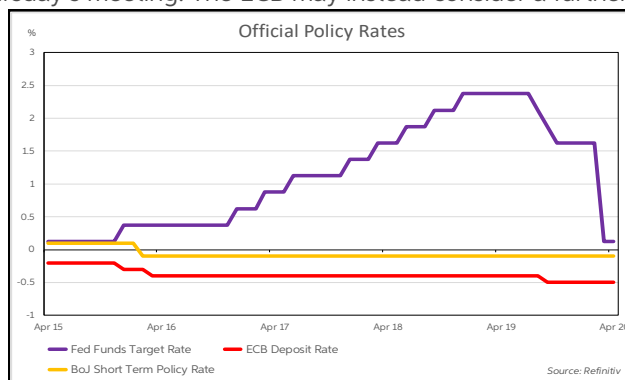


The Only Show in Town

- Eurozone leaders met again this week for discussions on designing a recovery plan to tackle the enormous economic crisis triggered by the coronavirus outbreak.** The European Commission has been tasked with the job, but major differences exist between member states on the size of the proposed rescue fund and whether the monies should be channelled through loans or grants. Meanwhile, Eurozone countries also remain very badly divided on debt mutualisation and thus are unable to agree to the issuance of Eurobonds or so-called corona bonds. In these circumstances, the ECB remains the only show in town in preventing the deep economic crisis morphing into an enormous debt crisis in the euro area.
- The good news is that the ECB has the appetite, the fire power and it seems the political backing to prevent a debt crisis occurring.** Ironically, while some EU countries and their governments have great difficulty in digesting mutualised bond issuance, they have much less difficulty with the ECB buying member states sovereign bonds in enormous quantities. The reason would appear to be that it is national debt and so remains on those member states' balance sheets. The alternative to the ECB's bond buying programme would be a debt crisis that risks a break up of the EU and the single currency. This is the last thing the stronger member states of the EU would want as their re-launched national currencies would appreciate sharply, not to mention the even deeper recession it would cause right across Europe.
- However, the ECB's new €750bn Pandemic Emergency Purchase Programme (PEPP) has met with limited success in lowering Eurozone bond yields since it was launched in mid-March.** Italian bond yields initially fell back very sharply, but have drifted higher this month. So also have Spanish bond yields. In launching the PEPP, the ECB indicated that it was fully prepared to increase the size of its bond purchases and adjust their composition by as much as necessary, as well as maintain the programme for as long as needed. Thus, we could see an expansion of the PEPP announced possibly as early as the ECB Council meeting on Thursday. The ECB has the firepower to ramp up the programme to whatever levels it feels is warranted. Essentially, the ECB is the real national central bank for every Eurozone member state and could become the lender of last resort to their governments in the same way as the Fed in the US and BoE in the UK. A big shift in ECB policy, should yields levels rise sharply in peripheral countries, would be to become active in the primary market and buy bonds at issuance from government rather than just through the secondary market as happens presently.
- Meanwhile, a rise in interbank borrowing costs in peripheries may be a factor in pushing 3-month Euribor to a 4-year high in recent days, a development which is likely to be of concern to the ECB Governing Council.** Combined with the upward drift in bond yields, it represents a tightening of monetary conditions in the Eurozone. The account/minutes of the last ECB policy meeting referenced a remark that consideration could be given to a cut in official interest rates as part of the policy easing package announced at that meeting. The issue may be revisited again in light of the upward pressure on interbank rates. However, there has been no hint that a rate cut is in the offering at Thursday's meeting. The ECB may instead consider a further easing of liquidity measures—indeed, this week the ECB announced it will continue to accept bonds that lose their investment grade status as collateral until September 2021.
- The Fed will also hold its April policy meeting this week.** The central bank has carried out substantial easing since March, including cutting the fed funds target range by 150bps to 0.00-0.25%, open-ended asset purchases and the establishment of a raft of other lending facilities. As a result of the limited policy space now available, it is unclear if the FOMC will opt to take further action at this stage, particularly given that financial market volatility has subsided significantly. **Similarly, the BoJ will also likely remain on hold this week,** though it may tweak its QE programme.
- Data-wise, the highlight of a busy Eurozone schedule is the first estimate of Q1 GDP.** The imposition of Covid-19 lockdowns from March is expected to see output drop by 2.8% in the quarter. This would represent the economy's worst performance on record, but far worse is to come in Q2. The EC sentiment indices will likely reaffirm the abysmal outlook, with the headline index forecast to have plunged to 75 from 94.5 in April. Meantime, the jobless rate is projected to have moved up to 7.7% in March on the back of the virus related restrictions. It will spike higher in April. On the inflation front, headline HICP looks to have decelerated to 0.0% in April on the collapse in oil prices.
- The first reading of GDP for Q1 will also feature in the US.** It is anticipated that Covid-19 restrictions will see output contract. The forecast is for GDP to fall by 4.0% in annualised terms. As in the Eurozone, the outlook for Q2 is bleaker. In terms of timelier releases, the manufacturing ISM for April is due. **Elsewhere, the UK calendar has a barren look to it this week.**



	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	1.0801	1.09	1.10	1.11
EUR/GBP	0.8757	0.88	0.88	0.89
EUR/JPY	116.12	117	118	120
GBP/USD	1.2331	1.24	1.25	1.25
USD/JPY	107.49	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:				
Mon 27th	JPN:	03.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
Tue 28th	JPN:	00.30 Unemployment / Jobs: Applicants (March)	2.4% / 1.45	2.5% / 1.40
	FRA:	07.45 Consumer Confidence (April)	103	83
	UK:	11.00 CBI Distributive Trades (April)	-3	-40
	IRL:	11.00 Retail Sales (March)	-4.3% (-0.3%)	-7.0% (-6.1%)
	US:	13.30 Advance Goods Trade Balance (March)	-\$59.89bn	
	US:	14.00 Case-Shiller House Prices (February)	+0.3% (+3.1%)	
	US:	15.00 Consumer Confidence (April)	120	85.0
Wed 29th	JPN:	Showa Day (Market Holiday)		
	EU-19:	10.00 M3 Annual Growth (March)	(+5.5%)	(+5.4%)
	EU-19:	10.00 Business Climate (April)	-0.28	
	EU-19:	10.00 Economic Sentiment Index (April)	94.5	75.0
		- Industrial / Services / Consumer	-10.8/-2.2/-22.7	-25.0/-25.8/-22.7
	GER:	13.00 Preliminary HICP (April)	(+1.3%)	(+0.6%)
	US:	13.30 GDP (Q1: First Reading)	+2.1% s.a.a.r.	-4.0% s.a.a.r.
	US:	15.00 Pending Home Sales (March)	111.5 / +2.4%	100.4 / -10.0%
	US:	19.00 Fed Interest Rate Announcement	0.00-0.25%	0.00-0.25%
	US:	19.30 Fed Press Conference		
Thurs 30th	JPN:	00.50 Industrial Output (March)	-0.3%	-5.2%
	CHINA:	02.00 NBS Manufacturing PMI (April)	52.0	51.0
		- Non-Manufacturing	52.3	
	FRA:	06.30 GDP (Q1: First Reading)	-0.1%	-2.9%
	GER:	07.00 Retail Sales (March)	+1.2%	-7.5%
	FRA:	07.45 Consumer Spending (March)	-0.1%	
	FRA:	07.45 Preliminary HICP (April)	(+0.8%)	(+0.2%)
	SPA:	08.00 GDP (Q1: First Reading)	+0.4% (+1.8%)	-4.1% (-2.9%)
	GER:	08.55 Unemployment (April)	5.0%	5.2%
	ITA:	09.00 Unemployment (March)	9.7%	10.5%
	ITA:	10.00 Preliminary HICP (April)	(+0.1%)	(-0.4%)
	EU-19:	10.00 Unemployment (March)	7.3%	7.7%
	EU-19:	10.00 Preliminary HICP (April)	(+0.7%)	(+0.0%)
		- Ex-Food & Energy	(+1.2%)	(+0.8%)
	EU-19:	10.00 GDP (Q1: First Reading)	+0.1% (+1.0%)	-2.8% (-3.3%)
	ITA:	11.00 GDP (Q1: First Reading)	-0.3% (+0.1%)	-5.0% (-3.9%)
	EU-19:	12.45 ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.50%	-0.50%
	US:	13.30 Personal Income / Consumption (March)	+0.6% / +0.2%	-1.4% / -5.0%
		- Core PCE Prices	(+1.8%)	(+1.7%)
US:	13.30 Initial Jobless Claims (w/e 25th April)	4,427,000	3,500,000	
US:	13.30 Employment Cost Index—Wages (Q1)	(+2.9%)		
Fri 1st	Most EU-19:	Labour Day (Market Holiday)		
	IRL:	01.01 AIB Manufacturing PMI (April)	45.1	
	UK:	09.30 BoE Mortgage Approvals (March)	73,546	60,000
	UK:	09.30 Final CIPS / Markit Manufacturing PMI (April)	47.8 / 32.9 (p)	32.8
	US:	14.45 Final Markit Manufacturing PMI (April)	48.5 / 36.9 (p)	36.9
	US:	15.00 Manufacturing ISM (April)	49.1	36.7

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.