

Central banks have more to do

The collapse of the ceasefire agreed between the US and Iran in June has triggered a renewed rise in global energy prices. This in turn has re-ignited inflation concerns, resulting in a marked firming of central bank rate hike expectations and a surge in bond yields. The Fed and ECB both raised rates this month, while the Bank of England has indicated it may do so soon. We expect all three central banks to increase their respective policy rates by 50bps over the next six months. The main currency pairs have, for the most part, remained in fairly well-established ranges since the outbreak of the Iran war. We see this continuing over the next 12-15 months. Our updated forecasts envisage ranges of \$1.13-\$1.20 and £0.83-£0.89 for EURUSD and EURGBP respectively over this period.

Economies proving relatively resilient

The global economy has remained relatively resilient in the face of the energy price shock, helped by the boom in AI-related investment. The latter is especially evident in the US, but is also now providing some support to the Euro area and UK economies, both of which have held up well this year. There has been little evidence to date of indirect and second-round effects from higher energy costs feeding through into underlying inflation - though strong private demand growth is adding to price pressures in the US - but the risk of such effects emerging is greater the longer global energy prices remain elevated.

Central bank rate hikes ahead

This month's round of monetary policy meetings saw the ECB and Fed increase interest rates and the BoE stay on hold. The ECB raised the deposit rate by another 25bps to 2.5% - following a 25bps increase in June - noting that inflation is expected to "remain well above target for an extended period". The Fed also hiked by 25bps, to 3.75%-4%, saying the removal of "a dose of (policy) accommodation" would ensure a "timelier" return of inflation to its 2% target. The BoE kept rates at 3.75% but said the more protracted the conflict in the Middle East, the more likely it is that rates will need to increase. While the outlook for rates partly depends on what happens to energy prices, we expect all three central banks to hike by 50bps over the next six months (before going on hold for the rest of 2027), which will help to guard against the risk of persistently higher inflation.

Sharp rise in government bond yields.

Government bond yields have risen sharply since the outbreak of the war in Iran at the end of February. Initially the increase was driven by short-dated yields in response to the prospect of higher central bank interest rates, but there has been a pronounced increase in long-dated yields following the renewed spike in energy prices, reflecting greater uncertainty regarding the outlook for both inflation and interest rates as well as concerns about the fiscal situation in many economies. Bond yields may find some support around their current elevated levels, but any meaningful decline probably requires signs that inflation and interest rates have peaked.

Main currency pairs to remain largely in recent ranges.

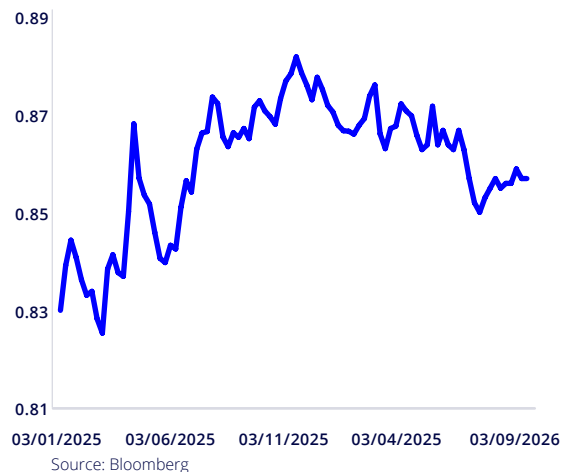
The euro has traded in a range of \$1.13 to \$1.18 against the dollar since the end of February, though it has spent much of the time since June confined to the bottom half of this range. Given our forecasts for ECB and Fed monetary policy, we don't expect interest rate differentials to materially shift EURUSD in one direction or the other, and overall, see the pair in a range of about \$1.13 to \$1.20 out to end-2027. One risk to this is that the Fed raises rates by more than we are forecasting because US growth and inflation prove stronger than expected, which could trigger a sharp fall in EURUSD. There are other risks/ events which could impact on the pair, albeit to what extent is difficult to quantify. A US-led correction in equity markets, or growing investor concern regarding the credibility of US economic policy-making, could drive the dollar lower. The impending French Presidential election in April 2027 could weigh on the euro for a time.

Sterling continues to largely track the euro against the dollar, keeping EURGBP in a narrow range. We see more of the same ahead with forecast ranges of £0.83-£0.89 and \$1.32-\$1.38 versus the euro and the dollar respectively over the next 12-15 months. Like for EURUSD, a further spike in energy prices would weigh on GBPUSD, while a resolution of the US-Iran conflict would see it gain ground. We expect the BoE to raise rates by a good bit less than the market is currently pricing in, which could weigh on the pound versus both the euro and the dollar. The fiscal situation in the UK also continues to pose a downside risk to sterling. On the other hand, signs that the UK economy is proving more resilient than many expected could provide some support for the pound, though this is unlikely to be enough for it to break new ground.

Central Bank Rates (%)	Current	End-Q4'26	End-Q1'27	End-Q2'27	End-Q3'27
Fed	3.75-4.00	4.00-4.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	2.50	2.75	3.00	3.00	3.00
BoE	3.75	4.00	4.25	4.25	4.25

Exchange Rates	Current	Q4'26	Q1'27	Q2'27	Q3'27
€/£	1.15	1.13-1.18	1.13-1.18	1.14-1.19	1.15-1.20
€/€	0.86	0.83-0.88	0.83-0.88	0.84-0.89	0.84-0.89
£/\$	1.34	1.32-1.37	1.32-1.37	1.33-1.38	1.33-1.38

Euro-Sterling Exchange Rate



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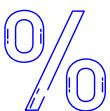
Global economy holding up in face of energy price shock



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ECB to hike by another 50bps



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Sharp rise in bond yields



Forecasts

GDP

GDP Growth*	2025	2026 (f)	2027 (f)
Global	3.5%	3.0%	3.4%
US	2.1%	2.3%	2.2%
Euro area	1.4%	0.9%	1.2%
UK	1.3%	1.0%	1.3%

*Annual % change, constant prices
Source: IMF WEO Update, July 2026

Interest Rates

Central Bank Rates (%)	Current	End-Q4'26	End-Q1'27	End-Q2'27	End-Q3'27
Fed	3.75-4.00	4.00-4.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	2.50	2.75	3.00	3.00	3.00
BoE	3.75	4.00	4.25	4.25	4.25

Source: Bloomberg, Bank of Ireland Forecasts

Exchange Rates

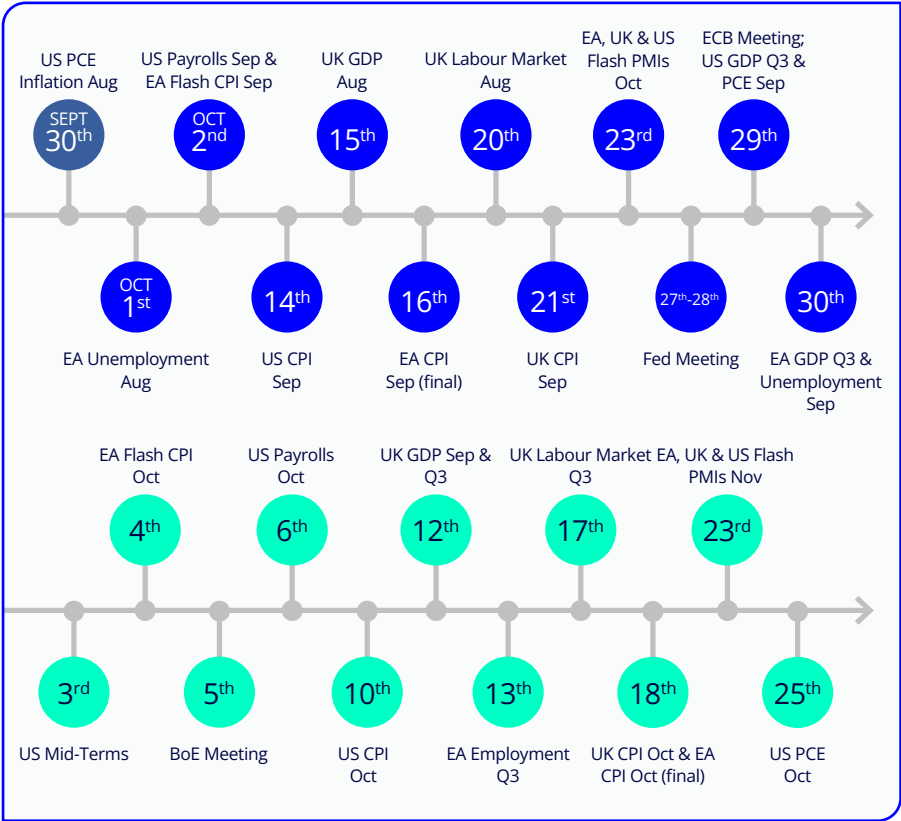
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€/\$	1.15	1.13-1.18	1.13-1.18	1.14-1.19	1.15-1.20
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£/\$	1.34	1.32-1.37	1.32-1.37	1.33-1.38	1.33-1.38

**Current Rate as of 18 September 2026
Source: Bloomberg, Bank of Ireland forecasts

Upcoming Events

September/October

November

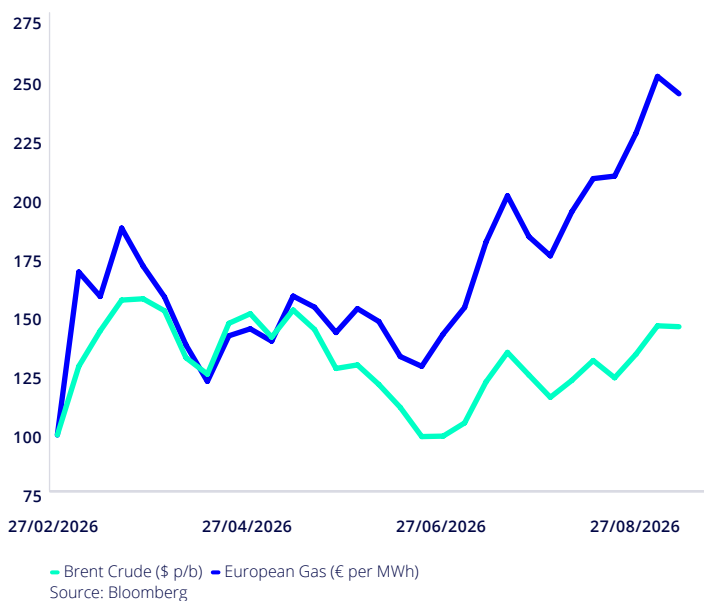


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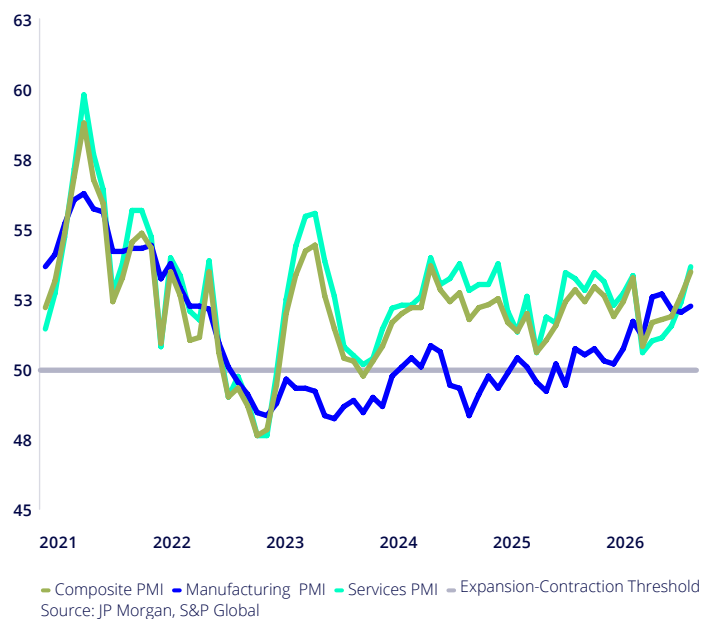
Global economy holding up in face of energy price shock

Energy prices remain volatile amid the ongoing US-Iran war, now well into its seventh month. While oil prices fell back to pre-war levels of around \$70 per barrel following the announcement of a (short-lived) ceasefire in mid-June, they have since risen to over \$100 per barrel amid a renewed outbreak of hostilities between the two sides. European gas prices have surged to new highs of around €80 per MWh, exacerbated by lower than normal storage levels ahead of the winter season. Though the futures markets point to a fall in both oil and gas prices over the next couple of years, the risk is that they remain higher for longer, weighing on economic growth. That said, the world economy has remained resilient to date in the face of the energy price shock, helped by the boom in AI investment. This is reflected in the global PMIs, which have remained comfortably in expansionary territory (>50) to date. The IMF's July forecasts pointed to world GDP growth of 3% this year, after 3.5% in 2025, picking up to 3.4% in 2027, with global inflation projected to rise to 4.7% (from 4.1% in 2025) before decelerating to just under 4% next year. Some of the downside risks to the economic outlook identified by the IMF, related to the situation in the Middle East and concerns about fiscal sustainability, have arguably materialised to some extent already given the increase in energy prices and a spike in sovereign bond yields recently, both of which will tend to dampen economic growth. In addition, expectations regarding AI-related profitability and productivity gains could be revised downwards, leading to a correction in equity markets and reduced economic activity, albeit continued strong investment in AI is also an upside risk to growth.

Oil and Gas Prices: Index (End-February 2026 =100)



Global PMIs



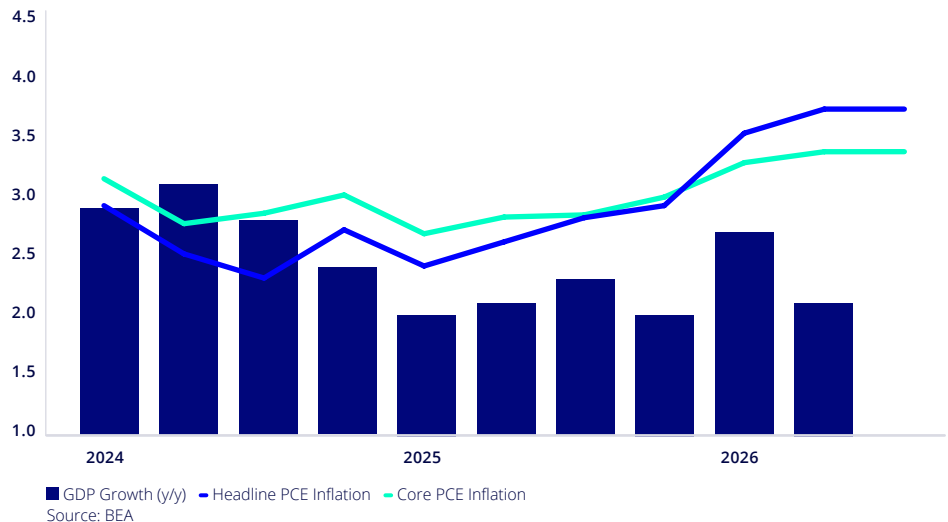
Solid growth in the US

The US economy expanded by 0.9% in H1 2026, or an annualised rate of GDP growth of 1.8%, a touch below the 2025 outturn of 2.1%. However the underlying pace of economic activity looks to be a good bit stronger than suggested by headline GDP, with private domestic final purchases (PDFP) - which combines consumer spending and private investment - increasing at an annualised rate of 3% in H1. AI-related investment has remained exceptionally strong in 2026, while consumer spending has been solid albeit on the back of a continuing fall in the saving ratio to low levels (circa 3% of household disposable income). Employment has picked up this year with private payrolls growth averaging 84k per month in January-August, versus 25k a month in 2025. The former is still modest by historical standards but has been more than enough to match the growth in labour supply, hence the unemployment rate has edged down during the course of this year (to 4.1% August). The IMF expects GDP growth to average 2.3% this year and 2.2% next year, which should be enough keep unemployment at around 4%. Headline PCE inflation has risen to 3.7% (August), almost double the Fed's 2% target, and is likely to increase further in the near-term, while core PCE inflation has picked up to 3.3% from

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3.1% at end-2025. Rising energy prices have boosted headline inflation, while indirect effects from higher energy prices and price pressures from the strength of underlying economic activity have contributed to the increase in core inflation. Inflation should begin to fall back during the course of 2027 as energy- and tariff-related price pressures ease, though it is still likely to remain above target through end-2027.

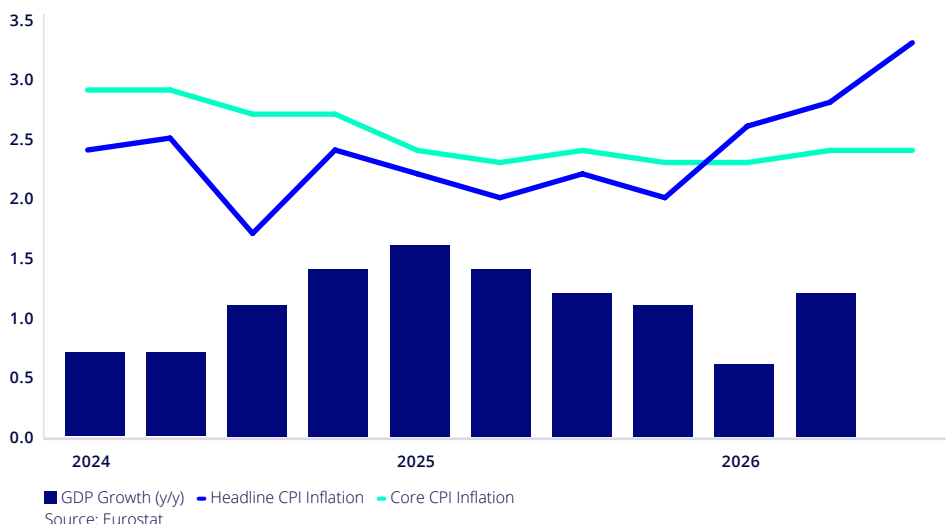
US GDP Growth and Inflation



Euro area economy proving relatively resilient

Euro area GDP growth averaged 0.3% a quarter and 0.9% year-on-year over the first two quarters of 2026, the latter somewhat below the economy's estimated potential rate of growth of just over 1%. Notably, Germany's economy outperformed slightly over this period, expanding by 0.4% and 0.3% (q-o-q) in Q1 and Q2 respectively. Purchasing Managers' data point to another quarter of positive but still modest growth in the zone in Q3, helped by a recovery in services activity following a sharp fall immediately following the outbreak of the war in Iran. The IMF's projections point to GDP growth of 0.9% for 2026 as a whole (after 1.4% in 2025), picking up to 1.2% in 2027, broadly in line with those of other forecasters. Employment growth has slowed in tandem with moderating economic activity this year relative to 2025, but unemployment has remained close to record lows. Unsurprisingly, headline inflation has accelerated on the back of higher energy prices, reaching 3.3% in August. There has been little sign to date of significant indirect effects from the energy shock feeding through to prices more generally – indeed core inflation is slightly lower than in February at 2.4% - while second-round effects have also been absent so far with wage growth easing further this year. Headline inflation is likely to increase over the next few months given the renewed rise in oil and gas prices recently, but should fall back during 2027 as the energy shock fades. The clear risk though is that a prolonged period of elevated energy prices eventually seeps through into higher underlying inflation via indirect/second round effects.

Euro area GDP Growth and Inflation

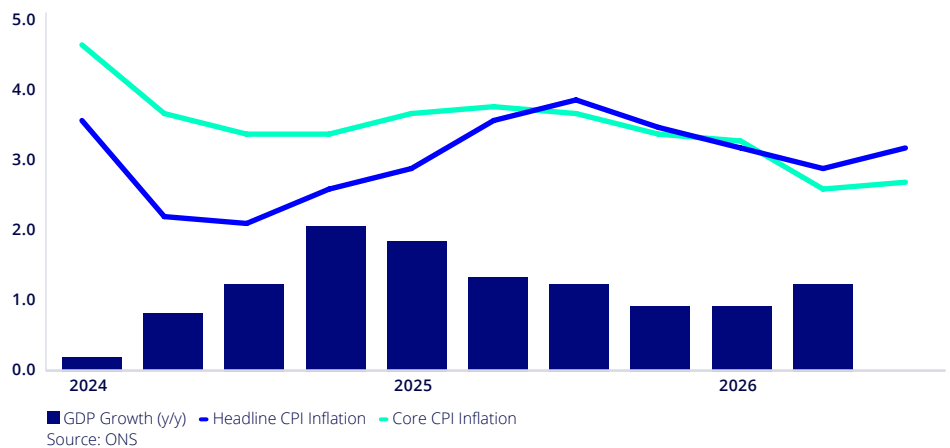


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UK growth better than expected

The UK economy performed better than generally expected in H1 2026, expanding by 0.6% and 0.4% (q-o-q) in Q1 and Q2 respectively - with consumer spending and business investment both posting solid gains over this period - leaving y-o-y growth at 1.1%, a mild deceleration from 1.3% in 2025. However there is some uncertainty regarding the underlying pace of growth, given the tendency in recent years for GDP to show fairly robust increases in H1 but weaker outcomes in H2. That said, the latest monthly data showed strong growth again at the start of Q3 with GDP up 0.4% m-o-m in July. The IMF forecasts envisage full-year GDP growth of 1% for 2026, picking up to 1.3% in 2027. Labour market conditions remain soft but haven't deteriorated much relative to 2025. Indeed, unemployment has edged down in 2026 to date, although wage growth has moderated further this year. Headline inflation has picked up lately, rising to 3.1% in August, and is almost certain to accelerate further over the balance of 2026 as higher energy prices kick in, while core inflation (2.6% in August) has edged down this year relative to end-2025 due to a notable decline in services inflation. As in other economies, headline inflation is likely to head higher near-term before starting to fall back during 2027 as the impact of the energy price shock begins to ease. Core inflation should also trend lower, helped by some further easing in wage inflation, though the risks are tilted to the upside.

UK GDP Growth and Inflation

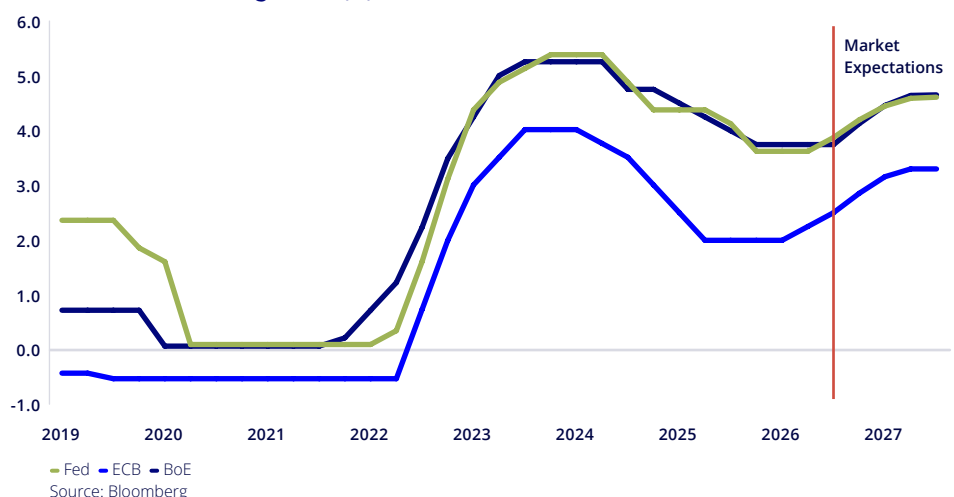


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Market pricing in rate hikes at least through mid-2027

The start of the war in Iran prompted a marked reassessment of the outlook for monetary policy as markets priced in a higher path for interest rates in response to the accompanying inflationary energy price shock. Expectations regarding the extent to which the main central banks will raise interest rates have ebbed and flowed considerably in the intervening period, largely (though - in the case of the Fed particularly - not exclusively) reflecting the ebb and flow of energy prices. The ECB and Fed both raised interest rates by 25bps in September - the former for the second time since June - while the Bank of England opted to stay on hold again. The market is currently 'pricing in' circa 75-100bps of hikes by the three central banks by next summer.

Central Bank Policy Rates (%), End-Quarter



Central Banks

Fed to raise rates by 50bps

In his first remarks as the new Chair of the Fed, Kevin Warsh said he was strongly committed to returning inflation to the 2% target, but subsequent decisions to leave interest rates unchanged at the June and July monetary policy meetings cast some doubt on his willingness to take the action that might be necessary to do so. However, in his Jackson Hole speech at the end of August, Warsh laid out the case for an increase in interest rates - citing strengthening economic growth, the labour market at “full-employment”, and insufficient speed in bringing down inflation – which paved the way for a 25bps hike in the fed funds rate (to a range of 3.75%-4%) at the September meeting. According to Warsh, this removal of “a dose of accommodation” would ensure a “timelier” return of inflation to target. Moreover, the Fed indicated that some further increase in rates is likely over the coming months. In light of this, we expect another 25bps hike in rates in December and a further quarter-point increase in Q1 2027. This would take the fed funds rate to 4.25%-4.5%, leaving it in restrictive territory relative to Fed estimates of the neutral interest rate.

ECB to hike by another 50bps

The ECB Governing Council raised interest rates for a second time in September, hiking the deposit rate by 25bps to 2.5% following a quarter-point increase in June. It also nudged up its forecasts for both inflation and economic growth for 2026-2028, albeit marginally so relative to its June projections. It now expects headline inflation to peak at 3.6% in the final quarter of this year and sees it remaining above the 2% target through the first half of 2027, while core (or underlying) inflation is forecast to reach 2.8% in Q1 next year - almost a percentage point higher than where the ECB expected it to be in its pre-war projections - before falling back to just over 2% a year later. While the ECB acknowledges that the “outlook remains highly uncertain” with risks to the upside for inflation but to the downside for economic growth, we expect it to hike the deposit rate by another 50bps (to 3%) to guard against the threat of a more persistent increase in underlying inflation. We are pencilling in a 25bps increase in the final quarter of this year and another quarter-point increase in Q1 next year, taking the deposit rate into slightly restrictive territory, a somewhat more benign outlook for rates than currently priced in by markets.

BoE to raise rates in Q4

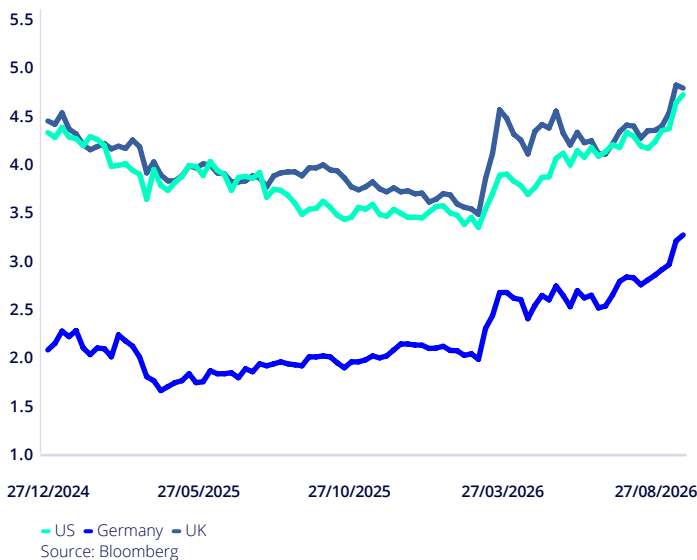
As in July, the Bank of England Monetary Policy Committee (MPC) voted 6-3 to keep interest rates on hold at its September meeting, with the three dissenters again preferring a 25bps hike in Bank Rate to 4%. It noted that the “protracted conflict in the Middle East has contributed to further increases in crude and refined energy prices”, which is likely to drive headline inflation above 4% over the coming months. Moreover, while it acknowledged that there has been “little evidence so far of material second-round effects in price and wage-setting”, it said the “risk of such effects is greater the longer higher energy prices persist”, with a number of those members who voted to stay on hold indicating an increase in interest rates could soon be appropriate. While the current stance of monetary policy is slightly restrictive, and the recent tightening of financial conditions will do some of the MPC’s work for it, on balance we expect the MPC to hike rates by 25bps in the final quarter of this year and again in the first quarter of next year, with policy then on hold for the remainder of 2027.

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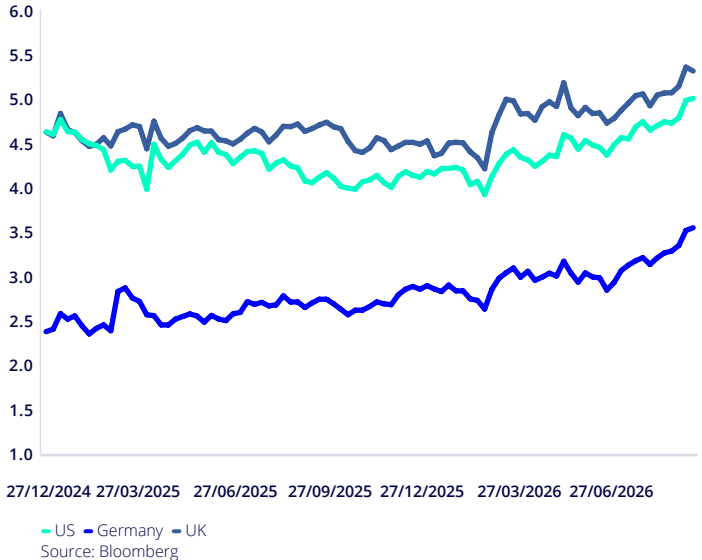
Sharp rise in bond yields

Government bond yields have risen sharply since the outbreak of the war in Iran. Initially the increase was driven by the short-end of markets in response to the prospect of higher central bank interest rates, resulting in a notable flattening of yield curves. However, there has been a pronounced increase in long-dated yields following the renewed spike in energy prices - with 10- and 30-year yields reaching levels last seen in the 2000s - as term premia have risen in response to protracted uncertainty surrounding the outlook for both inflation and interest rates and heightened concerns about the fiscal situation in many economies. Governments are also facing increased competition for capital amid rising corporate bond issuance to finance the surge in AI-related investment, which may be exacerbating the rise in long-term yields. Looking ahead, bond yields may find some support around current elevated levels, but any meaningful decline in yields probably requires evidence that inflation and interest rates have peaked. In the meantime, a further spike higher in yields remains a risk.

Government 2-Year Bond Yields (%)



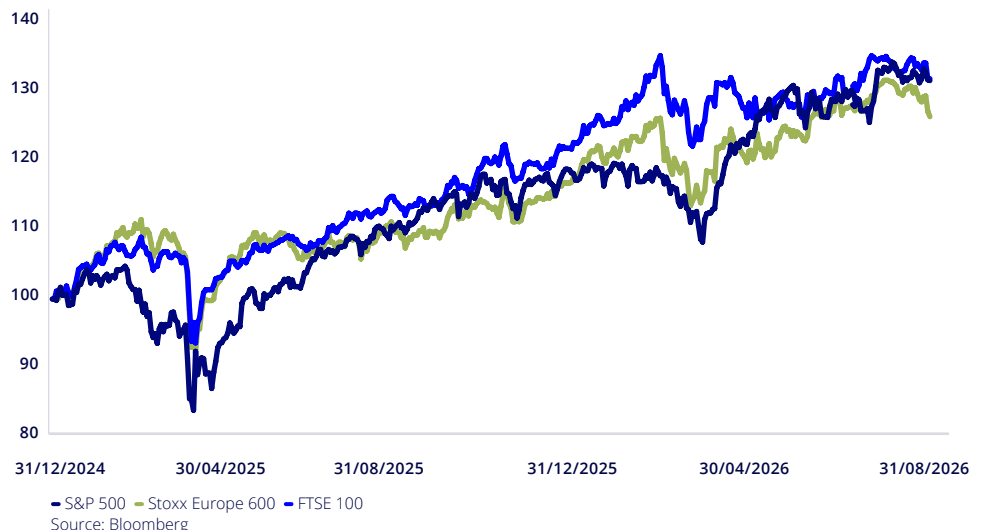
Government 10-Year Bond Yields (%)



Equity markets under some pressure lately

Equity markets have rebounded strongly from their sharp falls during the month or so immediately following the commencement of the war in Iran at the end of February, driven by continued strong growth in corporate earnings, with the US outperforming Europe over this period. Stocks have been under pressure lately as bond yields have risen but losses have been fairly modest. Earnings forecasts remain robust, which should ultimately support further gains for equity markets, though no doubt concerns about whether lofty earnings expectations will be realised will persist, while any further spike higher in bond yields would be a bigger headwind for stocks.

Equity Indices (End-2024=100)



Markets

Dollar modestly higher since start of Iran war

The dollar has traded in a fairly narrow range against the currencies of its main trading partners since the start of the war in Iran. The latter saw the US currency initially benefit from a 'flight to safety', and while a combination of perceived mis-steps on monetary policy communication from new Fed Chair Kevin Warsh, investor concerns about the US Treasury's 'intervention' in the bond market to stem the rise in yields, and joint US-Japan action to boost the yen have weighed on the dollar at times, it has been supported by a notable firming of market expectations for Fed rate hikes.

Dollar Trade-Weighted Exchange Rate

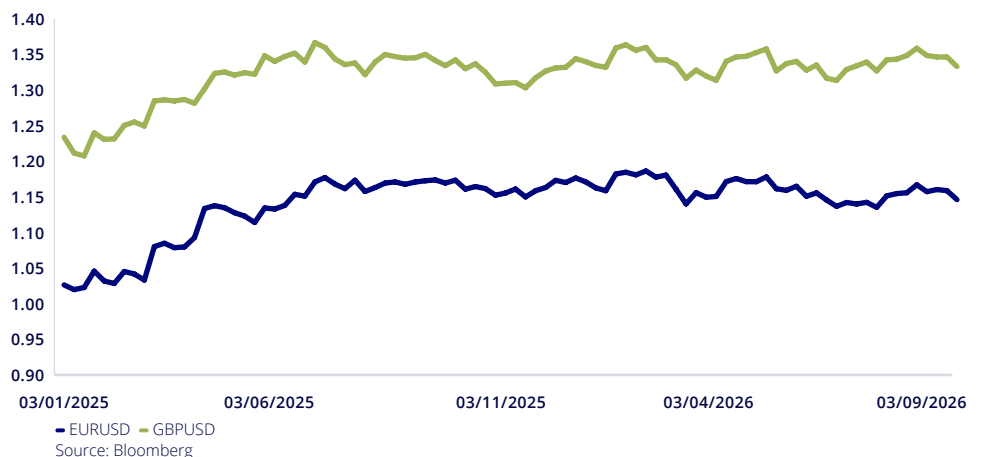


Source: Fed

Forecast range of \$1.13 to \$1.20 for EURUSD to end-2027

EURUSD has also remained in a tight range since end-February, trading between \$1.13 and \$1.18, with the firming of Fed rate hike expectations keeping the euro confined to the bottom half of this range for much of the time since June. The prospects for EURUSD from here will partly depend on developments in the Middle East. A further spike higher in energy prices would weigh on the euro, probably taking it back down towards its lows for the year (of close to \$1.13), while a permanent end to the war/pronounced fall in energy prices could see it push up towards \$1.18 again. However, our expectation for Fed and ECB monetary policy over the next 12-15 months means interest rate differentials are unlikely to shift EURUSD materially outside of its recent range in one direction or the other. Overall, we see the pair trading between \$1.13 to \$1.20 out to end 2027, but with a sustained move to the top of the range unlikely until late next year as the prospect of some easing of Fed policy starts to come back onto agenda. In the meantime though, a downside risk to our forecast is that the Fed has to raise interest rates by more than we projecting because US growth and inflation prove stronger than expected. This could trigger a sharp fall in EURUSD, pushing it down towards \$1.10. Apart from monetary policy, there are a number of risks/events which could impact the pair, albeit to what extent is difficult to quantify. A US-led correction in equity markets, or increasing investor concern about the credibility of US economic policy-making, could drive the dollar lower. The French Presidential election scheduled for April 2027 - which is likely to take place amid continued market concerns about the country's public finances - could weigh on the euro for a time.

Euro and Sterling versus Dollar

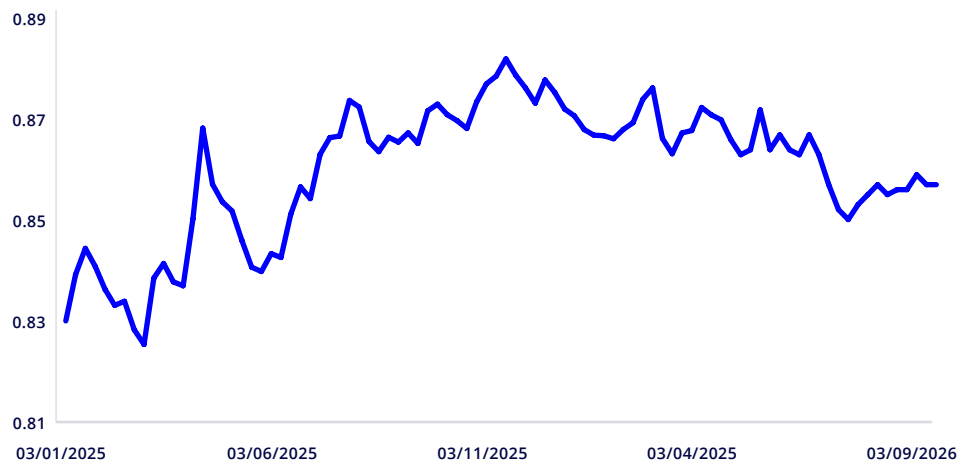


Markets

Sterling to remain within well-established ranges

Sterling continues to largely track the euro against the dollar, keeping EURGBP confined to a relatively narrow range. Somewhat ironically, the pound did show some 'independent' strength during the political upheaval that saw Keir Starmer resign as UK Prime Minister - rising to a year-to-date high of around £0.8450 against the single currency - perhaps because the smooth transition to his successor, Andy Burnham, was seen ushering in a period of relative stability through to the next general election. In any case though, the gains proved short-lived with the pound back at around £0.86. Looking ahead, we see sterling trading in ranges of £0.83-£0.89 and \$1.32-\$1.38 versus the euro and the dollar respectively over the coming 12-15 months. Like for EURUSD, a further spike in energy prices would weigh on GBPUSD, while a resolution of the US-Iran conflict would see it gain ground. We expect the BoE to raise interest rates by less than the market is pricing in, which may also weigh on the pound versus both the euro and the dollar. The still precarious fiscal situation in the UK continues to pose a downside risk to sterling, although the new Chancellor has said he will stick to his predecessor's fiscal rules. On the upside, signs that the UK economy is proving more resilient than expected could support the pound, although this is unlikely to be enough for it to break new ground.

Euro-Sterling Exchange Rate



Source: Bloomberg

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