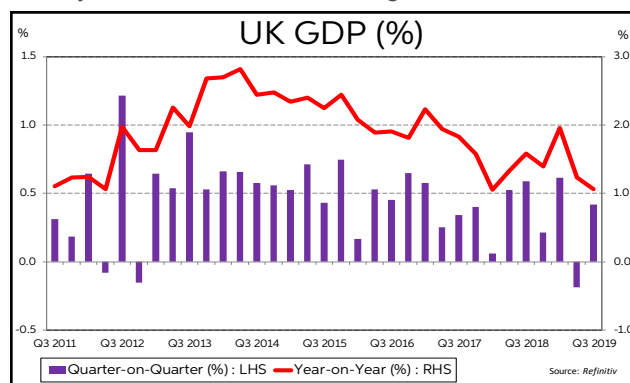


The Jury is Out

- There are certainly some green shoots about following the marked slowdown in global economic activity over the past eighteen months.** The pace of growth in global economic activity accelerated to a ten month high in January according to the latest PMI data. The Global Composite PMI hit 52.2 in the month, up from 51.6 in December, its best level since March 2019. This is the third consecutive monthly rise in the index from its low of 50.8 reached in October. Encouragingly, growth is strengthening in both manufacturing and services and the pick-up is also broad based, with output growing in virtually all economies covered in the survey. New orders recorded their strongest rise for ten months in January, while business optimism rose to a nine-month high.
- The manufacturing PMI rose to 50.4, its best level since last April, with growth in new orders at a 13-month high.** Declining international trade volumes remain a headwind for the sector, but there are positive signs here too. New export orders, which have been below 50 for the past seventeen months, were close to stabilising at 49.5 in January. Activity is much stronger on the services side of economies, with the Global Services Activity Index hitting 52.7 in January, its highest level since last April. New orders and employment expanded at healthy pace, while business sentiment has firmed considerably in recent months. If we turn to the US, a pick-up in activity is also visible in recent strong ISM figures as well as very robust labour market data. There are also signs of a clear rebound in activity in the UK in early 2020, helped by its smooth exit from the EU. Overall, the global economy has started 2020 on a much firmer footing.
- Markets, though, remain cautious, and are pricing in rate cuts in the US and UK. Ten year bond yields are down by 15-25bps year-to-date, while oil prices have fallen by 15%.** Stock market have turned more volatile. The key reason would seem to be the outbreak of the deadly Coronavirus in China, which is causing severe disruptions to economic activity in that country. With vital global supply lines now being impacted, it has the potential to have knock-on effects in other economies also. While hopefully the outbreak will soon be contained, it is likely to depress global activity and sentiment in the next couple of months. Thus, we would expect to see a fall back in the PMIs in February and March, snuffing out the green shoots of recovery. However, previous experiences suggests that the economic impact of the virus should be short lived. Nonetheless, we may have to wait until later in the spring or early summer to see if the green shoots are for real.
- Turning to the week ahead, the highlight of the UK schedule is the Q4 print of GDP.** The data available for the quarter were generally abysmal, as Brexit related uncertainty weighed heavily on activity ahead of the December general election. As a result, there is some downside risk to the consensus forecast for flat growth in the period. In any case, unchanged GDP in the quarter would see the year-on-year growth rate slow to just 0.8%. The softness has been concentrated in the industrial sector. Indeed, despite there being a 0.3% increase pencilled in for December, production is forecast to have declined by 0.6% in the quarter.
- In the US, a busy calendar contains CPI data for January.** Headline inflation is expected to have ticked up in the month from 2.3% to 2.5% on the back of higher energy prices. Meanwhile, it is anticipated that the core rate remained reasonably steady, edging slightly lower from 2.3% to 2.2%.
- January retail sales figures are also set to feature state-side this week.** The rebound seen in sales in December, which followed a very weak October/November, looks to have continued in the month. The forecast is for a solid 0.3% rise in the headline figure, while the 'control' subcomponent (proxy for consumer spending) may have matched this rate. In terms of timelier updates, the University of Michigan measure of consumer sentiment is projected to have remained at a high level at the start of February. In relation to the supply side, it is envisaged that the temporary cessation in production of the Boeing 737 Max will see industrial output fall by 0.2% in January. **Finally, it is worth noting that Fed Chair Powell's semi-annual testimony to Congress will take place on Tuesday and Wednesday.**
- Industrial production numbers are also due in the Eurozone.** Already released national data suggest that the sector had a poor end to the year and the forecast is for a contraction in output of 0.4% in December. This would mean that in 2019, production declined by 1.5%. On the labour market front, employment growth, which has slowed in line with economic activity, looks to have held at just 0.1% in the final quarter of the year. Meanwhile, the first print of Q4 GDP in Germany will also warrant some attention. Sluggish growth looks to have persisted in the period and it is estimated at 0.1%. **Closer to home, attention will be on the Irish general election, which takes place this Saturday,** and the efforts to form a government in its aftermath.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2020	2020	2020
Fed Funds	1.625	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.75	0.50
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 Q1	End Q2	End Q3
		2020	2020	2020
EUR/USD	1.0965	1.12	1.13	1.14
EUR/GBP	0.8469	0.86	0.87	0.89
EUR/JPY	120.16	123	124	125
GBP/USD	1.2945	1.30	1.30	1.28
USD/JPY	109.57	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Haskel (Tuesday)		
	ECB Speakers:	Lagarde , Lane, Schnabel (Tuesday); Lane (Wednesday); Lane, Panetta (Thursday)		
	Fed Speakers:	Bowman, Harker (Monday); Kashkari, Powell , Quarles (Tuesday); Powell , Harker (Wednesday); Mester (Friday)		
	Ireland:	General Election 2020 (Saturday - February 8th)		
Mon 10th	ITA: 09.00	Industrial Output (December)	+0.1%	-0.4%
	EU-19: 09.00	Sentix Index (February)	7.6	4.0
Tue 11th	UK: 00.01	BRC Retail Sales (January)	(+1.7%)	
	UK: 09.30	GDP (Q4: First Reading)	+0.4% (+1.1%)	+0.0% (+0.8%)
	UK: 09.30	Industrial Output (December) - Manufacturing	-1.2% (-1.6%) -1.7% (-2.0%)	+0.3% (-0.8%) +0.5% (-1.1%)
	UK: 09.30	Goods Trade Balance (December) - Non-EU	£5.26bn £1.73bn	-£8.00bn
	US: 11.00	NFIB Business Optimism (January)	102.7	
	IRL: 11.00	New Dwelling Completions (2019)	(+25.2%) / 17,995	(+19.5%) / 21,500
Wed 12th	EU-19: 10.00	Industrial Production (December)	+0.2% (-1.5%)	-0.4% (-0.8%)
	US: 19.00	Federal Budget (January)	Jan '19: \$9.0bn	
	JPN: 23.50	Domestic Wholesale Prices (January)	(+0.9%)	(+1.5%)
Thurs 13th	GER: 07.00	Final HICP (January)	(+1.6%)	(+1.6%)
	IRL: 11.00	Residential Property Prices (December)	+0.1% (+1.4%)	-0.1% (+1.7%)
	US: 13.30	CPI (January) - Core (Ex-Food & Energy)	(+2.3%) (+2.3%)	(+2.5%) (+2.2%)
	US: 13.30	Initial Jobless Claims (w/e 3rd February)	202,000	210,000
Fri 14th	GER: 07.00	GDP (Q4: First Reading)	+0.1%	+0.1%
	EU-19: 10.00	Employment (Q4: First Reading)	+0.1% (+0.9%)	+0.1% (+0.8%)
	EU-19: 10.00	Trade Balance (December)	€19.2bn	
	EU-19: 10.00	GDP (Q4: Second Reading)	+0.1% (p)	+0.1%
	US: 13.30	Retail Sales (January) - Ex-Autos - Ex-Gas, Autos & Building Materials	+0.3% +0.7% +0.5%	+0.3% +0.3% +0.3%
	US: 14.15	Industrial Production (January) - Capacity Utilisation - Manufacturing	-0.3% 77.0% +0.2%	-0.2% 76.9% +0.0%
	US: 15.00	Prelim' Michigan Consumer Sentiment (Feb)	99.8	99.0

◆ 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

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