Weekly Market Brief

AIB Treasury Economic Research Unit

AIB

12th—16th August 2019

Ups and Downs

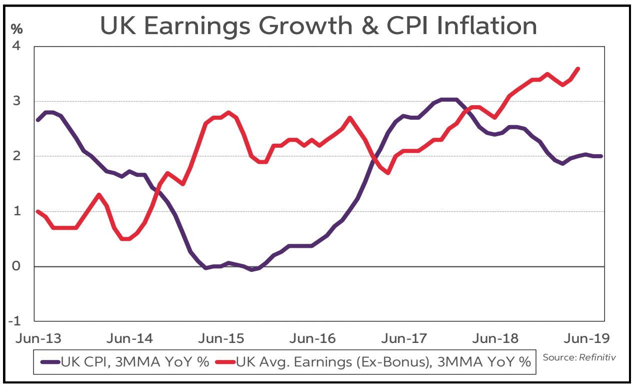
- **In the IMF's most recent assessment of the global economy it noted that growth remained subdued since its last update in April.** The IMF stated that while there were better than expected GDP figures out of economies such as the US and Japan in the first half of the year, stripping out one-off factors that boosted growth in some of the main economies, the underlying picture was one of muted global activity.

- **A key reason for this was the slowdown in global manufacturing.** This reflected both weak business expenditure and reduced consumer spending on 'big ticket' items such as cars. It interpreted these developments as an indication that both business and households are holding back on 'long range' spending amid heightened policy uncertainty, including in relation to global trade and Brexit. One bright spot for the world economy has been the services sector, where activity levels have held up, which in turn has supported employment growth. In terms of its key forecasts, it is projecting that the global economy will grow by 3.2% in 2019 and pick up to 3.5% in 2020. Its latest forecasts represent a modest downgrade (0.1% in both years) on its April projections. Growth was recorded at 3.6% in 2018 and 3.8% in 2017.

- **Of course, it is not just business and consumer sentiment that has been impacted by increased global uncertainty.** The past week has demonstrated the sensitivity of investor sentiment to trade tensions and concerns about the global economy. We have seen a risk averse mood evident on markets. This was reflected in equity markets suffering sharp falls. At the same time, bonds were in demand for their safe haven attributes, which resulted in yields falling further. The yield on 10-year German bunds hit new record lows near -0.6%, while the yield on 10-year US Treasuries fell to close to 1.6%, the lowest level in almost 3 years. Sentiment did improve in the latter part of the week, with yields moving slightly higher and equities recovering lost ground. Looking ahead, we are likely to see market sentiment remain fragile and sensitive to developments and risks relating to the global economy, with a specific focus on trade tensions.

- **Data-wise, in the UK we get the labour market bulletin for Q2**. Employment growth is projected to have eased in the second quarter of the year, reflecting both a lower level of labour supply, as well weaker labour demand given the slowdown of the British economy. The forecast is for quarterly jobs growth of just 0.1%, representing a considerable moderation on the 0.5% rate recorded in the opening quarter of the year. At the same time, the unemployment rate looks to have held at its multi-decade low level of 3.8%. Overall, it is expected that still tight labour market conditions will see underlying wage inflation accelerate to a new cycle-high of 3.8%.

- **However, the upward price pressure from rising earnings growth has been offset by lower energy prices recently, with inflation hovering around the BoE's 2% target rate.** In July, the headline rate is envisaged to have eased to 1.9%. Despite workers enjoying solid real wage gains, the consensus forecast is for retail sales to have dipped by 0.3% in July.



- **The US calendar also includes the July reading of CPI inflation.** It is anticipated that lower energy prices continued to contain inflationary pressures, with the headline measure forecast at 1.7% (1.6% in June). Meanwhile, lower car sales in July are expected to have seen retail sales expenditure rise by just 0.2% in the month. The consensus is that the control measure (ex-gas, autos & building materials), which is viewed as a more accurate gauge of underlying consumer spending, rose by 0.3%. In a timelier update, the flash estimate of the University of Michigan consumer sentiment index likely edged lower in August. On the output side of the economy, industrial production is projected to have increased by just 0.2% in July, as the more uncertain global economic environment continues to weigh on the sector. Meanwhile, we will also get a batch of housing market data this week, including housing starts and building permits for July, as well as the August print of the NAHB Homebuilder Sentiment Index.

- **In the Eurozone, the flash estimate of Q2 employment is due.** Leading indicators suggest that jobs growth remained steady in the quarter. Meantime, industrial output is forecast to have dropped by a sharp 1.3% in June, rounding off a poor H1 for the sector. On a national level, the first reading of Q1 German GDP is expected to confirm that the economy contracted by 0.1% in Q2, leaving the year-on-year growth rate at just 0.2%.

Interest Rate Forecasts	Current	End Q3 2019	End Q4 2019	End Q1 2020
Fed Funds	2.125	2.125	2.125	2.125
ECB Deposit	-0.40	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.75	0.75
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 2019	End Q4 2019	End Q1 2020
EUR/USD	1.1192	1.14	1.16	1.17
EUR/GBP	0.9274	0.90	0.88	0.87
EUR/JPY	118.41	122	122	123
GBP/USD	1.2068	1.27	1.32	1.36
USD/JPY	105.77	106	105	105

Current Rates Reuters, Forecasts AIB's ERU

AIB

ECONOMIC DIARY

Monday 12th—Friday 16th August 2019

AIB Treasury Economic Research

Oliver Mangan
Chief Economist

John Fahey
Senior Economist

Conor Beakey
Economist

Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:					
Mon 12th	**US:**	19.00	Federal Budget (July)	July '18: -$77bn	
Tue 13th	**JPN:**	00.50	Domestic Wholesale Prices (July)	(-0.1%)	(-0.5%)
	GER:	07.00	Final HICP (July)	(+1.1%)	(+1.1%)
	UK:	09.30	ILO Employment (Q2)	+28,000	+70,000
			- Unemployment	3.8%	3.8%
	UK:	09.30	Average Weekly Earnings (Q2)	(+3.4%)	(+3.7%)
			- Ex-Bonus	(+3.6%)	(+3.8%)
	GER:	10.00	ZEW Economic Sentiment Index (August)	-24.5	-30.0
	US:	11.00	NFIB Business Optimisim (July)	103.3	
	US:	13.30	CPI (July)	(+1.6%)	(+1.7%)
			- Core (Ex-Food & Energy)	(+2.1%)	(+2.1%)
Wed 14th	**JPN:**	00.50	Core Machinery Orders (June)	(-3.7%)	(-0.6%)
	CHINA:	03.00	Industrial Output (July)	(+6.3%)	(+5.8%)
	FRA:	06.30	Unemployment (Q2)	8.7%	
	GER:	07.00	GDP (Q2: First Reading)	+0.4% (0.7%)	+0.1% (+0.2%)
	FRA:	07.45	Final HICP (July)	(+1.3%)	(+1.3%)
	UK:	09.30	CPI (July)	(+2.0%)	(+1.9%)
			- Ex-Food & Energy	(+1.8%)	(+1.8%)
	UK:	09.30	PPI Output (July)	(+1.6%)	(+1.7%)
			- Input	(-0.3%)	(+0.3%)
	EU-19:	10.00	Employment (Q2: Flash Estimate)	+0.3%	+0.3%
	EU-19:	10.00	GDP (Q2: Second Reading)	+0.2% (+1.1%)	+0.2% (+1.1%)
	EU-19:	10.00	Industrial Production (June)	+0.9%	-1.3%
	IRL:	***11.00***	***Residential Property Price Index (June)***	***+0.5% (+2.8%)***	***+0.5% (+2.3%)***
Thurs 15th	**UK:**	09.30	Retail Sales (July)	+1.0%	-0.3%
	IRL:	***11.00***	***Goods Trade Balance (June)***	***€6.5bn***	***€5.5bn***
	US:	13.30	NY Fed / Empire State Index (August)	4.30	1.10
	US:	13.30	Initial Jobless Claims (w/e 5th August)	209,000	215,000
	US:	13.30	Philly Fed Index (August)	21.8	10.0
	US:	13.30	Retail Sales (July)	+0.4%	+0.2%
			- Ex-Autos	+0.4%	+0.3%
			- Ex-Gas, Autos & Building Materials	+0.7%	+0.3%
	US:	14.15	Industrial Production (July)	+0.0%	+0.2%
			- Capacity Utilisation	77.9%	77.9%
			- Manufacturing Output	+0.4%	-0.1%
	US:	15.00	NAHB Homebuilders' Sentiment (August)	65	66
Fri 16th	**US:**	13.30	Housing Starts (July)	-0.9% / 1.25m	+0.8% / 1.26m
			- Building Permits	-5.2% / 1.23m	+2.4% / 1.26m
	US:	15.00	Prelim' Michigan Consumer Sentiment (August)	98.4	97.7

♦ *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