Weekly Market Brief

AIB Treasury Economic Research Unit

2nd – 6th February 2026

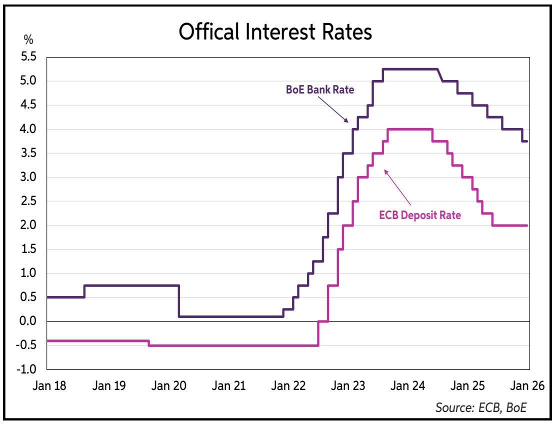
Working at the Fed-Warsh!

- **With the dollar plumbing fresh multi-year lows this week, the driver of the renewed fall remains multifaceted.** Year-to-date, the trade-weighted DXY index is down nearly 2%, and EUR/USD briefly crossed the key $1.20 resistance level for the first time since 2021, before retracing back towards the $1.19 mark. While the move does not appear to reflect macro fundamentals given the US economy is performing solidly still, it is likely being driven by the negative headlines regarding Fed independence and wider geopolitical tensions. A further kicker, which briefly pushed the dollar to multi-year lows, was probably short-term positioning on the back of rumours of intervention in the USD/JPY market by both US and Japanese authorities, to support the yen. Loose comments from President Trump, stating "I would want it to… just seek its own level" added further fuel to the fire, before Treasury Secretary Bessant clarified that the US government has "a strong dollar policy". With the Fed's decision to hold rates steady barely registering a blip on markets, political machinations in Washington are once again driving the dollar.

- **As if it wasn't an already eventful enough week in the US, on Friday, President Trump announced Kevin Warsh as his pick to be the next Fed Chair.** The Stanford University academic is a former member of the Fed's Board of Governors during the pivotal 2006-2011 period, and prior to that was a member of the Bush administration, following an earlier career on Wall Street. By any metric, Warsh is a highly qualified, cookie-cutter candidate for Fed chair, ticking the boxes of private sector, policymaking and central bank experience. However, his record at the Fed as a monetary policy hawk, who was resistant to zero-bound rates and unconventional policies such as quantitative easing during the financial crisis, jars with stated requirements of President Trump for a pliable, dovish Chair.

- **However, Warsh has softened his stance on issues such as interest rate cuts and tariffs of late, perhaps positioning for a tilt at the top job.** He has also been a vocal critic of the Fed from the outside, recently stating in a CNBC interview that "we need regime change in the conduct of policy…the credibility deficit lies with the incumbents that are at the Fed." This punchy rhetoric has likely underpinned his candidacy, but it remains to be seen how he will operate as future Fed Chair. **As we have stated before, a perceived or actual erosion of Fed independence remains one of the main risks for markets and the global economy in 2026, with recent FX moves beginning to price in that risk amongst others.**

- **Looking at the week ahead, the monetary policy spotlight will shift towards the ECB and the Bank of England.** Starting with the ECB, a fifth consecutive decision to hold rates steady is widely anticipated. Indeed, futures pricing indicates that the market is of the view that the ECB will likely leave policy unaltered this year, given inflation is currently in and around 2%. The post-meeting press conference will garner some attention, with President Lagarde likely to face questions regarding the recent strengthening of the euro and any implications it may have on the ECB's outlook. **Meanwhile, the BoE is also expected to leave the Bank rate unchanged this week.** The Monetary Policy Committee (MPC) cut rates by 25bps to 3.75% last time around in December, in a tight 5-4 vote, but three members of the majority (including Governor Bailey) suggested that a more gradual pace of easing would be appropriate moving forward, given the BoE is nearing the end of its cutting cycle. Thus, aside from the policy decision, the updated Monetary Policy Report and press conference will be in focus, as investors look for guidance on the future path of rates in the UK. Currently, circa 40bps of policy easing is priced-in for this year, albeit the next cut is not expected until June.



- **On the data front, the main highlight will be the US labour market report for January.** Last year, conditions in the jobs market softened somewhat. Indeed, payrolls fell for the first time since December 2020 in June, and contracted twice more in the second half of the year. Overall, the pace of payroll expansion slowed to 49k per month in 2025, compared to 168k during 2024. Meanwhile, the unemployment rate ended the year at 4.4%, up from 4.0% last January. Despite this though, average earnings growth held relatively steady. It stood at +3.8% y/y in December, a touch below the +3.9% y/y rate seen throughout Q1. The consensus is for the recent trends in the data to broadly continue in January, with payrolls rising by 50k, the unemployment rate remaining at 4.4%, and wage growth cooling slightly to +3.6% y/y. Elsewhere in the US, the manufacturing and non-manufacturing ISM are projected to be little changed, with the former staying in contraction mode and the latter in expansion territory in January. Similarly, the Michigan measure of consumer sentiment is forecast to remain at a muted level in January.

- **In the Eurozone, the flash reading of HICP inflation for January is due.** The headline rate is expected to decline to 1.7% from 1.9%, while the core rate is set to edge slightly lower to 2.2% from 2.3%. Meantime, Eurozone retail sales are projected to end a three-month run of expansion, by contracting marginally by 0.1% in December. The UK diary is sparse this week.

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	1.1891	1.17	1.18	1.18
EUR/GBP	0.8663	0.88	0.88	0.87
EUR/JPY	183.33	179	179	179
GBP/USD	1.3723	1.33	1.34	1.36
USD/JPY	154.18	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

AIB

ECONOMIC DIARY

Monday 2nd - Friday 6th February

AIB Treasury Economic Research

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Date		UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:		Cipollone (Fri)		
	BoE Speakers:		Pill (Fri)		
	Fed Speakers:		Bostic (Mon); Barkin, Bowmann (Tue); Bostic (Thu)		
Mon 2nd	*IRE:*		*St. Brigid's Day (Public Holiday)*		
	JPN:	00:30	Final S&P Manufacturing PMI (January)	51.5	
	GER:	07:00	Retail Sales (December)	-0.6% (+1.1%)	-0.3%
	EU-21:	09:00	Final HCOB Manufacturing PMI (January)	49.4	49.4
	UK:	09:30	Final S&P Manufacturing PMI (January)	51.6	51.6
	US:	14:45	Final S&P Manufacturing PMI (January)	51.9	51.9
	US:	15:00	Manufacturing ISM (January)	47.9	48.5
Tue 3rd	*IRE:*	*01:01*	***AIB Irish Manufacturing PMI (January)***	***52.2***	
	FRA:	07:45	Flash HICP Inflation (January)	+0.1% (+0.7%)	(+0.6%)
	US:	15:00	JOLTS Job Openings (December)	7.146m	
Wed 4th	JPN:	00:30	Final S&P Composite PMI (January)	52.8	52.8
	ITA:	08:45	Final HCOB Composite PMI (January)	50.3	50.3
	FRA:	08:50	Final HCOB Composite PMI (January)	48.6	48.6
	GER:	08:55	Final HCOB Composite PMI (January)	52.5	52.5
	EU-21:	09:00	Final HCOB Composite PMI (January)	51.5	51.5
			- Final HCOB Services PMI	51.9	51.9
	UK:	09:30	Final S&P Composite PMI (January)	53.9	53.9
			- Final S&P Services PMI	54.3	54.3
	ITA:	10:00	Flash HICP Inflation (January)	+0.2% (+1.2%)	(+1.0%)
	EU-21:	10:00	Flash HICP Inflation (January)	+0.1% (+1.9%)	(+1.7%)
			- Ex-Food & Energy	+0.2% (+2.3%)	(+2.2%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.3% (+2.3%)	(+2.2%)
	EU-21:	10:00	Producer Price Inflation (December)	+0.5% (-1.7%)	
	US:	14:45	Final S&P Composite PMI (January)	52.8	52.8
			- Final S&P Services PMI	52.5	52.5
	US:	15:00	Non-Manufacturing ISM (January)	54.4	53.8
Thu 5th	*IRE:*	*01:01*	***AIB Irish Services PMI (January)***	***54.8***	
	GER:	07:00	Industrial Orders (December)	+5.6%	-2.5%
	FRA:	07:45	Industrial Output (December)	-0.1%	+0.4%
	EU-21:	10:00	Retail Sales (December)	+0.2% (+2.3%)	-0.1%
	IRE:	*11:00*	***Unemployment Rate (January)***	***5.0%***	***5.0%***
	UK:	12:00	BoE Monetary Policy Announcement		
			- Bank Rate	3.75%	3.75%
	UK:	12:30	BoE MPR Press Conference		
	EU-21:	13:15	ECB Monetary Policy Announcement		
			- Deposit Rate	2.00%	2.00%
			- Re-fi Rate	2.15%	2.15%
	US:	13:30	Initial Jobless Claims (w/e 26th January)	+209,000	
	IRE:	*16:30*	***Exchequer Returns (January)***	***Jan'25: +€3.6bn***	
Fri 6th	GER:	07:00	Industrial Output (December)	+0.8% (+0.8%)	-0.3%
	GER:	07:00	Trade Balance (December)	+€13.1bn	
			- Exports	-2.5%	+1.3%
	FRA:	07:45	Trade Balance (December)	-€4.2bn	
			- Exports	(+0.8%)	
	US:	13:30	Non-Farm Payrolls	+50,000	+60,000
			- Unemployment Rate	4.4%	4.4%
			- Average Earnings	+0.3% (+3.8%)	+0.3% (+3.6%)
	US:	15:00	Preli. Uni. Michigan Consumer Sentiment (Feb)	56.4	56.0

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