Weekly Market Brief

AIB Treasury Economic Research Unit

12th – 16th January 2026

Clowns to the left, jokers to the right

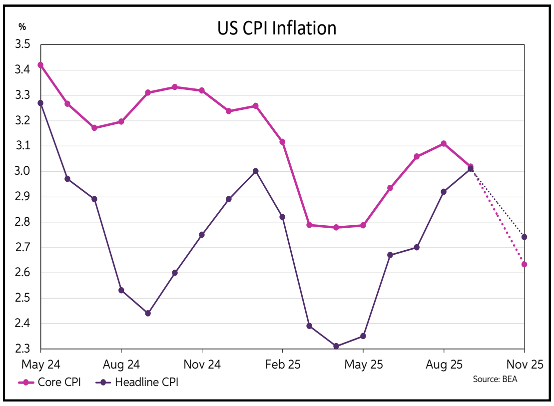
- **The unexpected events of the past week in Venezuela have shone a light on a potentially more muscular geopolitical approach of the US government in 2026.** While predictions of what might come next from President Trump's administration are rife at present, the market reaction to the events of last weekend has been muted so far. Brent Crude prices have shown some volatility, but are only modestly higher on the week, moving from around $61/barrel to $62.50. On equity markets, the S&P 500 has had a solid, if unspectacular week, gaining about 1% since Monday by lunchtime Friday, ahead of the key US payrolls number. US treasuries have also been little moved on the week. All in all, markets appear to have boxed off the Venezuela attack as geopolitical noise that is unlikely to affect the economy.

- **Indeed, the first year of President Trump, marked by exceptional policy uncertainty, has seen largely becalmed markets, with the only spillover occurring in the immediate aftermath of the 'Liberation Day' tariffs in April.** As we discussed last week, the structural theme of AI has been the primary driver of markets over the past year, usurping the announcements from the White House, and perhaps breeding some complacency amongst investors on the potential impact of geopolitics.

- **However, the Venezuela episode does highlight the continued risks to the economy and markets in an increasingly fragmented global environment, particularly a European economy stuck in the middle of the hard power players.** Indeed, the European economy remains in a potentially invidious position of being almost entirely reliant on the US in the areas of defence, technology and energy, while still recovering from a competitiveness shock as it weans itself off Russian energy. Simultaneously, it also faces tariffs from the US on its key industrial goods, and steep competition from China within many of formerly market-leading exports such as automobiles.

- **The EU also continues to let a 'good crisis go to waste', with little progress on advancing the structural reforms recommended in the 2024 Draghi and Letta reports to boost the internal market.** On the upside, the European economy, while lagging the US in terms of growth, has shown remarkable resilience to recent shocks from Brexit, to Covid, to the war in Ukraine. Unemployment is at a record low, and households and firms have robust balance sheet positions. The failure of the EU project in recent decades has been its inability to provide the regulatory conditions which might have enabled the current glut of savings to flow into productive investments in technology, climate, defence and other areas, within a truly single market of nearly 500 million people.

- **Turning to the week ahead, a relatively busy data calendar in the US includes updates on retail sales, industrial production and most importantly, inflation.** Overall, CPI inflation was somewhat volatile and sticky throughout 2025. Both the headline and core rates fell in the first few months of the year, troughing at 2.3% and 2.8%. However, by the end of Q3, both rates stood at 3.0%, as some tariff related costs were passed onto consumers. In recent months, the data have been heavily distorted by the government shutdown. Indeed, owing to the shutdown, no data were collected for October, while Black Friday sales appear to have weighed on the November report more heavily than usual. As a result, the drop in the headline and core rates to 2.7% and 2.6% in November, need to be viewed with a healthy dose of salt. The consensus is for the former to remain at 2.7% and for the latter to rise to 2.7% in December.



- **In terms of consumer spending, retail sales have been relatively strong in recent months.** Headline retail sales rose by 0.5% per month on average in Q3, before flat-lining in October, but this was primarily driven by a sharp fall in auto sales, as the electric vehicle tax credit expired. The control group measure of retail sales (a key core sales metric) jumped by 0.8% in October, having increased by a cumulative 1.6% in Q3. A further rise of 0.4% m/m is pencilled in for both in November. In contrast, industrial production has flirted with stagnation recently. It contracted by 0.1% in October before rebounding by 0.2% in November. A successive increase of 0.2% is forecast in December. Elsewhere in the US, small business optimism (December), as well as updates on the housing sector, including existing and new home sales (both December) and homebuilder sentiment (January) will also feature.

- **In the UK, the main highlight will be the monthly reading of GDP for November.** In October, GDP declined by 0.1% m/m for a second consecutive month, amid weaker activity levels in the services sector. A modest 0.1% rise is projected in November. Meanwhile, industrial production is expected to increase by 0.5% in the month, amid an ongoing recovery in car manufacturing, following a cyberattack which halted production in the sector in September. **In the Eurozone, industrial production is also due.** A slight 0.1% fall in output is anticipated, following a solid 0.8% expansion in October.

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	1.1634	1.17	1.18	1.18
EUR/GBP	0.8673	0.88	0.88	0.87
EUR/JPY	183.76	179	179	179
GBP/USD	1.3409	1.33	1.34	1.36
USD/JPY	157.92	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

AIB

AIB Treasury Economic Research

David McNamara
Chief Economist

John Fahey
Senior Economist

Daniel Noonan
Economist

ECONOMIC DIARY

Monday 12th - Friday 16th January

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		de Guindos (Mon); de Guindos (Wed)		
	BoE Speakers:		Taylor, Ramsden (Thu)		
	Fed Speakers:		Williams (Mon); Williams (Wed)		
Mon 12th	**EU-21:**	09:30	EU Sentix (January)	-6.2	-5.0
Tue 13th	***IRE:***	***01:01***	***AIB Irish Construction PMI (December)***	***46.7***	
	US:	11:00	NFIB Small Business Optimism (December)	99.0	
	IRE:	***11:00***	***Retail Sales (November)***	***-0.5% (+2.1%)***	
	US:	13:30	CPI Inflation (December)	+0.3% (+2.7%)	+0.3% (+2.7%)
			- Core-CPI	+0.2% (+2.6%)	+0.3% (+2.7%)
	US:	15:00	New Home Sales (December)	800k (+20.5%)	
Wed 14th	**US:**	13:30	PPI Final Demand (November)	+0.3% (+2.7%)	+0.3% (+2.7%)
			- Ex-Food & Energy	+0.1% (+2.6%)	+0.2%
	US:	13:30	Retail Sales (November)	+0.0% (+%)	+0.4%
			- Ex-Autos	+0.4%	+0.4%
			- Control Group	+0.8%	+0.4%
	US:	15:00	Existing Home Sales (December)	4.13m (+0.5%)	4.20m / +1.7%
Thu 15th	**UK:**	00:01	RICS Housing Survey (December)	-16.0	-16.0
	UK:	07:00	GDP (November)	-0.1% (+1.1%)	+0.1% (+1.1%)
			- 3 months / 3 months	-0.1%	(-0.2%)
	UK:	07:00	Industrial Output	+1.1% (-0.8%)	+0.0% (-0.8%)
			- Manufacturing Output	+0.5% (-0.8%)	+0.5% (-0.3%)
	SPA:	08:00	Final HICP Inflation (December)	+0.3% (+3.0%)	+0.3% (+3.0%)
	ITA:	09:00	Industrial Production (November)	-1.0% (-0.3%)	+0.5%
	EU-21:	10:00	Industrial Production (November)	+0.8% (+2.0%)	-0.1% (+1.9%)
	IRE:	***11:00***	***CPI Inflation (December)***	***-0.2% (+3.2%)***	***+0.6% (+2.9%)***
			- HICP Inflation	***Flash: +0.6% (+2.7%)***	***+0.6% (+2.7%)***
	US:	13:30	NY Fed / Empire State Index (January)	-3.9	1.0
	US:	13:30	Initial Jobless Claims (w/e 5th January)	208,000	
Fri 16th	**GER:**	07:00	Final HICP Inflation (December)	+0.2% (+2.0%)	+0.2% (+2.0%)
	US:	14:15	Industrial Production (December)	+0.2% (+2.5%)	+0.2% (+1.7%)
			- Manufacturing Output	+0.0%	
			- Capacity Utilisation	76.0%	76.0%
	US:	15:00	NAHB Homebuilder Sentiment (January)	39.0	40.0

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