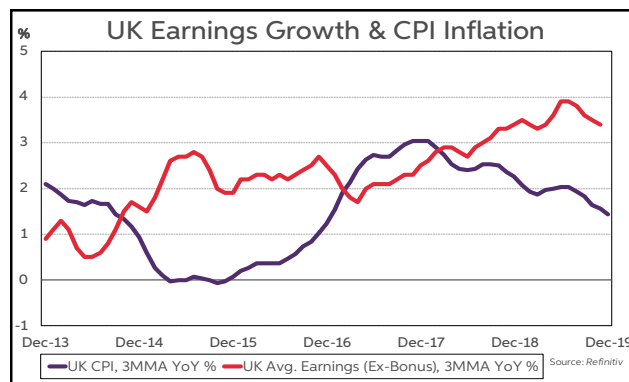


I Want to Break Free

- Range trading has been a dominant feature of forex markets for more than a year now, but a number of developments have seen a break-out by some key currency pairs in the past few days.** The euro has been confined to a \$1.09-1.15 range against the dollar since autumn 2018, but it breached the \$1.09 support level this week, falling to a three year low of \$1.0830. Meanwhile, the currency has fallen to its lowest level against sterling since 2016, dropping to 83p. While the euro has been on the back foot this year, falling by 2% in trade-weighted terms, there has also been broad-based dollar strength. The dollar has climbed by close to 3% in trade-weighted terms since end 2019, making significant gains against a wide range of currencies.
- There are a number of factors at work. Data have been coming in well ahead of expectations in both the US and UK this year, with the strong US employment report for January catching the eye in particular.** By contrast, Eurozone data have generally disappointed expectations, including weak GDP growth of just 0.1% for Q4'19 and a big drop of 2.1% in industrial output in December. Meanwhile, political uncertainty has gripped Germany recently, in contrast to the US and UK where the political landscape is quite settled. The outbreak of the coronavirus in China has also sparked a flight to safety into currencies like the dollar. Notably, the two other main safe-haven currencies, the Swiss franc and yen, have also strengthened this year. Some of these factors are intertwined. There are concerns that the disruption caused by the coronavirus will exacerbate the industrial slump in the Eurozone, a negative for the euro. Meanwhile, following the Conservatives' landslide election win, there are signs that they will loosen fiscal policy considerably to boost UK growth, which is supporting sterling.
- Despite these developments, the market continues to believe that rate cuts are probable in the US and UK, but monetary policy will be kept on hold in the Eurozone.** Indeed, futures contracts are close to pricing in two full 25bps rate cuts over the next year in the US as well as one 25bps cut in the UK. By contrast, they see just a small 5bps reduction in ECB rates this year that would be reversed by end 2021. One has to wonder if this is because the key ECB deposit rate is already deeply negative at -0.5%. The ECB continues to emphasise, though, that it has the scope to do more policy loosening and it is prepared to act if required. Something does not add up here. The Eurozone is the weakest of the main economies. If global economic conditions deteriorate so much this year that rate cuts are required in the US and UK, then the ECB will be following suit, or else recent signs of improving global growth prove sustained and monetary policy stays on hold everywhere.
- This week, a busy UK schedule includes labour market figures for Q4.** Despite sluggish economic activity, jobs growth has held up well. Indeed, numbers in employment are expected to have increased by 153k in the quarter, which would leave the year-on-year growth rate at close to 1%. Meantime, the unemployment rate is judged to have held at its multi-decade low of 3.8%, while underlying wage inflation looks to have moderated further to 3.3%, despite the tightness of labour market conditions. With regard to price pressures, both the headline and core rates of inflation are forecast at 1.5%, up from 1.3% and 1.4%, respectively. Continued solid real wage gains, combined with fading fears of a near-term hard Brexit, are expected to see retail sales rise by a solid 0.5% in January.
- In terms of timelier UK indicators, the release of the flash PMIs for February will be of interest.** The coronavirus outbreak may result in the composite index losing some ground, and the consensus is for it to have dropped to 52.7 from 53.3. In terms of the breakdown, both the manufacturing and services sub-indices likely declined.
- In the US, the flash February PMIs will also feature.** As in the UK, the coronavirus likely weighed on the indices this month. The impact is expected to be mainly seen in the manufacturing PMI, which may have fallen from 51.9 to 51.4. In contrast, the services index looks to have held up reasonably well, edging up slightly from 53.4 to 53.5. An update on the construction side of the economy will also be provided, with the NAHB Homebuilder Sentiment index (February) and housing starts (January) due for release. On the monetary front, we get minutes from the Fed's January meeting but we don't expect there to be any fresh policy insights, given Chair Powell's congressional testimony last week.
- Turning to the Eurozone, the preliminary February PMIs are the highlight.** As in the US, the manufacturing index is expected to have declined to 47.5 from 47.9, but the relatively high exposure of the Eurozone to China poses some downside risk to this forecast. At the same time, the services index is also projected to have moved lower, from 52.5 to 52.2. Taken together, the weak sub-index readings should see the composite PMI decline from 51.3 to 51.0, a level consistent with meagre growth. **In Ireland, the Q4 Labour Force Survey should show that employment growth remained strong in the quarter.**



	Interest Rate Forecasts			
	Current	End Q1 2020	End Q2 2020	End Q3 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 2020	End Q2 2020	End Q3 2020
EUR/USD	1.0856	1.10	1.11	1.12
EUR/GBP	0.8340	0.84	0.86	0.88
EUR/JPY	119.13	121	122	123
GBP/USD	1.3017	1.31	1.29	1.27
USD/JPY	109.72	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Monday); de Guindos, Panetta (Tuesday); de Guindos (Thursday); af Jochnick Lane (Friday)		
	Fed Speakers:	Kashkari (Tuesday); Bostic, Kaplan, Kashkari, Mester (Wednesday); Barkin (Thursday); Bostic, Brainard, Clarida, Kaplan (Friday)		
Mon 17th	US:	President's Day (Market Holiday)		
Tue 18th	UK:	09.30 ILO Employment (3 Months to December) - Unemployment	+208,000 3.8%	+153,000 3.8%
	UK:	09.30 Average Weekly Earnings (3 Months to Dec.) - Ex-Bonus	(+3.2%) (+3.4%)	(+3.0%) (+3.3%)
	GER:	10.00 ZEW Economic Sentiment (February)	26.7	21.2
	IRL:	11.00 LFS –Employment (Q4)	(+2.4%)	(+2.4%)
	US:	13.30 NY Fed / Empire State Index (February)	4.80	5.00
	US:	15.00 NAHB Homebuilder Sentiment (February)	75	75
	JPN:	23.50 Core Machinery Orders (December)	(+5.3%)	(-1.3%)
	JPN:	23.50 Trade Balance (January) - Exports	-¥154.6bn (-6.3%)	-¥1,694.9bn (-6.9%)
Wed 19th	UK:	09.30 CPI (January) - Core (Ex-Food & Energy)	(+1.3%) (+1.4%)	(+1.5%) (+1.5%)
	UK:	09.30 PPI Output (January) - Input	(+0.9%) (-0.1%)	(+1.0%) (-0.3%)
	US:	13.30 Housing Starts (January) - Building Permits	+16.9% / 1.608m -3.7% / 1.420m	-10.8% / 1.434m +1.9% / 1.447m
	US:	13.30 PPI (January)	(+1.3%)	(+1.6%)
	US:	19.00 Minutes from the Fed's January Meeting Published		
Thurs 20th	GER:	07.00 PPI (January)	-0.2%	-0.4%
	GER:	07.00 GfK Consumer Sentiment (March)	9.9	9.8
	FRA:	07.45 Final HICP (January)	(+1.6%)	(+1.6%)
	UK:	09.30 Retail Sales (January)	-0.6% (+0.9%)	+0.5% (+0.6%)
	UK:	11.00 CBI Industrial Orders (February)	-22	
	IRL:	11.00 CPI (January)	+0.2% (+1.3%)	-0.6% (+1.4%)
	EU-19:	12.30 ECB's Account from January Meeting Published		
	US:	13.30 Initial Jobless Claims (w/e 10th February)	205,000	210,000
	US:	13.30 Philly Fed Index (February)	17.0	12.0
	US:	15.00 Leading Indicators' Index (January)	-0.3%	+0.3%
	EU-19:	15.00 Flash Consumer Confidence (February)	-8.1	-8.0
	JPN:	23.30 CPI (January)	(+0.8%)	(+0.9%)
Fri 21st	JPN:	00.30 Flash Jibun Bank Manufacturing PMI (Feb.)	48.8	
	FRA:	08.15 Flash Markit Composite PMI (February)	51.1	51.0
	GER:	08.30 Flash Markit Composite PMI (February)	51.2	50.7
	EU-19:	09.00 Flash Markit Composite PMI (February) - Manufacturing / Services	51.3 47.9 / 52.5	51.0 47.5 / 52.2
	UK:	09.30 Flash Markit Composite PMI (February) - Manufacturing / Services	53.3 50.0 / 53.9	52.7 49.7 / 53.4
	UK:	09.30 PSNB Ex-Interventions (January)	Jan '19: £4.765bn	-£11.400bn
	ITA:	10.00 Final HICP (January)	(+0.5%)	(+0.5%)
	EU-19:	10.00 Final HICP (January) - Ex-Food & Energy	(+1.4%) (+1.3%)	(+1.4%) (+1.3%)
	US:	14.45 Flash Markit Composite PMI (February) - Manufacturing / Services	53.3 51.9 / 53.4	51.4 / 53.5
	US:	15.00 Existing Home Sales (January)	+3.6% / 5.54m	-1.1% / 5.48m

◆ 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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