Weekly Market Brief

AIB Treasury Economic Research Unit

18th – 22nd May 2026

Fears for Keir

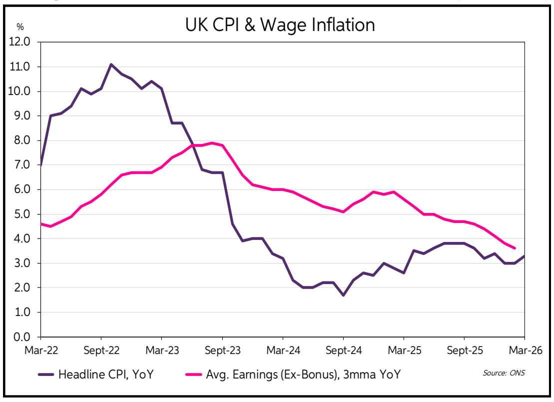
- **While the crisis in the Middle East rumbles on, political machinations in the UK have provided a further hit to UK asset prices this week.** Following poor local election results last week, Prime Minister Keir Starmer has faced several ministerial resignations, including most notably, Health Secretary Wes Streeting. It now appears Mr Streeting will be among a number of leadership challengers to Starmer, albeit each face a high bar of 81 MPs to enter a contest. The Prime Minister has insisted he will fight an eventual leadership election.

- **These political developments are now crystallising in rising UK bond yields and a fall in sterling and UK equities.** UK gilt yields are over 20bps higher across the curve on the week and 60-90 bps higher since the end of February, before the Iran conflict. Investors appear to be pricing in more profligate fiscal policy given the cast of potential new leaders. In particular, the frontrunner Andy Burnham recently commented that the country shouldn't be "in hock to the bond markets". While these comments might reflect the nature of the audience, the risks to fiscal policy are now being priced in by investors, including whether current Chancellor Rachel Reeves may be replaced. UK gilts have also spiked in recent months around speculation regarding the current Chancellor's position.

- **The UK's fiscal situation has been strained by both the political uncertainty and its exposure to rising energy prices.** A further large support package of energy subsidies, as was implemented in 2022, risks widening the deficit and deteriorating the debt position. In 2022-23, European governments, on average, spent nearly 3% of GDP on energy support packages. In the UK, the figure was 4.5% of GDP, but this is unlikely to be repeated to the same extent, given the current constraints.

- **While the UK imports just under 50% of its annual energy requirement, less than other G7 countries, it relies on fossil fuels for 77% of its energy** and has been slower to deploy nuclear and renewables than some European peers, leaving it exposed to global swings in energy prices. In the period 2025-26, the Government is expected to run a fiscal deficit of nearly 4.5% of national income, falling steadily in subsequent years according to recent Budget forecasts. Net debt is expected to remain around 96% of GDP over the same period. However, the near-term fiscal forecasts were finalised before the Middle East conflict drove the initial surge in UK borrowing costs.

- **This may leave a future Prime Minister in an even more fiscally constrained position than Starmer faces today, despite the spending promises that will inevitably be floated in the coming months by the prospective candidates.** Perhaps then, any potential challengers need to be wary of not promising too much, for fear of placing undue fiscal strain on the economy, or for under delivering ahead of the next general election, due some time in 2029.



- **Turning to the week ahead, the UK will remain the macro spotlight with a busy data calendar, that includes updates on the labour market and the consumer.** Conditions in the jobs market have softened over the past year. The unemployment rate rose from 4.4% at the start of 2025 to 5.2% last December. It dropped to 4.9% in February, however, this was largely driven by people leaving the labour force rather than a significant drop in the number unemployed. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +3.8% y/y in the three months to February. The unemployment rate and wage inflation are expected to remain unchanged in March. Meantime, CPI inflation has re-accelerated recently. Headline inflation fell to 3.0% in January and February, before moving up to 3.3% in March, largely due to a rise in fuel costs. A slight easing to 3.0% is pencilled in for March, with the core rate expected to slow slightly, to 2.7% from 3.1%. Elsewhere, retail sales are forecast to fall by 0.4% in April, having expanded by 1.4% in Q1. Meanwhile, consumer confidence has deteriorated sharply in the past three months, and stood at –25.0 in April. A further decline to –28.0 is anticipated in May.

- **Meanwhile, the flash reading of the PMIs for May are due from the main advanced economies.** Across the board, the manufacturing sector has outperformed services in recent months. Indeed in the Eurozone, the manufacturing PMI has improved in each of the last four months and was firmly in expansion mode in April, whereas the services index has deteriorated in four of the previous five months, entering contraction territory in April. The consensus is for both to broadly stabilise in May, with the manufacturing PMI set to stay above the key 50 threshold. In contrast, both UK PMIs improved and were in expansion territory in April. Likewise in the US, both indices moved higher in April, consistent with an increase in activity levels. However, the UK surveys this month are expected to register slower growth, while the US PMIs are forecast to remain similar to their April levels.

- **On the monetary policy front,** the Fed minutes from the April meeting will garner some attention.

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	3.50
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 Q2 2026	End Q3 2026	End Q4 2026
EUR/USD	1.1626	1.18	1.19	1.20
EUR/GBP	0.8709	0.87	0.88	0.88
EUR/JPY	184.48	185	187	187
GBP/USD	1.3348	1.36	1.35	1.36
USD/JPY	158.66	157	157	156

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 18th - Friday 22nd May

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Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Lane (Tue); **Lagarde,** Lane (Fri)		
	BoE Speakers:		Greene, Mann (Mon); Breeden (Tue); Taylor (Thu)		
	Fed Speakers:				
Mon 18th	**US:**	15:00	NAHB Homebuilder Sentiment (May)	34.0	33.0
Tue 19th	**JPN:**	00:50	GDP (Q1: Preliminary Reading)	+0.3% (+1.3%)	+0.4% (+1.7%)
	UK:	07:00	Unemployment Rate (March)	4.9%	4.9%
	UK:	07:00	Employment Change (March)	+25,000	+107,000
	UK:	07:00	HMRC Payrolls (April)	-11,000	
	UK:	07:00	Average Earnings Growth (March)	(+3.8%)	(+3.8%)
			- Ex-Bonus	(+3.6%)	(+3.4%)
	EU-21:	10:00	Total Trade Balance (March)	+€7.0bn	
			- EuroStat Trade	+€11.5bn	
Wed 20th	**UK:**	07:00	CPI Inflation (April)	+0.7% (+3.3%)	+0.9% (+3.0%)
			- Core-CPI	+0.4% (+3.1%)	(+2.7%)
			- Services	+0.5% (+4.5%)	(+3.5%)
	UK:	07:00	PPI Output Prices (April)	+0.9% (+2.6%)	
			- PPI Input Prices	+4.4% (+5.4%)	
	EU-21:	10:00	Final HICP Inflation (April)	+1.3% (+3.0%)	+1.3% (+3.0%)
			- Ex-Food & Energy	+0.7% (+2.1%)	+0.7% (+2.1%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.9% (+2.2%)	+0.9% (+2.2%)
	US:	19:00	Fed FOMC Meeting Minutes (28-29th April)		
Thu 21st	**JPN:**	01:30	Flash S&P Composite PMI (May)	52.2	
	FRA:	08:15	Flash S&P Composite PMI (May)	47.6	47.7
	GER:	08:30	Flash S&P Composite PMI (May)	48.4	48.4
	EU-21:	09:00	Flash S&P Composite PMI (May)	48.8	48.8
			- Manufacturing / Services	52.2 / 47.6	51.9 / 47.7
	UK:	09:30	Flash Composite PMI (May)	52.6	51.7
			- Manufacturing / Services	53.7 / 52.7	53.0 / 51.8
	US:	13:30	Initial Jobless Claims (w/e 11th May)	+211,000	+210,000
	US:	13:30	Housing Starts (April)	+1.50m / +10.8%	+1.410m
			- Building Permits	+1.36m / -11.4%	+1.388m
	US:	13:30	Philly Fed Business Index (May)	26.7	18.8
	US:	14:45	Flash S&P Composite PMI (May)	51.7	51.4
			- Manufacturing / Services	54.5 / 51.0	53.8 / 51.0
	EU-21:	15:00	Flash Consumer Confidence (May)	-20.6	-21.0
Fri 22nd	**UK:**	00:01	Gfk Consumer Confidence (May)	-25.0	-28.0
	JPN:	00:30	CPI Inflation (April)	(+1.5%)	
			- Core-CPI	(+1.8%)	(+1.7%)
	GER:	07:00	GDP (Q1: Detailed Reading)	+0.3% (+0.3%)	+0.3% (+0.3%)
	UK:	07:00	Retail Sales (April)	+0.7% (+1.7%)	-0.4% (+1.3%)
			- Ex-Fuel	+0.2% (+1.7%)	-0.3% (+1.5%)
	FRA:	07:45	INSEE Business Climate (May)	94.0	94.0
	GER:	09:00	Ifo Business Climate (May)	84.4	84.2
	US:	15:00	Final Uni. Michigan Consumer Sentiment (May)	48.2	48.2

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