and private investment in the UK economy in recent years, which has likely fed into structurally weaker productivity growth. The successive shocks of Brexit and Covid have played a significant part in this productivity puzzle.

- **Indeed, over a longer time frame, UK investment trends have even lagged the less-than-stellar Eurozone, averaging around 17% of GDP between 2009-2024, compared to 20% in the Eurozone.** With the UK underinvesting in its 'supply side', inflation has taken root to a greater extent as demand recovered after the pandemic, with services inflation still currently averaging 4.5% compared to a near 3% rate in the Eurozone. While the UK labour market is now weakening, dragging wages down with it, the Bank of England's sole mandate of low and stable inflation means a cautious approach is likely from here on rate cuts, and explains the reticence of the MPC to cut rates at it February meeting.



- **Turning to the week ahead, the highlight will be the postponed publication of the US labour market report for January.** In short, labour market conditions softened somewhat last year, as payroll growth slowed, the unemployment rate drifted higher, and wages cooled. The consensus is for non-farm payrolls to rise by a steady 70k at the start of 2026, while the unemployment rate is set to stay at 4.4%. Meanwhile, average earnings growth is projected to slow to +3.6% y/y from +3.8% y/y. Elsewhere in the US, CPI inflation for January is also due a few days later than originally planned because of the government shutdown. Looking at the trend in the CPI, the headline and core rates moved lower at the end of last year, despite signs of stickiness earlier in 2025. The headline rate printed at 2.6% in November and December, which was its lowest level since March 2021. Similarly, the core rate eased to 2.7% in the last two months of the year. Encouragingly, a further decline to 2.5% is pencilled in for both measures in January. Meantime, retail sales are set to maintain their solid momentum at the end of Q4. The headline and control group measures are both forecast to rise by 0.4% in December.

- **In the UK, the first reading of GDP for Q4 will be released.** Following a solid start to the year, UK GDP growth slowed markedly in Q3 2025, to just 0.1% q/q. However, the underlying breakdown for Q3 shows that the slowdown in the headline growth figure was largely driven by a rundown in inventories and volatility in the "valuables" segment (non-financial assets such as precious metals). Household consumption, government expenditure and fixed investment all rose in the quarter. Meantime, the monthly estimates available for the first two months of Q4 show that GDP contracted by 0.1% m/m in October before rebounding by 0.3% m/m in November. Overall, a modest 0.1% increase in GDP is expected in December, which would result in a 0.2% q/q rise in Q4. If the Q4 data match expectations, it would mean that the UK economy grew by 1.3% in 2025, up from 0.9% in 2024. Meanwhile, having expanded by 1.3% in October and by 1.1% in November, as car manufacturing recovered following a cyber attack which halted production in the sector, industrial production is forecast to contract by 0.1% m/m in December.

- **In the Eurozone, an update on Q4 GDP is also due.** The second estimate is set to confirm the economy expanded by 0.3% in the final three-months of the year, and by 1.5% overall in 2025. The underlying component details (which are not included in the first reading) will be of interest. Meantime, the quarterly employment growth reading for Q4 will also feature. Employment has risen for eighteen successive quarters, albeit at a moderate pace recently. A slight 0.1% q/q increase is projected at the end of 2025. In terms of more timely updates, the EU sentix is expected to improve to –0.1 in February, from –1.8.

Interest Rate Forecasts

	Current	End Q1 2026	End Q2 2026	End Q3 2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.50	3.50
BoJ OCR	0.75	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q1 2026	End Q2 2026	End Q3 2026
EUR/USD	1.1817	1.17	1.18	1.18
EUR/GBP	0.8683	0.88	0.88	0.87
EUR/JPY	185.44	179	179	179
GBP/USD	1.3606	1.33	1.34	1.36
USD/JPY	156.93	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 9th - Friday 13th February

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde,** Lane (Mon); Schnabel, Cipollone (Wed); Cipollone, Lane (Thu); **Lagarde,** de Guindos (Fri)		
	BoE Speakers:		Mann (Mon); Pill (Fri)		
	Fed Speakers:		Waller, Bostic (Mon); Hammack, Logan (Tue); Miran, Logan (Fri)		
			Informal EU Leaders Retreat (Thu-Fri)		
Mon 9th	**JPN:**	05:00	Economy Watchers Poll (January)	48.6	
	EU-21:	09:30	EU Sentix (February)	-1.8	-0.1
Tue 10th	***IRE:***	***01:01***	***AIB Irish Construction PMI (January)***	***48.4***	
	US:	11:00	NFIB Small Business Optimism (January)	99.5	
	US:	13:30	Retail Sales (December)	+0.6% (+3.3%)	+0.4% (+3.0%)
			- Ex-Autos	+0.5%	
			- Control Group	+0.4%	+0.4%
Wed 11th	**US:**	13:30	Non-Farm Payrolls (January)	+50,000	+70,000
			- Unemployment Rate	4.4%	4.4%
			- Average Earnings	+0.3% (+3.8%)	+0.2% (+3.6%)
Thu 12th	**UK:**	00:01	RICS Housing Survey (January)	-14.0	
	UK:	07:00	GDP (Q4: First Reading)	+0.1% (+1.3%)	+0.1% (+1.2%)
			- December	+0.3% (+1.4%)	+0.1% (+1.2%)
	UK:	07:00	Industrial Output (December)	+1.1% (+2.3%)	-0.1% (+1.4%)
			- Manufacturing Output	+2.1% (+2.1%)	-0.1% (+1.8%)
	UK:	07:00	Goods Trade Balance (December)	-£23.7bn	
			- Non-EU Trade Balance	-£11.5bn	
	US:	13:30	Initial Jobless Claims (w/e 2nd February)	+231,000	
	US:	15:00	Existing Home Sales (January)	4.35m / +5.1%	4.50m / -3.4%
Fri 13th	**SPA:**	08:00	Final HICP Inflation (January)	-0.7% (+2.5%)	-0.7% (+2.5%)
	EU-21:	10:00	GDP (Q4: Second Reading)	+0.3% (+1.3%)	+0.3% (+1.3%)
	EU-21:	10:00	Employment (Q4: First Reading)	+0.2% (+0.6%)	+0.1% (+0.4%)
	US:	13:30	CPI inflation (January)	+0.3% (+2.7%)	+0.3% (+2.5%)
			- Core-CPI	+0.2% (+2.6%)	+0.3% (+2.5%)

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