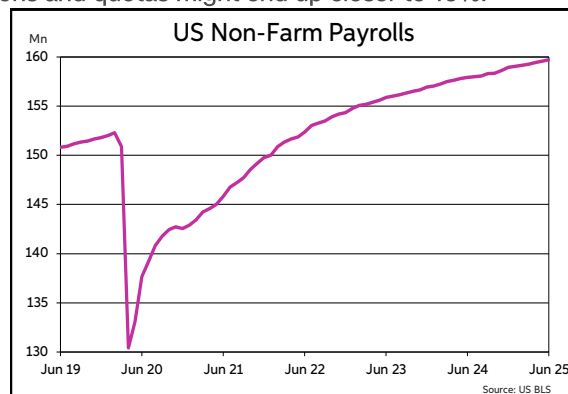


ECB-mania, tapping out

- **The July ECB Governing Council meeting saw the central bank leave interest rates on hold for the first time in a year, with the deposit and refi rates maintained at 2.00% and 2.15%, respectively.** However, this outcome was in line with market expectations, following 200bps of cuts already this rates cycle. The question remains whether the ECB is now ‘tapped out’ in its monetary easing actions, with markets increasingly coming to the view that it will hold at 2% for the foreseeable future.
- **The meeting statement from the ECB was very short and offered little new guidance for markets.** However, it did provide rationale for the decision to leave rates unchanged. The statement noted that “inflation is currently at the 2% medium-target”, and that “the incoming information is broadly in line” with the Governing Council’s view on the inflation outlook. The ECB also highlighted that “domestic price pressures have continued to ease”, while “the economy has so far proven resilient”. Against this backdrop, the key point emphasised at the press conference was that the ECB is now in a “wait and watch situation”.
- **When questioned about a potential undershooting of inflation, President Lagarde stated that the ECB would not be moved by a “minor deviation”, and that the 2026 forecasts have an undershoot baked in already, largely due to base effects.** On the flip side, when asked if the resolution of trade tensions could shift focus away from a rate cut and towards potential rate hikes, she kept her options open and stated she “would not exclude anything for sure”. However, the subtle messaging here is that the ECB is content at current policy rates. Indeed, recent comments from hawkish Governing Council member, Isabel Schnabel, look prescient, stating “the bar for another rate cut is very high”.
- **Market expectations firmed significantly in response to the ECB’s messaging, with a cut to the depo rate in the coming months no longer fully priced in.** Our long-held view is that the deposit rate will settle at 2% this year. Given the heightened level of uncertainty that remains, another rate cut cannot be completely ruled out. Overall, though, the tone from the ECB meeting reinforces our outlook for a 2% terminal rate. **Attention now moves to the external growth risks facing the Eurozone, notably the looming August 1st deadline for a US-EU trade agreement.** Media reports suggest both sides are moving toward a deal that would formalise US tariffs at 15%, but actual tariff rates with exceptions and quotas might end up closer to 10%.
- **This week though, the monetary policy spotlight will be on the Fed.** The Fed has kept interest rates on hold so far this year (much to the ire of President Trump), having cut rates by 100bps in 2024. Indeed, in a highly unusual move, White House officials, including the President and the Treasury Secretary, have denounced the Fed - criticising Chair Powell, its remit, and the current monetary policy stance - which threatens to undermine the independence of the Fed. At the same time, there seems to be some level of disagreement opening up at the FOMC. A host of officials have reiterated that the Fed should stay in a holding pattern for now, but others have recently made the case for cutting rates. **Regardless, the Fed is widely expected to leave rates unchanged once again this week.** Market participants will be paying close attention to the meeting statement and the press conference though, for any guidance on the future path of rates. Current market pricing is for two rate cuts by year-end, albeit the first cut is not fully priced-in until October.



- **Data-wise in the US, a jam-packed calendar includes updates on GDP, inflation and the labour market.** The US economy contracted by 0.5% annualised in Q1, largely driven by a surge in imports as firms tried to front-run tariffs. Domestic activity measures remained solid. Thus, a continuation of the domestic economy’s recent performance and a sharp slowdown in the pace of imports is forecast to result in a 2.4% annualised rebound in GDP in Q2. The impact of tariffs has so far been limited on inflation, albeit there were tentative signs of price pressures emerging in the CPI release for June. However, the consensus is for core-PCE inflation to remain at 2.7% in June. In terms of the labour market, payrolls are expected to rise by 110k in July, down from 147k in June, and consistent with the pattern of cooling conditions in the job’s market seen in the first half of the year. At the same time, a slight increase in the unemployment rate to 4.2% is pencilled in for July. Meantime, average earnings growth is projected to rise to 3.8% in July. However, the wages component of the ECI, a key metric followed by the Fed, is forecast to maintain a steady growth rate, rising by 0.8% for a second consecutive quarter in Q2.
- **In the Eurozone, GDP, inflation and labour market data are also due.** The Eurozone economy expanded by a decent 0.6% in Q1, owing to an increase in domestic activity and net exports. However, the consensus is for the economy to stagnate in Q2. Encouragingly though, the unemployment rate is expected to remain at 6.3% in June, just a touch above its all-time low of 6.2% registered in April. Regarding inflation, both the headline and core rate are projected to edge lower to 1.9% and 2.3%, in July.

	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	4.25	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	1.1728	1.18	1.19	1.20
EUR/GBP	0.8727	0.86	0.85	0.84
EUR/JPY	173.15	170	170	168
GBP/USD	1.3433	1.37	1.40	1.43
USD/JPY	147.60	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:				
	Fed Speakers:				
Mon 28th	IRE:	11:00	GDP (Q2: Preliminary Reading)	+7.4% (+20.0%)	
	IRE:	11:00	Retail Sales (June)	-0.6% (+1.6%)	+0.2% (+2.2%)
	UK:	11:00	CBI Distributive Trades (July)	-46.0	
Tue 29th	SPA:	08:00	GDP (Q2: First Reading)	+0.6% (+2.8%)	+0.6% (+2.6%)
	UK:	09:30	Mortgage Approvals (June)	63,032	62,500
	US:	15:00	Conference Board Consumer Confidence (Jul)	93.0	95.0
	US:	15:00	JOLTS Job Openings (June)	7.8m	
Wed 30th	FRA:	06:30	GDP (Q2: Preliminary Reading)	+0.1% (+0.6%)	+0.1% (+0.5%)
	GER:	07:00	Retail Sales (June)	-1.6% (+1.6%)	+0.5%
	SPA:	08:00	Flash HICP Inflation (July)	+0.6% (+2.2%)	(+2.7%)
	GER:	09:00	GDP (Q2: Flash Reading)	+0.2% (-0.2%)	-0.1% (+0.2%)
	ITA:	09:00	GDP (Q2: Flash Reading)	+0.3% (+0.6%)	+0.2% (+0.6%)
	EU-20:	10:00	GDP (Q2: Flash Reading)	+0.4% (+1.5%)	+0.0% (+1.2%)
	EU-20:	10:00	EC Business Climate (July)	-0.78	
	EU-20	10:00	EC Economic Sentiment (July)	94.0	94.5
			- Industrial / Services / Consumer	-12.0 / 2.9 / 14.7	-11.2 / 3.3 / 14.7
	US:	13:30	GDP (Q2: Advanced Reading)	-0.5% S.a.a.r.	+2.4% S.a.a.r.
	US:	13:30	PCE Price Inflation (Q2: Advanced Reading)	+3.8% S.a.a.r.	+3.4% S.a.a.r.
			- Core-PCE Price Inflation	+3.5% S.a.a.r.	+2.4% S.a.a.r.
	US:	19:00	Fed FOMC Policy Announcement		
			- Feds Funds Target Rate Decision	4.25-4.50%	4.25-4.50%
	US:	19:30	FOMC Post-Meeting Press Conference		
Thu 31st	FRA:	07:45	Flash HICP Inflation (July)	+0.4% (+0.9%)	+0.2% (+0.8%)
	GER:	08:55	Unemployment Rate (July)	6.3%	6.4%
	EU-20:	10:00	Unemployment Rate (June)	6.3%	6.3%
	ITA:	10:00	Flash HICP Inflation (July)	+0.2% (+1.7%)	-0.9% (+1.7%)
	IRE:	11:00	Flash HICP Inflation (July)	+0.5% (+1.6%)	+0.2% (+1.6%)
	IRE:	11:00	Institutional Sector Accounts (Q1 2025)		
	GER:	13:00	Flash HICP Inflation (July)	+0.1% (+2.0%)	+0.4% (+1.9%)
	US:	13:30	Personal Income / Consumption	-0.4% / -0.1%	+0.2% / +0.4%
	US:	13:30	PCE Inflation (June)	+0.1% (+2.3%)	+0.3% (+2.5%)
			-Core PCE Inflation	+0.2% (+2.7%)	+0.3% (+2.7%)
	US:	13:30	Initial Jobless Claims (w/e 21st July)	+217,000	+225,000
	US:	13:30	ECI (Q2: Advanced Reading)	+0.9%	+0.8%
			- Wages	+0.8%	+0.8%
	JPN:		BOJ Rate Decision	0.50%	0.50%
Fri 1st	JPN:	00:30	Unemployment Rate (June)	2.5%	2.5%
	IRE:	01:01	AIB Manufacturing PMI (July)	53.7	
	EU-20:	09:00	Final HCOB Manufacturing PMI (July)	49.8	49.8
	UK:	09:30	Final S&P Manufacturing PMI (July)	48.2	48.2
	EU-20:	09:00	Flash HICP Inflation (July)	+0.3% (+2.0%)	(+1.9%)
			- Ex-Food & Energy	+0.3% (+2.4%)	(+2.3%)
			- Ex Food, Energy, Alcohol, & Tobacco	+0.4% (+2.3%)	(+2.2%)
	US:	13:30	Non-Farm Payrolls (July)	+147,000	+110,000
			- Unemployment Rate	4.1%	4.2%
			- Average Earnings	+0.2% (+3.7%)	+0.3% (+3.8%)
	US:	14:45	Final S&P Manufacturing PMI	49.5	49.5
	US:	15:00	Manufacturing ISM (July)	49.0	50.0
	US:	15:00	Final Uni. Michigan Sentiment (July)	61.8	62.2

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

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