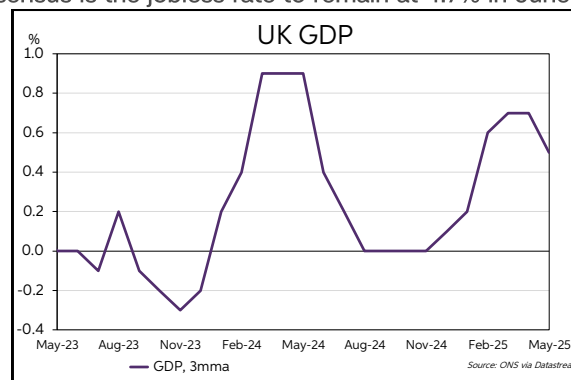


When doves cry

- This week's knife-edge Bank of England rate cut came amid ongoing uncertainty on the global and domestic front for policymakers.** The caution of the BoE is notable given the current weakness of the UK economy. Comparing high-level macro data to the Eurozone suggests both economies are growing similarly at historically weak rates of about 1% per annum. Nevertheless, the ECB has been much more aggressive in its rate-cutting cycle, lowering its key deposit rate to 2% from a peak of 4%. In contrast, the BoE has lowered Bank rate gradually to 4% from 5.25%. **Once again, there was no unanimity within the BoE on its policy decision.** The voting breakdown showed five members in favour of cutting rates. Four of these five voted for a 25bps reduction. The other dovish voter was initially in favour of a 50bps rate reduction due to recessionary concerns, before settling on a 25bps cut. Meanwhile, four members preferred to keep rates unchanged on their view that the “disinflationary process had slowed”.
- While the UK and Eurozone economies have posted meagre growth amid weak productivity and business investment, the key differentiator which has kept the BoE on the sidelines for much of the past year is inflation.** UK CPI inflation has plateaued at c.3.5%, while Eurozone inflation has fallen rapidly to just 2%. Having declined throughout Q1, UK inflation jumped markedly higher in recent months, owing in part to Budget decisions, such as the tax hikes, and increases in regulated energy prices. The BoE still expects inflation to fall back to its 2% target in the medium-term. Its latest forecasts are for the headline rate to be at 3.75% by year end and to decline to 2.5% by the end of 2026, before slowing to 2.0% by end-2027. However, there remains considerable uncertainty on the outlook, with persistently high inflation pointing to a supply-side problem, brought on by historically weak rates of investment over the past decade amid the consecutive shocks of Brexit, Covid-19 and the war in Ukraine. This supply-demand imbalance has pushed up inflation and likely fed through to higher wages, which in turn can boost consumer prices in a negative feedback loop. These lingering inflationary pressures are now being amplified by tax and minimum wage increases by the Government, which the BoE fears may become embedded in even higher prices.
- The takeaway is the BoE will thread cautiously from here amid the current policy fog.** UK futures contracts are now not fully pricing-in another 25bps rate cut until February 2026. Prior to the meeting, the market was anticipating another rate cut before the end of this year. However, the BoE will probably maintain its practice of easing policy at meetings that coincide with the publication of its Monetary Policy Report (MPR), the next one being in November.
- The UK economy will remain in focus this week with a busy macro data calendar.** The economy appears to have lost momentum in Q2, with both hard and survey data deteriorating, suggesting that the 0.7% gain in GDP in Q1 was in part due to tariff related front-loading. A marginal 0.1% q/q increase is pencilled in for Q2. Meanwhile, a modest 0.2% increase is expected for industrial production in June. Similarly, labour market conditions have softened. The unemployment rate has increased steadily throughout 2025 and stood at 4.7% in May, compared to 4.4% in January. Worryingly, payrolls have contracted in nine of the past eleven months to June, and at an ever increasing rate throughout 2025. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +5.0% y/y in the three months to May, its slowest rate since last September. The consensus is the jobless rate to remain at 4.7% in June and earnings growth to ease slightly, to 4.7%.
- In the US, CPI inflation, retail sales and industrial production data (all July) will feature.** Having troughed at 2.3% in April, headline CPI inflation increased in May and June, rising to 2.7%. Furthermore, there were tentative signs in the June report that tariffs are starting to lead to some upward pressure on prices. Meantime, core-CPI inflation edged higher to 2.9% in June, from 2.8% in the three months prior. Expectations are for both rates to rise to 2.8% and 3.0%, respectively in July. Meanwhile, retail sales fell in the first two months of Q2, before rising by 0.6% in June. The ‘control group’, a measure of core sales, rose throughout Q2, including by 0.5% in June. However, both metrics are forecast to slow in July, to +0.3%, amid the aforementioned rise in inflation and the recent softening in the US labour market. Elsewhere, industrial production is projected to be flat in month-on-month terms in July.
- Meanwhile in the Eurozone, the macro-calendar is sparse.** We get the first estimate of employment for Q2. Elsewhere, the second reading of GDP is set to confirm the economy expanded by a meagre 0.1% in Q2.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1649	1.18	1.19	1.20
EUR/GBP	0.8673	0.86	0.85	0.84
EUR/JPY	172.25	170	170	168
GBP/USD	1.3427	1.37	1.40	1.43
USD/JPY	147.83	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 11th - Friday 15th August

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:		Barkin, Schmid (Tue); Barkin, Goolsbee, Bostic (Wed); Barkin (Thur)		
Mon 11th	ITA:	09:00	Final HICP Inflation (July)	+0.2% (1.8%)	-1.0% (+1.7%)
Tue 12th	IRE:	01:01	AIB Irish Construction PMI (July)	48.6	
	UK:	07:00	ILO Unemployment Rate (June)	4.7%	4.7%
	UK:	07:00	Employment Change (June)	+134,000	
	UK:	07:00	HMRC Payrolls (July)	-41,000	
	UK:	07:00	Average Earnings (June)	(+5.0%)	(+4.7%)
			- Ex-Bonus	(+5.0%)	(+5.0%)
	GER:	10:00	ZEW Economic Sentiment (August)	52.7	40.0
	US:	13:30	CPI Inflation (July)	+0.3% (+2.7%)	+0.2% (+2.8%)
		-Core-CPI	+0.2% (+2.9%)	+0.3% (+3.0%)	
Wed 13th	GER:	07:00	Final HICP Inflation (July)	+0.1% (+2.0%)	+0.4% (+1.8%)
	SPA:	08:00	Final HICP Inflation (July)	+0.7% (+2.3%)	-0.4% (+2.7%)
Thu 14th	UK:	07:00	GDP (Q2: Preliminary Reading)	-0.5%	+0.1%
			- June	-0.1% (+0.7%)	+0.1% (+1.1%)
	UK:	07:00	Industrial Output (June)	-0.9% (-0.3%)	+0.2% (-0.3%)
			- Manufacturing Output	-1.0% (+0.3%)	+0.5% (-0.8%)
	FRA:	07:45	Final HICP Inflation (July)	+0.4% (+0.9%)	+0.3% (+0.9%)
	EU-20:	10:00	Employment (Q2: Flash Estimate)	+0.3% (+0.8%)	
	EU-20:	10:00	GDP (Q2: Second Reading)	+0.3% (+1.2%)	+0.1% (+1.4%)
	EU-20:	10:00	Industrial Production (June)	+1.7% (+3.7%)	-0.4% (+2.5%)
	US:	13:30	Initial Jobless Claims (w/e 9 Aug)	+226,000	+225,000
US:	13:30	PPI Final Demand (July)	+0.0% (+2.3%)	+0.2% (+2.5%)	
		- Ex-Food & Energy	+0.0% (+2.6%)	+0.2% (+2.9%)	
Fri 15th	JPN:	00:50	GDP (Q2: Preliminary Reading)	-0.2%	+0.1%
	US:	13:30	Retail Sales (July)	+0.6%	+0.5%
			-Ex Autos	+0.5%	+0.3%
			-Retail Control	+0.5%	+0.3%
	US:	13:30	NY Fed / Empire State Index (August)	5.50	0.00
	US:	14:15	Industrial Production (July)	+0.3% (+0.7%)	+0.0%
			- Capacity Utilisation	77.6%	77.6%
	US:	15:00	Preli. Uni. of Michigan Sentiment (August)	61.8	62.0

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

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