Weekly Market Brief

AIB Treasury Economic Research Unit

AIB

23rd – 27th March 2026

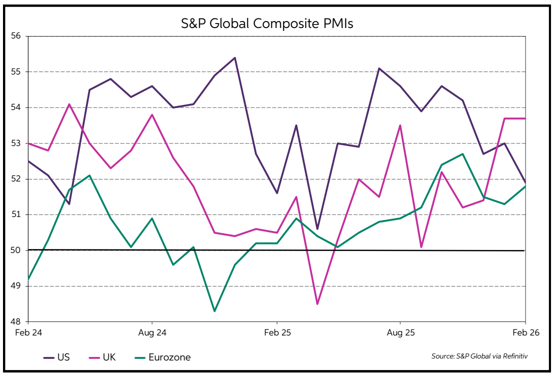
Bridge over troubled water

- **With no moves expected from the main central banks this week, markets were closely watching for any hints of an imminent shift in monetary policy on the back of the Middle East conflict.** With such a volatile situation unfolding in the region and on global energy markets, the various heads can be forgiven for seeking a bridge to a potentially more becalmed environment later in the spring.

- **Most revealing of the major central banks was the ECB, which published several scenarios based on the potential paths for oil and gas prices.** Its 'severe' scenario, which has oil peaking at $145/barrel and natural gas at over €100/kwh, leads to a sharp rise in inflation, reaching a high point of c.6.5% in early 2027. Unemployment rises towards 7% from the current 6%, and GDP growth is severely blunted in both 2026 and 2027. The less damaging 'adverse' scenario sees inflation rising above 4% on the back of oil prices peaking at $120, with gas prices approaching €90. Crucially, both scenarios show second-order effects in wages and core inflation, suggesting the ECB is likely to act quickly to hike rates if current market energy prices are sustained.

- **For the Fed, Chair Powell played a straight bat, as ever, on the outlook while acknowledging the current uncertainty.** The Fed's dot-plot continues to indicate one 25bps cut in 2026. However, in line with other central banks, US rate futures also hardened markedly in the aftermath of the FOMC meeting. Markets are of the view that the possibility of near-term rate cuts in the US has evaporated.

- **The Bank of England's muddled messaging ensured a wild ride for UK rates and gilt markets yesterday, with the striking unanimous 9-0 vote on the MPC and hawkish tone to its statement.** The minutes also referenced that the BoE no longer expects inflation to continue on a downward path and is instead pencilling in CPI inflation to average 3.0% in Q2, with the potential for it to rise to 3.5% in Q3, in line with ECB adverse scenario for the Eurozone. In the initial aftermath of the BoE announcement, futures contracts hardened markedly. In an attempt to calm markets, Governor Bailey pushed back against market rate expectations yesterday evening, stating "I would caution against reaching any strong conclusions about us [the MPC] raising interest rates" and that "the markets are getting ahead of themselves in assuming rate rises". However, this has made little difference, with markets overtaken by geopolitical events.



- **Today, the market is now pricing in over three rate hikes this year.** Prior to the meeting outcome, futures contracts were pricing in up to two rate hikes this year. The UK market tantrum highlights the volatile and uncertain nature of the evolving situation in the Middle East, with the UK now seen as particularly exposed given its stubborn current rate of inflation, energy mix and fiscal vulnerabilities.

- **Turning to the week ahead, market attention will remain focused on developments in the Middle East.** On the data front, the highlight will be the flash PMI readings for March in the main advanced economies. In the Eurozone, the manufacturing PMI has improved in the first two months of the year, with the sector moving into expansion territory in February for only the third time since April 2022. The services PMI has also been above the key 50 threshold so far in 2026. The consensus is for both surveys to move lower in March, with the manufacturing sector edging back into contraction. In the UK, the PMIs jumped markedly higher in January and remained at similar levels in February, consistent with a solid pace of expansion in both sectors. However, expectations are for both to fall in March, albeit they are set to stay above 50. Similarly in the US, the manufacturing and services PMI are forecast to fall slightly, but remain comfortably in expansion mode in March.

- **A slew of other Eurozone data are also due.** Most notably, consumer confidence, which has been trending steadily higher since last April, is projected to fall to −14.2 in March, from −12.2. In terms of the large national economies, the bellwether German Ifo is expected to decline to 85.5 in March from 88.6. Meanwhile, the French and Italian measures of consumer and business confidence for March will also be released.

- **In the UK, the spotlight will be on the consumer side of the economy, as the latest updates on CPI inflation, retail sales and consumer confidence will be published.** In recent months, CPI inflation has been on a downward trajectory, with the headline rate falling to 3.0% and the core rate to 3.1% in January. Furthermore, the consensus is for both to be unchanged in February. As mentioned above though, given the ongoing surge in energy prices, inflation is likely to rise once again over the coming months. Meantime, retail sales recovered strongly in January having contracted in Q4, rising by 1.8% in the month. However, a 0.8% contraction is pencilled in for February. Similarly, consumer confidence rose to −16.0 in January, its highest level since August 2024, before deteriorating to −19.0 in February. A further sharp fall to −24.0 is expected at the end of Q1.

Interest Rate Forecasts

	Current	End Q2 2026	End Q3 2026	End Q4 2026
Fed Funds	3.625	3.625	3.625	3.375
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.75	3.75
BoJ OCR	0.75	0.75	1.00	1.00

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	1.1546	1.19	1.20	1.20
EUR/GBP	0.8660	0.87	0.88	0.88
EUR/JPY	183.66	185	186	185
GBP/USD	1.3330	1.37	1.36	1.36
USD/JPY	159.05	155	155	154

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 23rd - Friday 27th March

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Cipollone, Lane (Mon); Cipollone, Lane (Tue); **Lagarde,** Lane (Wed); de Guindos (Thu); Schnabel (Fri)		
	BoE Speakers:		Greene (Wed); Breeden, Greene, Taylor (Thu)		
	Fed Speakers:		Barr (Tue); Miran, Cook (Wed); Cook, Jefferson, Miran, Barr (Thu); Daly, Paulson (Fri)		
Mon 23rd	**SPA:**	08:00	Overnight Stays (February)	Feb'25: 18.4m	
	EU-21	15:00	Flash Consumer Confidence (March)	-12.2	-14.2
Tue 24th	**JPN:**	00:30	Flash S&P Composite PMI (March)	53.9	
	FRA:	08:15	Flash HCOB Composite PMI (March)	49.9	49.3
	GER:	08:30	Flash HCOB Composite PMI (March)	53.2	51.8
	EU-21:	09:00	Flash HCOB Composite PMI (March)	51.9	51.0
			- Manufacturing / Services	50.8 / 51.9	49.4 / 51.0
	UK:	09:30	Flash S&P Composite PMI (March)	53.7	52.9
			- Manufacturing / Services	51.7 / 53.9	50.7 / 53.0
	UK:	11:00	CBI Distributive Trades (March)	-43.0	
	US:	13:45	Flash S&P Composite PMI (March)	51.9	51.7
			- Manufacturing / Services	51.6 / 51.7	51.3 / 51.6
Wed 25th	**UK:**	07:00	CPI Inflation (February) - Core-CPI Inflation - Services CPI	-0.5% (+3.0%) -0.6% (+3.1%) (+4.4%)	+0.5% (+3.0%) +0.5% (+3.1%) (+4.3%)
	UK:	07:00	PPI Input Prices (February)	+0.4% (-0.2%)	
			- PPI Output Prices	+0.0% (+2.5%)	
	GER:	09:00	Ifo Business Climate (March)	88.6	85.5
Thu 26th	**GER:**	07:00	Gfk Consumer Sentiment (April)	-24.7	-26.5
	FRA:	07:45	INSEE Business Climate (March)	97.0	
	FRA:	07:45	INSEE Consumer Confidence (March)	91.0	
	SPA:	08:00	GDP (Q4: Final Reading)	+0.8% (+2.6%)	+0.8% (+2.6%)
	EU-21:	09:00	M3 Annual Money Growth (February)	(+3.3%)	(+3.3%)
			- Loans to Households	(+3.0%)	
	ITA:	09:00	ISTAT Business Confidence (March)	88.5	
	ITA:	09:00	ISTAT Consumer Confidence (March)	97.4	
	US:	12:30	Initial Jobless Claims (w/e 16th March)	+205,000	+213,000
Fri 27th	**UK:**	00:01	Gfk Consumer Confidence (march)	-19.0	-24.0
	UK:	07:00	Retail Sales (February)	+1.8% (+4.5%)	-0.8% (+2.1%)
			- Ex-Fuel	+2.0% (+5.5%)	
	SPA:	08:00	Flash HICP Inflation (March)	+0.4% (+2.5%)	
	US:	14:00	Final uni. Michigan Consumer Sentiment (Mar)	55.5	53.6

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