Weekly Market Brief

AIB Treasury Economic Research Unit

28th September–2nd October 2020

Time to Double Down

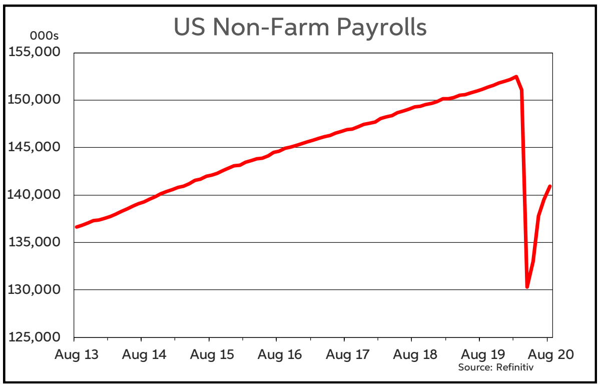
- **The number of new coronavirus cases has increased in recent weeks in many countries, posing a growing threat to the economic recovery.** Although, the number of people requiring hospital treatment and daily deaths are relatively low compared to earlier in the year. However, governments especially in Europe, are still responding by introducing partial lockdowns and increased restrictions on activity, especially around social interactions. The impact of the re-emergence of the virus is being most keenly felt in the services sector, with flash PMI data for September showing a clear loss of momentum, most notably again in Europe. Financial markets are increasingly concerned about the rising number of new virus cases. The S&P has fallen by almost 10% so far in September, bond yields have declined, credit spread are widening, oil prices have fallen back, while the dollar and yen are in the ascendancy on forex markets. These are all classic signs of a flight to quality in risk adverse markets.

- **Markets should not be overly surprised as a second wave to the virus has been widely anticipated once economies had opened up.** It is not all doom and gloom. The second wave has so far not proved anything like as severe as the first wave. Good progress is also being made in developing a vaccine, which it is expected to become quite widely available over the course of 2021. Economies have also shown resilience by rebounding strongly over the summer. The OECD now sees the world economy contracting by 4.5% this year, compared to its previous forecast for a 6% decline. It is still projecting 5% global growth for next year. However, there is no doubt that the rebound in activity is now losing momentum and a challenging period looks to be in store for the world economy over the coming six months or so.

- **Enormous monetary and fiscal supports have been put in place to help counter the unprecedented shock that the global economy has suffered.** Central bankers, though, remain worried about the economic outlook and are seeking to assure markets that monetary policy will remain very loose for years to come. Short-term, they are urging that more support needs to be provided by fiscal policy to help sustain the recovery. This is not the time for governments to change course and end supports when a second wave is underway. Rather they need to double down, as otherwise we could face even greater economic challenges next year and beyond.

- **The UK Chancellor seems to be listening, unveiling some new measures this week to support the economy.** The Irish Finance Minister may well do likewise in next month's budget. However, across the Atlantic, a political logjam in Washington ahead of the November elections means that additional fiscal support may be delayed until early next year. If governments can sheppard businesses and labour markets through the next six months, there is every chance of a sustained and robust recovery taking hold during 2021 and into 2022, given the likely arrival of a vaccine. Pent-up demand, elevated household savings, and the supportive stance of monetary and fiscal policy all highlight the scope for economies to rebound in 2021.

- **Data-wise, the highlight this week is the release of the US employment report for September.** The forecast is for payrolls to have increased by 920k, although, this implies a marked slowing in jobs growth. Meanwhile the unemployment rate is expected to edge lower to 8.2% from 8.4%. There are also a number of updates from the consumer side of the economy. They include the August print of consumption, which will be of keen interest, as this was the first month many households no longer received enhanced income benefits. Indeed, the August release of consumer confidence saw the index move to fresh lows, falling to 84.8. Consumer confidence is projected to rise to 89 in September and while this would be welcome, the index will remain well below its pre-Covid peak of 130.7.



- **The August reading of core-PCE, the Fed's preferred measure of inflation is also due.** It is anticipated to have edged higher to 1.4% from 1.3% in July. The US calendar also contains the September reading of the manufacturing ISM. It is expected to remain at its current level 56.0. In terms of hard data for the sector, factory orders are forecast to have increased by 1.3% in August.

- **In the Eurozone, the flash reading of September HICP is the highlight.** Headline inflation declined into negative territory in August, at –0.2%, as the core rate fell to a record low 0.4%. While temporary factors such as later than usual summer sales distorted the data, underlying price pressures have weakened due to subdued demand and labour market slack. Headline inflation is anticipated to remain negative at –0.2% in September. The EC sentiment indices are also out this week. Another increase in pencilled in for the headline index, although the pace of improvement is expected to slow in September as the resurgence in infections prompted the re-imposition of restrictions. The Eurozone unemployment rate is expected to tick higher to 8.1% in August from 7.9%. German retail sales for August will also be closely watched, as the index slipped backwards in July. The forecast is for a modest 0.7% increase. **In the UK, house price data for September are the highlight.**

Interest Rate Forecasts

	Current	End Q3 2020	End Q4 2020	End Q1 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q3 2020	End Q4 2020	End Q1 2021
EUR/USD	1.1628	1.19	1.21	1.23
EUR/GBP	0.9150	0.92	0.92	0.92
EUR/JPY	122.81	127	127	127
GBP/USD	1.2706	1.29	1.32	1.34
USD/JPY	105.61	107	105	103

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 28th September - Friday 2nd October

This Week: **ECB Speakers:** Schnabel, **Lagarde** (Monday); Mersch (Tuesday); **Lagarde,** Lane (Wednesday); Fernandez-Bollo, Lane, Enria (Thursday); de Guindos (Friday)

BOE Speakers: Haldane (Wednesday); Haldane (Thursday)

Fed Speakers: Clarida, Quarles (Monday); Bowman (Wednesday); Bowman (Thursday)

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
Mon 28th	***IRL:***	***11:00***	***Retail Sales (August)***	***+1.5% (+6.4%)***	***+1.1% (+5.7%)***
Tue 29th	***IRL:***	***01:01***	***AIB manufacturing PMI (September)***	***52.3***	
	FRA:	07:45	Consumer Confidence (September)	94	92
	EU-19	10:00	Final Consumer Confidence (September)	-13.9	-13.9
	EU-19:	10:00	Business Climate (September)	-1.33	
	EU-19:	10:00	EC Economic Sentiment Index (September)	87.7	89.4
			- Industrial / Services	-12.7 / -17.2	-9.5 / -16.0
	IRL:	***11:00***	***Unemployment rate***	***5.2%***	***5.2%***
			- Covid-19 Adjusted Rate	***15.4%***	***15%***
	GER:	13:00	Flash HICP (September)	(-0.1%)	(-0.2%)
	US:	14:00	Case-Shiller House Prices (September)	+0.0% (+3.5%)	
	US:	15:00	Consumer Confidence	84.8	89.0
Wed 30th	**JPN:**	00:50	Industrial Output (August)	+8.7% (-14.7%)	+1.5% (-11.9%)
	JPN:	00:50	Retail Sales (August)	(-2.8%)	(-3.5%)
	CHINA:	02:00	NBS Manufacturing PMI (September)	51.0	51.2
			- Non-Manufacturing	55.2	
	GER:	07:00	Retail Sales (August)	-0.9% (+4.2%)	+0.7% (+5.0%)
	UK:	07:00	GDP (Q2: Final Reading)	-20.4% (-21.7%)	-20.4% (-21.7%)
	UK:	07:00	Nationwide House Prices (September)	+2.0% (+3.7%)	+0.5% (+4.6%)
	FRA:	07:45	Consumer Spending (August)	+0.5%	-0.1%
	FRA:	07:45	Preliminary HICP (September)	-0.1% (+0.2%)	
	GER:	09:55	Unemployment (September)	6.4%	6.4%
	ITA:	10:00	Preliminary HICP (September)	-1.3% (-0.5%)	
	US:	13:30	GDP (Q2: Final Reading)	-31.7%	-31.7%
	US:	13:30	Core PCE Prices Final (Q2)	-1.0%	-1.0%
	US:	15:00	Pending Home Sales (August)	+5.9%	
Thurs 1st	**JPN:**	00:50	Tankan Big manufacturing Index (Q3)	-34	-23
			- Non-manufacturing	-17	-17
	IRL:	***01:01***	***AIB Services PMI (September)***	***52.4***	
	EU-19:	09:00	Final Markit Manufacturing PMI (September)	53.7	53.7
	UK:	09:30	Final CIPS/Markit Manufacturing PMI (Sept.)	54.3	54.3
	EU-19	10:00	PPI (August)	+0.6% (-3.3%)	
	EU-19:	10:00	Unemployment Rate (August)	7.9%	8.1%
	US:	13:30	Personal Income / Consumption (August)	+0.4% / (+1.9%)	-2.3% / (+0.7%)
			- Core PCE Prices	+1.3%	+1.4%
	US:	13:30	Initial Jobless Claims (w/e 21st September)	870,00	
	US:	14:45	Final Markit Manufacturing PMI (September)	53.5	53.5
	US:	15:00	Construction Spending (August)	+0.1%	+0.9%
	US:	15:00	Manufacturing ISM (September)	56.0	56.0
Fri 2nd	**JPN:**	00:30	Unemployment/ Job Applicants (August)	2.9% / 1.08	3.0% / 1.05
	EU-19:	10:00	Preliminary HICP (September)	(-0.2%)	(-0.2%)
			- Ex-Food & Energy	(+0.6%)	(+0.5%)
	US:	13:30	Non-Farm Payrolls (September)	+1,371,000	920k
			- Unemployment	8.3%	8.2%
			- Average earnings	(+4.7%)	(+4.8%)
	US:	15:00	Factory Orders (August)	+6.4%	+1.3%
	US:	15:00	Final Michigan Consumer Sentiment (Sept.)	78.9	79.0
	IRL:	***16:30***	***Exchequer Returns (September)***	***Sept '19: +€38m***	***Sept'20: -€11bn***

♦ *Month-on-month changes (year-on-year shown in brackets)*
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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