Weekly Market Brief

AIB Treasury Economic Research Unit

13th - 17th April 2020

Easter Rising

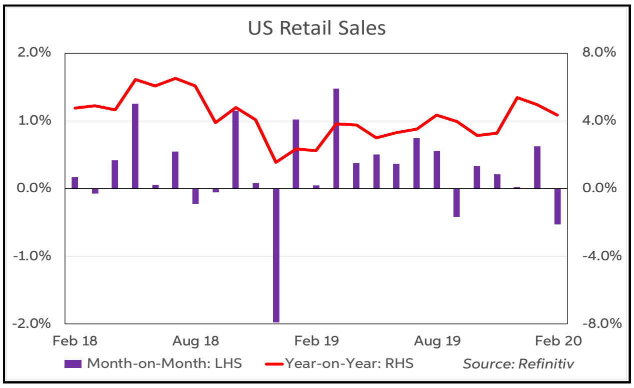
- **Stock markets sold off heavily in the early stages of the coronavirus pandemic.** This was not any surprise in the circumstances and given also that they were at very elevated levels, having registered gains of circa 30% in 2019, despite a slowdown in global growth. The main global stock markets fell by 30 to 40 per cent between mid-February and mid-March. **However, stock markets have been travelling in the opposite direction to global economic forecasts since then. US stock markets are up by between 20 and 25 per cent from their lows**, with the Eurostoxx 50 up 20% and the Nikkei rising by 17% since mid-March. This is quite surprising given the unfolding data, which are revealing the enormous scale of the shock to economies from the coronavirus and the lockdown measures to contain it.

- **As a result, GDP growth forecasts are being slashed. The OECD has estimated that output could fall by between 20 and 30 per cent across developed economies during the shutdowns.** The corporate earnings season this spring is not going to be pleasant, with disappointing Q1 results and sharply lower guidance for Q2. **Corporate earnings and profitability are going to take a hammering in 2020** given the extent of the global demand shock. Many companies in sectors such as energy, airlines, hospitality and other areas of discretionary consumer spending are now in survival mode. Meanwhile, there is considerable uncertainty around the timing and scale of the economic recovery that will follow when the coronavirus subsides and restrictions are lifted. It may be that stock markets believe that the unprecedented measures taken by governments and central banks to mitigate the effects of the crisis have laid the foundations for a strong recovery. Nonetheless, stock markets look vulnerable to a renewed fall this spring.

- **Bond markets, on the other hand, look better underpinned despite rising supply. This is due to the strong support of central banks** through their large scale QE asset purchase programmes. This has ensured access to funding at low costs for governments despite exploding budget deficits. The strength of bond markets was highlighted by Ireland's ability to raise substantial funding at a rate of just 0.25% this week. The NTMA sold €6bn in a new 2027 bond, but the total order book was over €33bn. This is in marked contrast to the financial crisis over a decade ago, when Ireland was shut out of capital markets and so was unable to fund, thus requiring an IMF-led bailout. The really important thing is that this time, the ECB is standing full square behind Eurozone sovereign debt markets.

- **One thing, though, that will concern the ECB is despite QE, there has been a marked rise in bond yields across the Eurozone over the past month.** Ten year government bond yields have risen by 40-60bps, including in Germany. Indeed, the whole yield curve has shifted upwards. This is in marked contrast to the US and UK where large rate cuts have helped anchor the bond curve. **Money market rates have also risen in the Eurozone** recently by circa 20bps. All this may force the ECB to reconsider whether it needs to cut its deposit rate, which it has left unchanged at -0.5% during this crisis. Markets don't think so, but there has been an unintended **tightening of financial conditions in the Eurozone that the ECB will be anxious to see reversed.**

- **This week, initial evidence of the impact the coronavirus is having on the key consumer sector of the US economy will be provided in the March retail sales report.** Panic buying by households as the coronavirus took hold will have helped to support sales somewhat in the month, but is unlikely to have offset much of the impact of the closure of retail outlets. The headline index is forecast to have fallen by a sharp 6.4%, with a drop-off in car sales in the month. A less severe, but still sizeable, 2.5% decline is expected for the ex-autos measure. It is envisaged that the virus outbreak will also see industrial output contract by 4.1% in March.



- **With regard to data for April, a number of survey indices are due for release.** These include the Philly Fed index, the Empire State index and the NAHB measure of homebuilder sentiment. Sharp falls are projected in all three. Meanwhile, weekly jobless claims figures will continue to attract significant attention, while the Fed's Beige Book will be looked to for an assessment of economic conditions ahead of the next FOMC meeting.

- **In the Eurozone, there is a sparse look to the data schedule.** Indeed, the only release of any note is the February print of industrial production, which in any case is now outdated. **There is also little out of interest in the UK this week**. **Elsewhere, Chinese GDP figures for the opening quarter of the year are due.** It will be interesting to see what impact the coronavirus and lockdowns put in place to halt its spread have had on activity. However, the usual caveat continues to apply when viewing official Chinese data. The forecast is for the economy to have contracted by 10% in Q1, leaving the year-on-year rate at –6.0%. **Meantime, the IMF will this week publish its updated growth forecasts.**

Interest Rate Forecasts

	Current	End Q2 2020	End Q3 2020	End Q4 2020
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 Q2 2020	End Q3 2020	End Q4 2020
EUR/USD	1.0929	1.09	1.10	1.11
EUR/GBP	0.8769	0.88	0.88	0.89
EUR/JPY	118.90	117	118	120
GBP/USD	1.2461	1.24	1.25	1.25
USD/JPY	108.78	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 13th - Friday 17th April 2020

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Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**Fed Speakers:**		Bullard (Tuesday); Bostic (Wednesday); Evans (Thursday)		
Mon 13th	**IRL/UK/Most EU:**		**Easter Monday (Market Holiday)**		
Tue 14th	**CHINA:**		Trade Balance (March)	-$7.1bn	€18.0bn
			- Exports	(-17.2%)	(-15.0%)
Wed 15th	**FRA:**	07.45	Final HICP (March)	(+0.7%)	(+0.7%)
	ITA:	09.00	Final HICP (March)	(+0.1%)	(+0.1%)
	US:	13.30	NY Fed / Empire State Index (April)	-21.50	-35.00
	US:	13.30	Retail Sales (March)	-0.5%	-6.4%
			- Ex-Autos	-0.4%	-2.5%
			- Ex-Gas, Autos & Building Materials	+0.0%	
	US:	14.15	Industrial Production (March)	+0.6%	-4.1%
			- Capacity Utilisation	77.0%	73.8%
			- Manufacturing	+0.1%	
	US:	15.00	NAHB Homebuilder Sentiment (April)	72	60
	US:	19.00	Fed's Beige Book Published		
Thurs 16th	**UK:**	00.01	BRC Retail Sales (March)	(-0.4%)	
	GER:	07.00	Final HICP (March)	(+1.3%)	(+1.3%)
	EU-19:	10.00	Industrial Production (February)	+2.3% (-1.9%)	-0.1% (-1.9%)
	US:	13.30	Housing Starts (March)	1.599m / -1.5%	1.307m / -18.3%
			- Building Permits	1.452m / -6.3%	1.323m / -8.8%
	US:	13.30	Initial Jobless Claims (w/e 11th April)	6,606,000	
	US:	13.30	Philly Fed Index (April)	-12.7	-30.0
Fri 17th	**CHINA:**	03.00	GDP (Q1)	+1.5% (+6.0%)	-10.0% (-6.0%)
	CHINA:	03.00	Industrial Output (March)	(-13.5%)	(-5.6%)
	EU-19:	10.00	Construction Output (February)	+3.6%	
	EU-19:	10.00	Final HICP (March)	(+0.7%)	(+0.7%)
	IRL:	***11.00***	***Residential Property Prices (February)***	***+0.7% (+1.8%)***	***+0.0% (+1.9%)***
	US:	15.00	Leading Indicators' Index (March)	+0.1%	-6.0%

♦ *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