Bank of Nassau
SINCE 1982

Economy Week Ahead

July 19, 2026

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Chief Economist

"Economics is not an exact science. It's a combination of an art and elements of science."

Paul Samuelson

Markets ended last week on a sour note as the tech rout deepened. There were several factors behind the worsening market sentiment, but the biggest one was China's introduction of a new AI tool that reportedly rivals the best offerings from the top US companies. On the other hand, markets aren't panicking yet over the intensification of hostilities in the Persian Gulf. However, oil prices continued to climb and that really clouds the inflation outlook.

Geopolitics

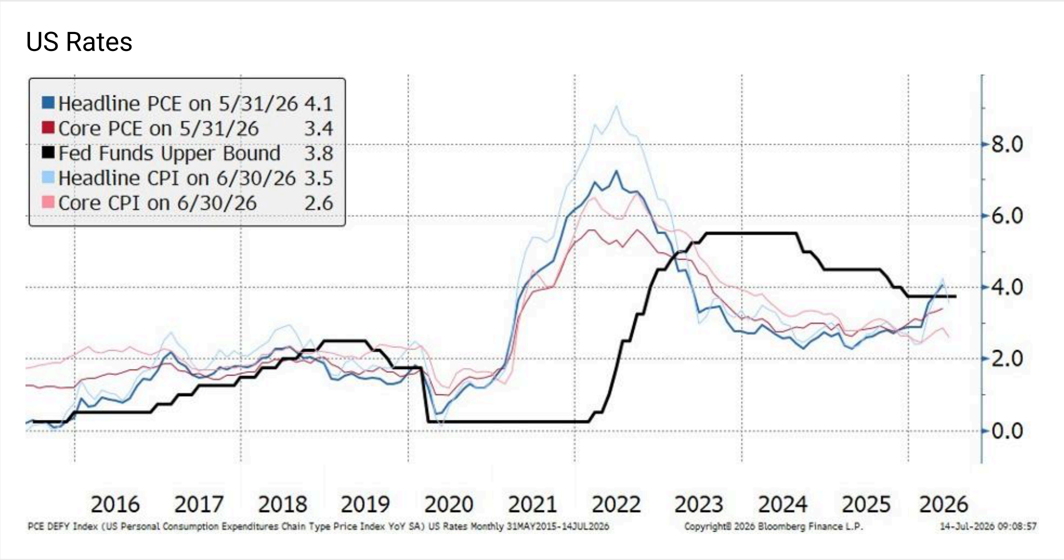
The US is now basically conducting daily strikes on Iran. Iran has responded by attacking US bases and civilian targets in Kuwait, Jordan, Qatar and Bahrain. Two American soldiers were killed, four were injured, and one is missing after an attack on Jordan. The US struck sites in Iran in retaliation. The level of distrust between the two sides is so high now that it's hard to see how the situation can be deescalated. After a relatively quiet period once the ceasefire extension was signed, things are heating up rather quickly and adds to an already uncertain investment backdrop.

Americas

After the soft US inflation data last week, markets have adjusted their Fed tightening expectations. A hike has been pushed out to December from September (!) seen ahead of the June CPI and PPI data. We remain skeptical that the Fed will hike this year but it will all depend on the data. For now, we expect the Fed to remain on hold at the July 28-29 FOMC meeting whilst delivering a hawkish message.

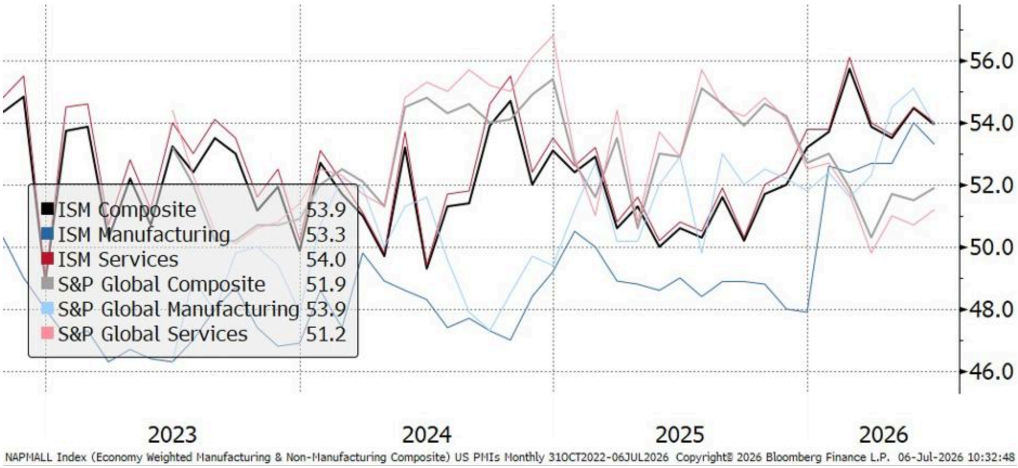
In that regard, Fed Chair Warsh was suitably hawkish during his Humphrey-Hawkins testimony before Congress last week. This should be no surprise to anyone who tuned into his post-decision press conference in June. Markets should also expect a repeat performance at the upcoming July 29 press conference. Due to the media blackout ahead of the July FOMC meeting, there are no Fed speakers this week.

When asked about the better than expected CPI data, Warsh said, "There might be some who look at this morning's data and say, 'Well, mission accomplished, everything is swell.' That is not my view." He stressed that the members of the FOMC "have no tolerance for persistently elevated inflation." When asked about his aversion to forward guidance, Warsh said that "we'd then find ourselves sort of taking information that's consistent with our priors and rejecting information that's inconsistent. It's not the way to do things. Being somewhat more circumspect is a better way of calling balls and strikes." When asked about Fed independence, Warsh said “I will tell you what I’ve said to the president repeatedly, and said to the Treasury secretary: They chose an independent guy to do an independent job, and that’s exactly what I plan on doing.”



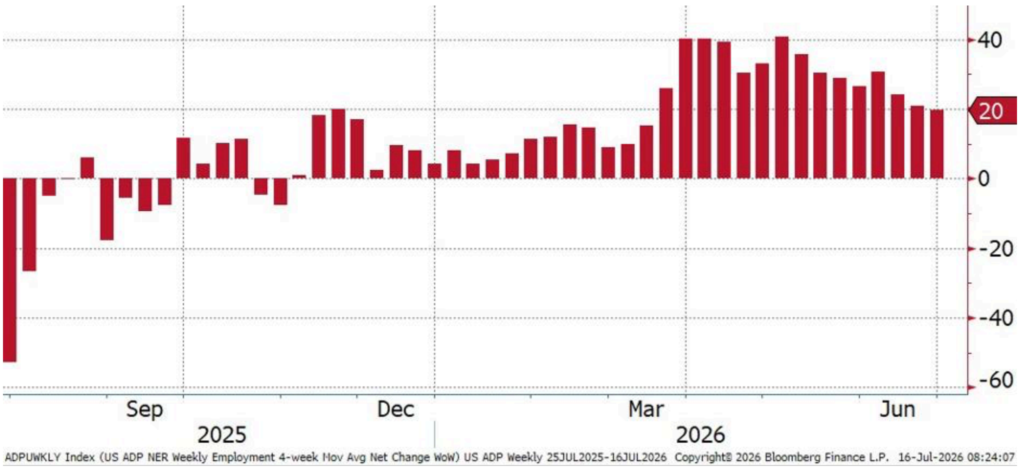
US data highlight will be S&P Global preliminary July PMIs reported Friday. Manufacturing is expected to rise six ticks to 54.5, services is expected to rise three ticks to 51.5, and the composite is expected to fall three ticks to 51.6. ISM PMIs won’t be reported until early August but the two series have diverged in recent months.

US PMIs



The weekly ADP private sector jobs estimate should be closely watched. That's because the last reading for the week ending June 27 was the lowest since the March BLS survey week. It's worth noting that NFP also peaked at 214k in March and has fallen three straight months to 57k in June. There is no Bloomberg consensus yet for July NFP but its whisper number is currently 75k. If the weekly ADP readings continue to fall, we see downside risks to July jobs data.

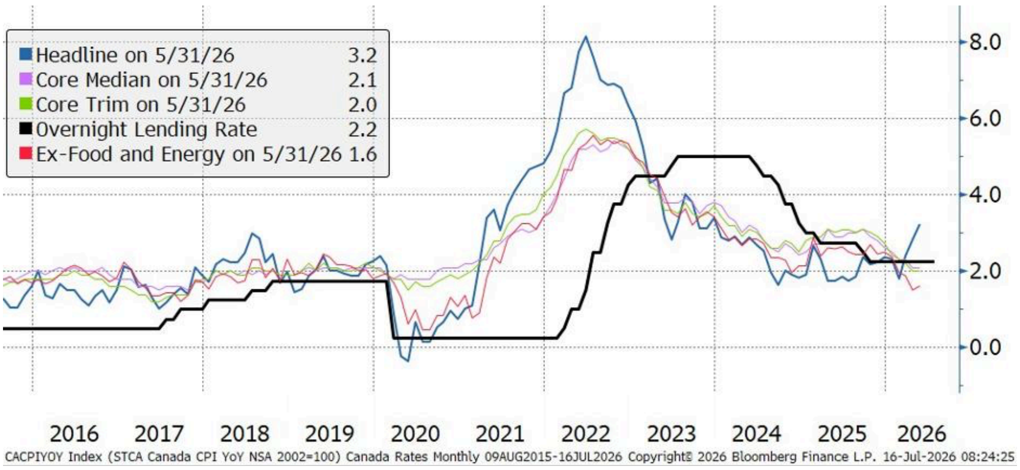
ADP Weekly Private Sector Jobs, 000s



Canada highlight will be June CPI data Monday. Headline is expected to slow a tick to 3.1% y/y, while core median and core trim are both expected to remain steady at 2.1% and 2.0%, respectively. If so, headline would decelerate for the first time since February but would remain well above the 2% target.

The Bank of Canada delivered the expected hold last week and reiterated that current policy settings remain appropriate. Most importantly, the bank seemed to eliminate any forward guidance by dropping past references on what might trigger both rate hikes and rate cuts. The bank was fairly upbeat, noting that "After a year of weakness, Canada's economy is showing signs of improvement. Growth is expected to pick up, and inflation eases gradually from its recent peak. Uncertainty is still high." Updated macro forecasts were released. Despite a significant cut to the 2026 growth forecast to 0.7%, the bank noted that "Despite some volatility, recent data suggest that the economy is evolving broadly in line with the outlook in the April report." Governor Macklem said that the bank will take its policy decisions one at a time.

Canada Rates



BOC Monetary Policy Report July 2026 (April)

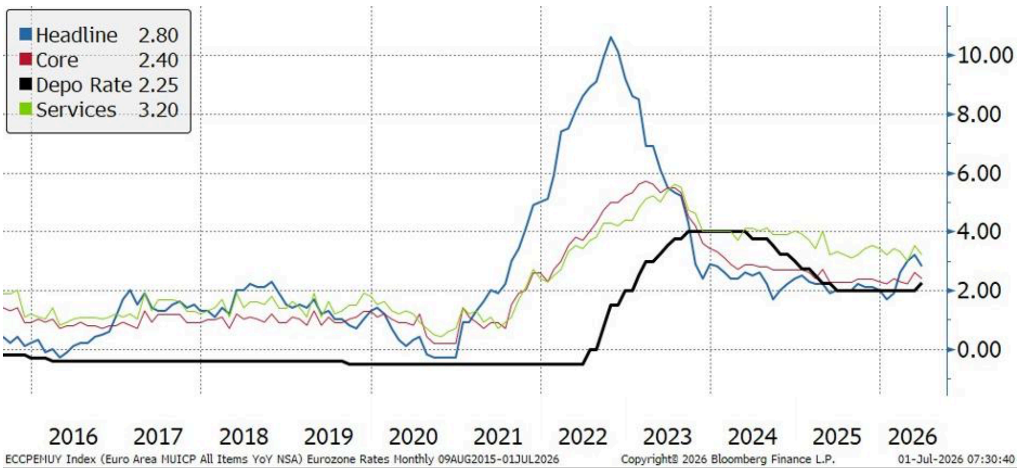
	2026	2027	2028
GDP Growth	0.7% (1.2%)	1.8% (1.6%)	1.8% (1.7%)
CPI Inflation	2.5% (2.3%)	2.0% (2.1%)	2.1% (2.0%)

Europe

The two-day European Central Bank meeting ends Thursday with an expected hold. At the last meeting June 11, the bank started a tightening cycle with a 25 bp hike to 2.25% and stated that "The war in the Middle East is generating inflation pressures, and the decision to raise rates is robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area." In her press conference, President Lagarde said the decision was unanimous and that there was no discussion of any other proposals.

Since then, inflation appears to have peaked in May but this latest round of hostilities complicates matters as the eurozone economy is likely heading towards the ECB's adverse scenario of energy prices staying higher for longer. As such, the market is pricing in over 95% odds of a hike at the next meeting September 10.

Eurozone Rates

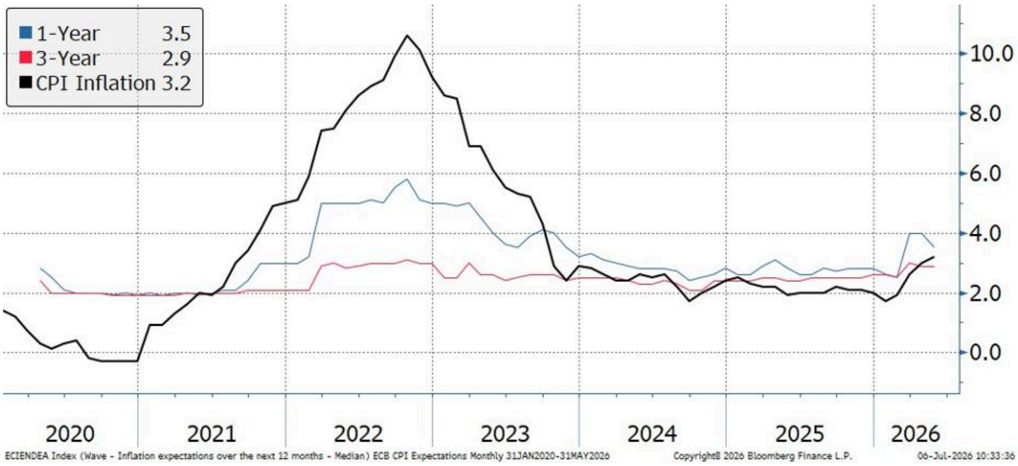


ECB Baseline Scenario June 2026 (March)

	2026	2027	2028
GDP Growth	0.8% (0.9%)	1.2% (1.3%)	1.5% (1.4%)
CPI Inflation	3.0% (2.6%)	2.3% (2.0%)	2.0% (2.1%)
Core Inflation	2.5% (2.3%)	2.5% (2.2%)	2.2% (2.1%)

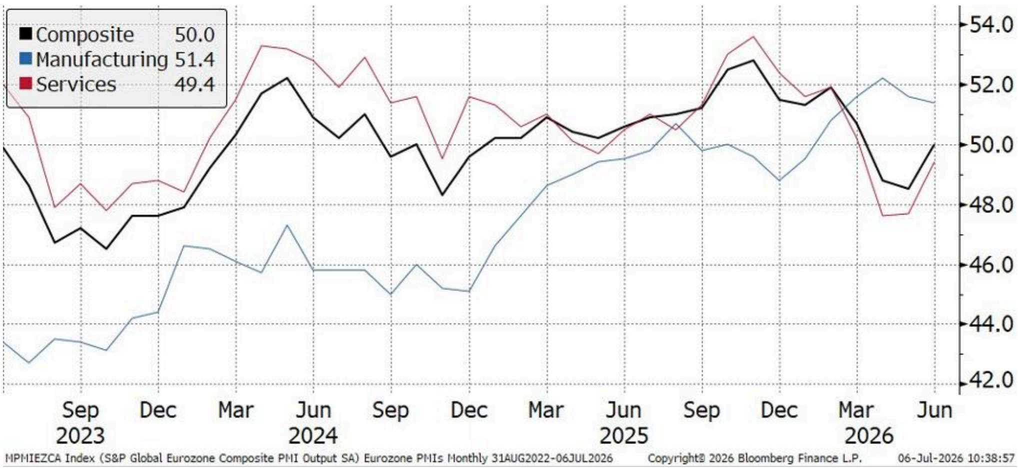
ECB inflation expectations for June will be reported Friday. 1-year expectations are seen falling two ticks to 3.3% and 3-year expectations are seen falling one tick to 2.8%. Inflation appears to have peaked in May and so expectations should move lower as well.

ECB Inflation Expectations

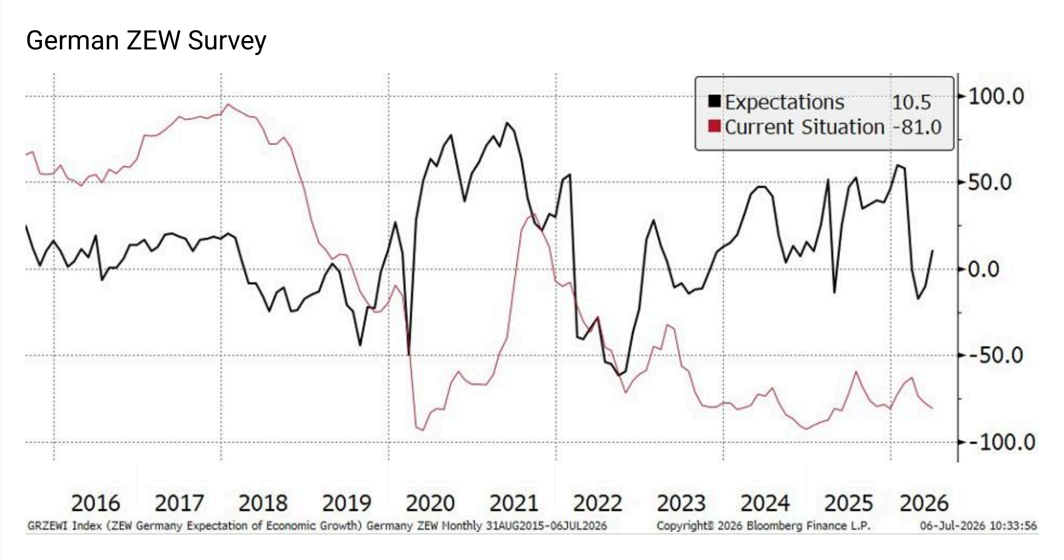


Eurozone data highlight will be S&P Global preliminary July PMIs reported Friday. Headline manufacturing PMI is expected to rise a tick to 51.5, services PMI is expected to rise half a point to 49.9, and the composite PMI is expected to rise three ticks to 50.3. If so, the composite would be the highest since March. Looking at the country breakdown, the German composite is expected to rise three ticks to 49.8 and the French composite is expected to rise nearly a point to 48.0.

Eurozone PMIs

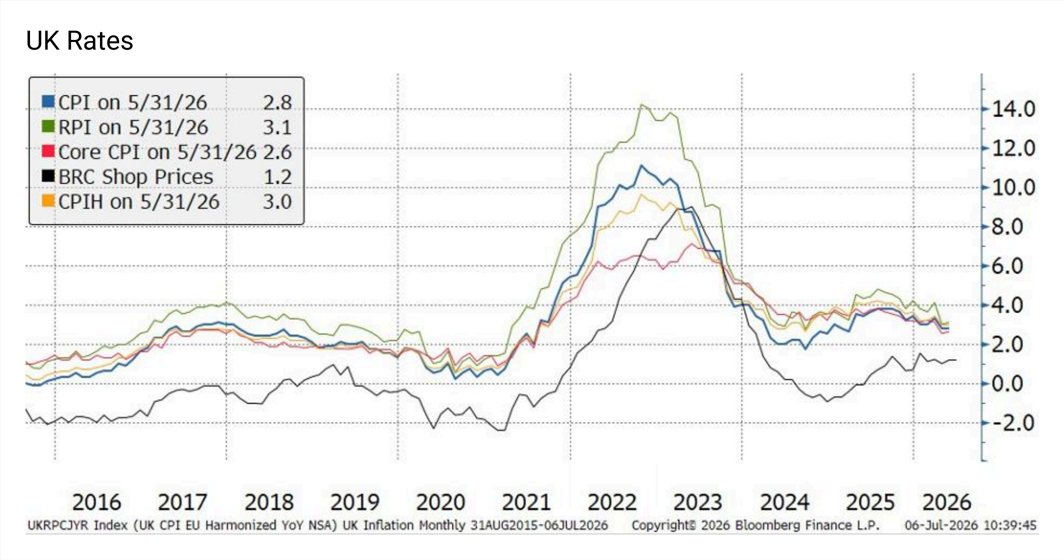


German ZEW survey for July will be reported Tuesday. Expectations component is expected to rise nearly six points to 16.0 and the current situation component is expected to rise four points to -77.0. As we noted in a previous piece here, "the ZEW surveys investment and finance professionals and measures market sentiment and so it is a better predictor of German financial market performances. On the other hand, the ifo surveys executives at actual firms and measures developments in each sector and so it is a better predictor of German economic activity." The ifo survey will be reported next week.

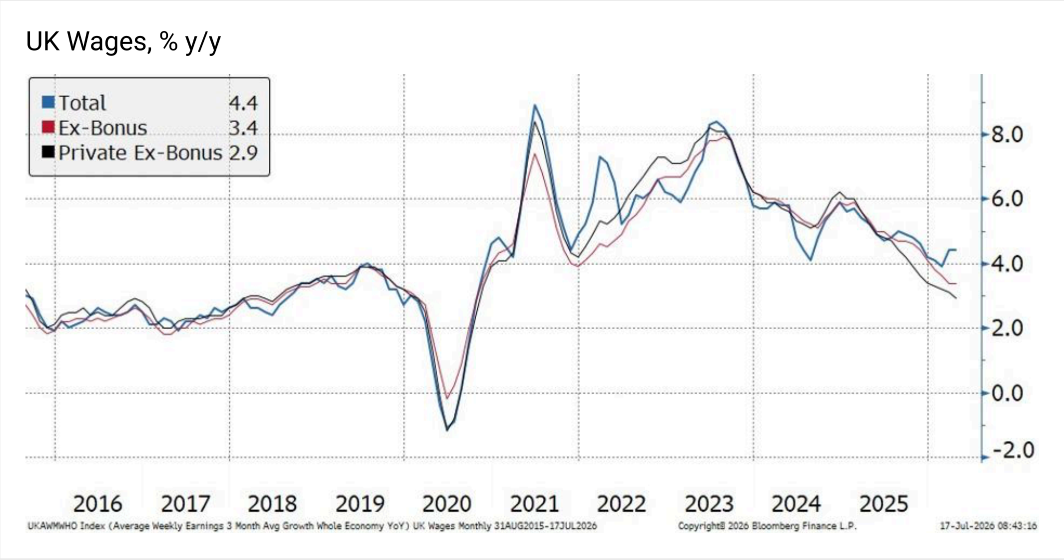


UK highlight will be June CPI data Wednesday. Headline is expected to slow a tick to 2.7% y/y, core is expected to slow a tick to 2.5% y/y, and CPIH is expected to slow a tick to 2.9% y/y. If so, headline would be the lowest since March 2025 and would justify the Bank of England's wait-and-see stance. Of note, CPI services is expected to slow two ticks to 3.5% y/y. The data come ahead of the upcoming Bank of England meeting July 30, when no change is expected. Market odds of a hike rise to nearly 70% for the September 17 meeting and becomes fully priced in for the November 5 meeting.

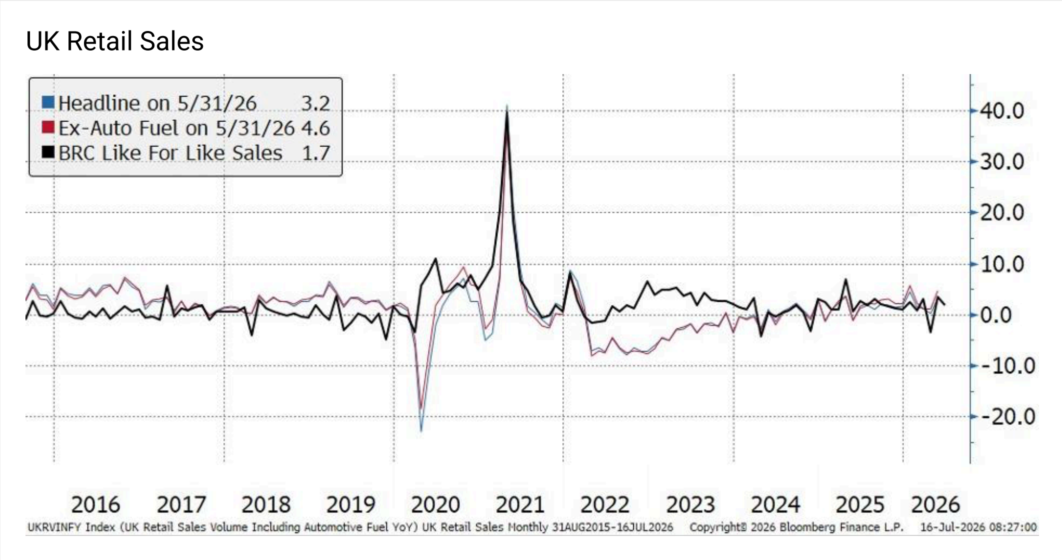
At the last meeting June 18, the bank kept rates steady by a 7-2 vote. The two dissents (Chief Economist Pill and MPC member Greene) were in favor of a 25 bp hike. The bank pledged then to "continue to monitor closely the situation in the Middle East" and added that "the committee stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term." Governor Bailey noted that "Oil prices have fallen in recent days and that's encouraging." We believe the BOE is right to hold off on tightening in order to better gauge the full impact of the Iran conflict.



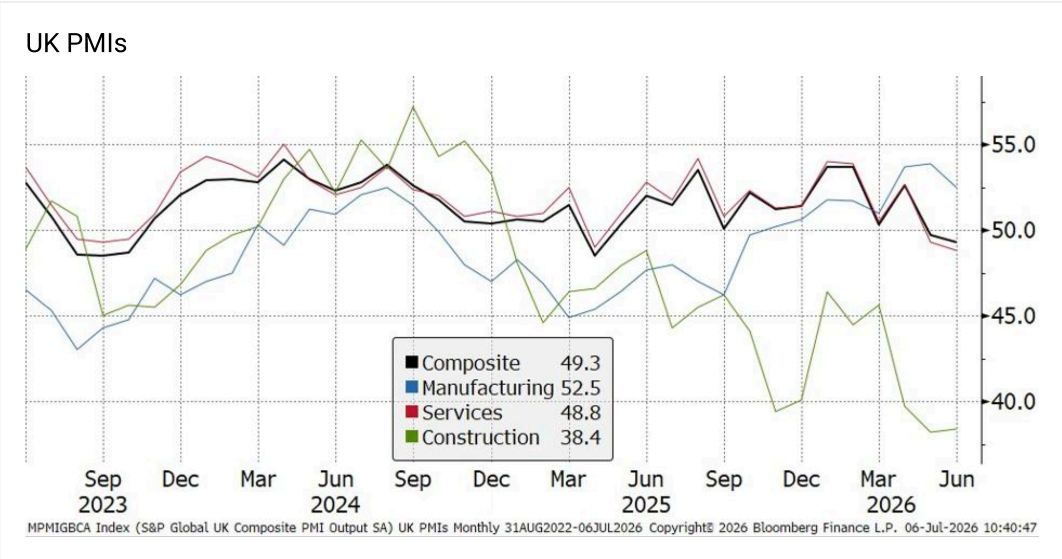
UK reports key labor market data Tuesday. Average weekly earnings for the three months ended in May are expected to pick up a tick to 4.5% y/y, earnings ex-bonus are expected to remain steady at 3.4% y/y, and private sector earnings ex-bonus are expected to remain steady at 2.9% y/y. Elsewhere, the unemployment rate is expected to remain steady at 4.9%. Despite the modest uptick in headline wages, other measures of underlying wage growth have slowed steadily and significantly and this certainly supports the BOE's cautious stance.



June UK retail sales data Friday will also be important. Headline is expected to slow seven ticks to 2.5% y/y and ex-auto fuel is expected to slow nearly a point and a half to 3.3% y/y. BRC sales data suggest modest downside risks as UK consumption appears to be softening.



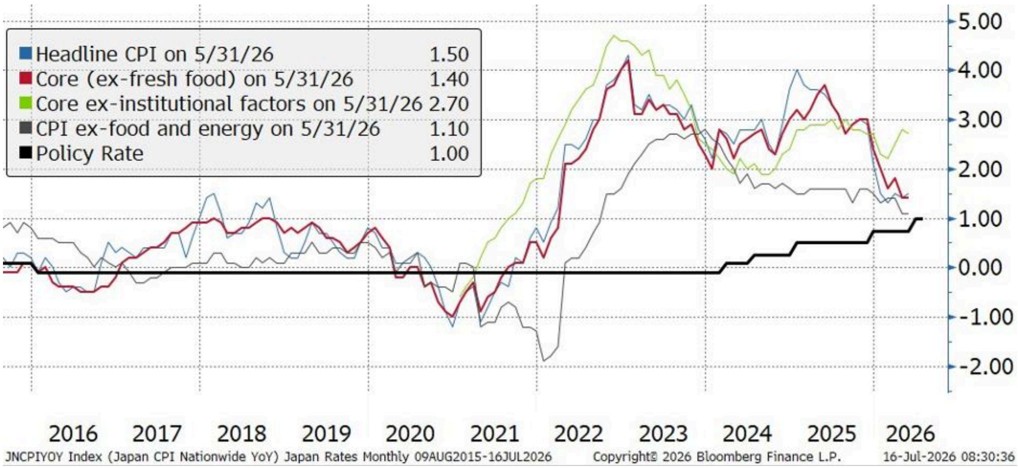
S&P Global preliminary July PMIs will also be reported Friday. Manufacturing is expected to fall half a point to 52.0, services PMI is expected to rise six ticks to 49.4, and the composite PMI is expected to rise four ticks to 49.7. If so, the composite PMI would reverse the June drop but would still remain below the 50 boom/bust line. Softness in the UK economy is why we expect the BOE to retain a cautious tone about hiking rates.



Asia

Japan highlight will be June national CPI data Friday. Headline is expected to pick up two ticks to 1.7% y/y core (ex-fresh food) is expected to pick up two ticks to 1.6% y/y, and core ex-energy is expected to remain steady at 1.8% y/y. Tokyo CPI data released earlier this month suggests some modest upside risks to the national readings. More importantly, the Bank of Japan will release its underlying inflation (ex-institutional factors) readings next week. In recent months, the bank has been focusing more on underlying inflation in order to justify its tightening cycle. The next policy meeting is July 30-31 and no change is expected after the bank hiked rates at its previous meeting in June. Looking ahead, the next hike is priced in for December.

Japan Rates

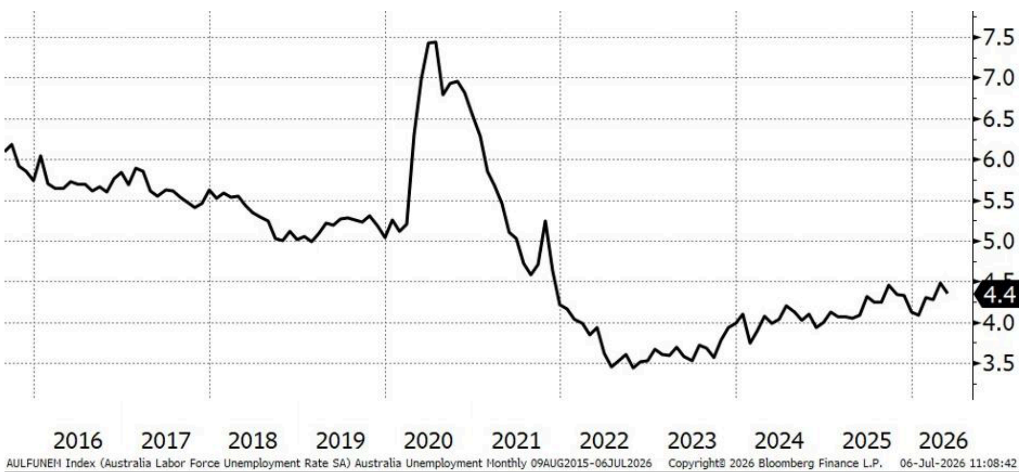


S&P Global preliminary July PMIs reported Friday will also be important. The composite PMI rose nearly two points to 52.8 in June and was the highest since March.

Japan PMIs

Australia highlight will be June jobs data Thursday. Consensus sees 15.0k jobs created vs. 40.3k in May, while the unemployment rate is expected to remain steady at 4.4%. If so, it would remain just below the cycle high of 4.5% in April. Signs of softness in the economy had led the Reserve Bank of Australia to become a bit more cautious. At the last meeting June 16, the bank kept rates steady at 4.35% in a unanimous vote. Governor Bullock said a hike was not discussed and added that "You've got to expect a slowing in the economy, and when we see it, people shouldn't be alarmed about that. That's what actually has to happen in order to bring inflation down." Next meeting is August 11 and no change is expected. Looking ahead, the swaps market sees around 50% odds of one more hike over the next twelve months.

Australia Unemployment

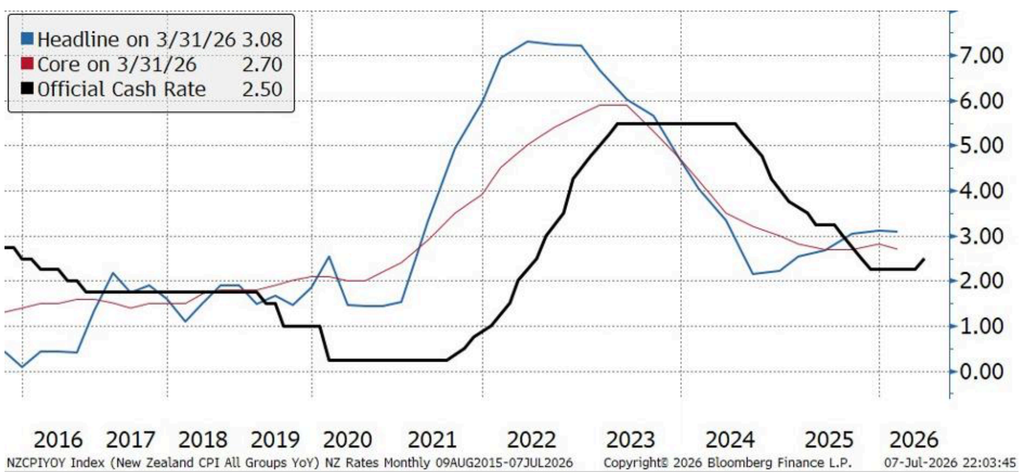


S&P Global preliminary July PMIs reported Friday will also be important. The composite PMI rose nearly two points to 50.4 in June and fully reversed the May drop.

Australia PMIs

New Zealand highlight will be Q2 CPI data Tuesday. Headline is expected to rise 1.4% q/q vs. 0.9% in Q1, while the y/y rate is expected to pick up nearly a full point to 4.0% y/y. No wonder the Reserve Bank of New Zealand hiked rates 25 bp to 2.5% at its July 8 meeting. The next meeting is September 2 and another 25 bp hike then is nearly 90% priced in. We note that CPI tradeable is largely driving inflation higher (2.5% q/q expected), ostensibly from higher energy prices, while CPI non-tradeable (0.6% q/q expected) suggests fairly tame domestic inflation. That is why we are skeptical that the RBNZ will hike another 100 bp over the next twelve months.

New Zealand Rates



Korea highlight will be Q2 GDP data Thursday. Growth is expected at 0.4% q/q vs. 1.8% in Q1, while the y/y rate is expected to slow three ticks to 3.5%. The Bank of Korea just started a tightening cycle last week with a 25 bp hike to 2.75% as it tries to contain the inflationary impact of the AI-related chips boom. Governor Shin said that the bank's 2026 growth forecast of 2.6% from May now appears too low and would be revised up "substantially" at its August meeting. Shin also stressed that "The next several policy meetings are all live. We'll keep all options open and base our decisions on the incoming data." The swaps market is pricing in slightly more than 100 bp of total tightening over the next twelve months.

The outlook for AI-related growth and investment has gotten cloudier after Chinese company Moonshot last week introduced its powerful new AI tool that reportedly rivals offerings from the top US companies. If it is successfully rolled out, this new AI tool would feed into fears that the huge ongoing investments by US AI companies may no longer be economically viable. This is of course still a developing story but it is yet another huge warning sign for complacent markets.

Korea GDP Growth, %