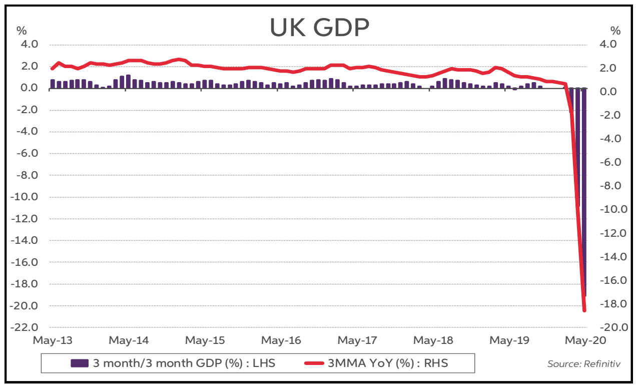
# Weekly Market Brief

AIB Treasury Economic Research Unit

10th-14th August 2020

## Ground Zero

- **The week's Bank of England MPC meeting wrapped up the latest round of policy assessments by the main central banks.** The ECB, Fed and BoE all kept policy on hold which was no surprise given the extensive loosening measures implemented in the first half of the year. The economic assessments were also quite similar. Activity is rebounding following the lifting of most lockdown restrictions, with recent data proving stronger than expected. However, central banks are cautious and think it will take at least a couple of years for economies to recover fully from this very deep recession – what the IMF has termed a partial recovery in H2 2020 and 2021. They also emphasise that the outlook remains highly uncertain, with the risks still stacked to the downside. Thus, monetary policy will need to remain very accommodative over the next number of years.
- **In this regard, the central banks indicated that they retain a clear easing bias, committing to implement even further policy loosening if required.** However, they also emphasise the importance of fiscal measures at this time in supporting economies. As Fed Chair Jerome Powell put it, the FOMC has "lending powers not spending powers" and it is spending that will sustain the recent pick-up in economic activity. In terms of their own remaining firepower, the clear preference of central banks is for further QE rather than moving rates even lower. However, forward guidance could also be used in terms of signalling that rates will remain at their current very low levels for even longer, which should flatten curves even more.
- **It is instructive that the ECB has eschewed lowering rates at all in response to the Covid-19 crisis, with the deposit rate already deeply negative at -0.5%.** The Fed is showing no appetite to cut rates further, with short-term rates hovering just above zero, the lower bound of the range for the Fed funds rate. The Bank of England, which has been mulling over the idea of moving to negative rates, appears to be going cold on the idea, judging by some of it comments yesterday. It believes such a move "at this time could be less effective as a tool to stimulate the economy" and that it still has other instruments available. Negative rates, then, seem unlikely to be taken out of the tool box by the BoE, certainly over the remainder of this year.
- **Markets have been listening to central bankers and have scaled back their expectations recently for further rate cuts.** Three month Euribor and Eurodollar futures contracts have largely priced out any further rate cuts by the ECB or Fed. Short sterling contracts are barely pricing in a 10bps BoE rate cut, which would lower the bank rate to zero, but are not looking for official rates to go negative. The big bazookas have been fired then, by both central banks and governments to re-ignite economic activity. They must be hoping that the recovery is sustained, even if it takes a couple of years to overcome the deep recession, as there is not much firepower left in the locker.
- **This week, the highlight of the schedule is the first estimate of UK GDP for Q2.** Following a 2.2% decline in the opening quarter of the year, the expectation is that the economy contracted by a further 20.2%. This largely reflects the impact of lockdown restrictions that were in place in April and for much of May. As these restrictions have been eased, output has begun to rebound. Indeed, GDP is projected to have increased by a significant 8% in June alone. The labour market has been largely protected from the recession by the UK government, which introduced a furloughing scheme to prevent mass lay-offs. In Q2, it is envisaged that employment dropped by a relatively modest 0.9%, while the jobless rate edged up to just 4.2%. The outlook for the labour market, however, is less benign. The Job Retention Scheme will conclude in October, which may induce struggling firms to opt to lay-off workers.




- **In the US, retail sales figures for July will feature.** Sales are forecast to have increased by 1.7% in the month, which would leave them some 1.1% above their end-February levels. This momentum may be hard to maintain, however, given the uncertainty surrounding the pandemic and the recent expiry of enhanced jobless benefits. Indeed, the Michigan measure of consumer sentiment is projected to have dipped for a second consecutive month in August. On the supply side, industrial production is expect to have continued to rebound in July, rising by 3.3% in the month. Meanwhile, it is envisaged that the continuing recovery in oil prices will have lifted the headline inflation rate higher for a second straight month in July. The consensus is for it to have picked up to 0.8% from 0.6%.
- **The Eurozone schedule has a more muted look to it this week.** The flash Q2 reading of employment will be of some interest, though as in the UK only a modest fall is expected due to the widespread rollout of employment support schemes in the bloc during the period. The June print of industrial production is the other main item on the agenda. The available national data suggests that output continued to rebound strongly in the month as Covid-19 restrictions were removed. The forecast is for a significant 10% rise, though this would still leave it some 11.7% down on a year-on-year basis.

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 | 1.1773 | 1.18 | 1.18 | 1.18 |
| EUR/GBP | 0.9029 | 0.91 | 0.88 | 0.88 |
| EUR/JPY | 124.54 | 125 | 126 | 126 |
| GBP/USD | 1.3037 | 1.30 | 1.34 | 1.34 |
| USD/JPY | 105.76 | 106 | 107 | 107 |

Current Rates Reuters, Forecasts AIB's ERU

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# ECONOMIC DIARY

## Monday 10th August - Friday 14th August

| *Date* | *UK & Irish Time (GMT+1)* | | *Release* | *Previous* | *Forecast* |
|---|---|---|---|---|---|
| **This Week:** | **Fed Speakers:** | | Evans (Monday); Daly (Tuesday); Daly, Kaplan, Rosengren (Wednesday) | | |
| **Mon 10th** | **EU-19:** | 09.30 | Sentix Index (August) | -18.2 | -15.2 |
| **Tue 11th** | **UK:** | 00.01 | BRC Retail Sales (July) | +10.9% | |
| | **JPN:** | 06.00 | Economy Watchers' Poll (July) | 38.8 | |
| | **UK:** | 07.00 | ILO Employment (Q2) | -126,000 | -298,000 |
| | | | - Unemployment | 3.9% | 4.2% |
| | **UK:** | 07.00 | Average Weekly Earnings (Q2) | (-0.3%) | (-1.2%) |
| | | | - Ex-Bonus | (+0.7%) | (-0.1%) |
| | **GER:** | 10.00 | ZEW Economic Sentiment (August) | 59.3 | 58.0 |
| | **US:** | 11.00 | NFIB Business Optimism (July) | 100.6 | |
| | **US:** | 13.30 | PPI (July) | (-0.8%) | (-0.6%) |
| **Wed 12th** | **UK:** | 07.00 | GDP (Q2) | -2.2% (-1.7%) | -20.2% (-22.5%) |
| | | | - Month-on-Month (June) | +1.8% | +8.0% |
| | **UK:** | 07.00 | Industrial Output (June) | +6.0% (-20.0%) | +9.4% (-13.1%) |
| | | | - Manufacturing | +8.4% (-22.8%) | +10.0% (-15.0%) |
| | **UK:** | 07.00 | Goods Trade Balance (June) | -£2.8bn | -£5.0bn |
| | | | - Non-EU | £0.6bn | |
| | **EU-19:** | 10.00 | Industrial Production (June) | +12.4% (-20.9%) | +10.0% (-11.7%) |
| | **ITA:** | 10.00 | Final HICP (July) | (+0.9%) | (+0.9%) |
| | **US:** | 13.30 | CPI (July) | (+0.6%) | (+0.8%) |
| | | | - Core | (+1.2%) | (+1.2%) |
| | **US:** | 19.00 | Federal Budget (July) | July 2019: -$120bn | |
| **Thurs 13th** | **FRA:** | 06.30 | Unemployment (Q2) | 7.8% | |
| | **GER:** | 07.00 | Final HICP (July) | (+0.0%) | (+0.0%) |
| | ***IRL:*** | ***11.00*** | ***CPI (July)*** | ***+0.3% (-0.4%)*** | ***-0.1% (-0.3%)*** |
| | ***IRL:*** | ***11.00*** | ***New Dwelling Completions (Q2)*** | ***+4,986 (+17.2%)*** | ***3,150 (-35.0%)*** |
| | **US:** | 13.30 | Initial Jobless Claims (w/e 8th August) | 1,186,000 | |
| **Fri 14th** | **CHINA:** | 03.00 | Industrial Output (July) | (+4.8%) | |
| | **FRA:** | 07.45 | Final HICP (July) | (+0.9%) | (+0.9%) |
| | **EU-19:** | 10.00 | Flash Employment (Q2) | -0.2% (+0.4%) | -1.7% (-1.5% |
| | **EU-19:** | 10.00 | GDP (Q2: Second Reading) | -12.1% (-15.0%) | -12.1% (-15.0%) |
| | **EU-19:** | 10.00 | Trade Balance (June) | €8.0bn | |
| | **US:** | 13.30 | Retail Sales (July) | +7.5% | +1.7% |
| | | | - Ex-Autos | +7.3% | +1.4% |
| | | | - Ex-Autos, Gas & Building Materials | +5.6% | |
| | **US:** | 14.15 | Industrial Production (July) | +5.4% | +3.3% |
| | | | - Capacity Utilisation | 68.6% | 70.3% |
| | | | - Manufacturing Output | +7.2% | +2.9% |
| | **US:** | 15.00 | Prelim. Michigan Consumer Sentiment (Aug.) | 72.5 | 71.5 |

♦ *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*