Weekly Market Brief

AIB Treasury Economic Research Unit

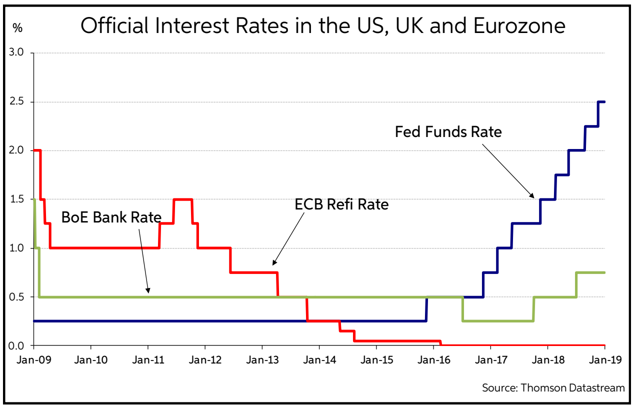
4th-8th February 2019

The Fat Lady Has Not Sung

- **The summersault performed by the Fed at the January FOMC meeting on the outlook for interest rates in the absence of any new data, is the clearest signal yet of central bankers becoming increasingly concerned about the economic outlook.** This follows the January meeting of the ECB which laid the groundwork for a downgrade to its economic forecasts and possible announcement on new liquidity measures at its next meeting. China is already loosening monetary conditions, while it will be interesting to see if the Bank of England maintains its tightening bias at its meeting on Thursday.

- **It may be that central banks have been taken by surprise at the impact the relatively modest withdrawal of monetary stimulus over the past year has had on the global economy.** One of the key transmission mechanisms for monetary policy is financial markets, which did not take the move towards a less accommodative policy very well. Virtually all asset classes had a torrid year in 2018, with stock markets declining, credit spreads widening and bond yields rising in a very unusual confluence of tightening financial markets conditions.

- **The persistence of very subdued inflation gives central banks the latitude to be patient and maintain very loose monetary conditions.** However, the risk of a policy error is growing, especially in the US. It would be a mistake to ignore rising wage pressures, if they persist this year in economies like the US, where labour markets are very tight. It would only be storing up inflationary problems for the future. With Q1 GDP growth likely to be weak in the US, given the government shutdown, severe weather and usual seasonal adjustment problems, the Fed is now off the pitch for some time. It is still too early, though, to call the peak in US rates given the momentum in the economy, the loose macro policies still in place and with the tighter financial market conditions already starting to reverse.



- **Turning to the week ahead, as mentioned above the BoE will hold its February MPC meeting on Thursday.** No changes to policy are anticipated with the bank widely seen as being on hold until the nature of the UK's exit from the EU becomes clearer. In this regard, the moderation of headline inflation in recent months has been a welcome development for the BoE and has reduced the pressure on the central bank to change its policy stance in the near-term. However, yearly underlying average earnings growth is running at over 3% and the labour market is continuing to tighten. Therefore, markets will be looking to the February 'Inflation Report' and Governor Carney's press conference for a better understanding of what these developments mean for the inflation outlook and the likely path for interest rates, once Brexit has been resolved.

- **Data-wise, the UK calendar is very sparse this week.** The only release of note is the January services PMI. Mirroring the manufacturing index, activity in the service sector looks to have eased slightly in the month, in part due to the ongoing uncertainty associated with Brexit.

- **In the Eurozone, the data schedule is also light.** Although, we do get the December reading of the retail sales index. The unwinding of November's 'Black Friday' boost is expected to contribute to sales falling by a steep 1.6% in the month. Meantime, on a national level, French, German and Italian industrial production figures for December are all due. Having performed abysmally in the quarter to-date, output is expected to have rebounded in each of the three countries. The anticipated recovery in the figures may partly reflect an end to the delays to car production associated with new emission standards.

- **Elsewhere, the end of the US government shutdown means the data backlog is slowly being cleared.** This week we will get November factory orders and international trade balance data. Having dropped sharply in October, the former is expected to have edged up slightly in the month. With regard to the latter, it is envisaged that the trade deficit narrowed marginally in November. In terms of more timely updates, the January non-manufacturing ISM is forecast to have been moved down in the month, while remaining at a level that is still indicative of continuing strong growth.

Interest Rate Forecasts

	Current	End Q1 2019	End Q2 2019	End Q3 2019
Fed Funds	2.375	2.375	2.375	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	1.00
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 2019	End Q2 2019	End Q3 2019
EUR/USD	1.1473	1.16	1.17	1.18
EUR/GBP	0.8787	0.88	0.87	0.86
EUR/JPY	125.10	126	128	129
GBP/USD	1.3055	1.32	1.34	1.37
USD/JPY	109.02	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 4th February—Friday 8th February 2019

Date	*UK & Irish Time (GMT)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Mersch, Nowotny (Monday); Praet (Tuesday); Mersch (Thursday)		
	Fed Speakers:		**Powell** (Thursday); Bullard (Friday)		
Mon 4th	**UK:**	09.30	CIPS/Markit Construction PMI (January)	52.8	52.4
	EU-19:	09.30	Sentix Index (February)	-1.5	-0.6
	ITA:	10.00	Preliminary HICP (January)	-0.1% (+1.2%)	
	EU-19:	10.00	PPI (December)	-0.3% (+4.0%)	-0.7% (+3.2%)
	US:	15.00	Factory Orders (November)	-2.1%	+0.4%
	IRL:	***16.30***	***Exchequer Balance (January)***	***€1.53bn***	***€1.50bn***
Tue 5th	**UK:**	00.01	BRC Retail Sales (January)	-0.7%	
	FRA:	08.50	Final Markit Composite PMI (January)	48.7 / 47.9 (p)	47.9
	GER:	08.55	Final Markit Composite PMI (January)	51.6 / 52.1 (p)	52.1
	EU-19:	09.00	Final Markit Composite PMI (January)	51.1 / 50.7 (p)	50.7
			- Services	51.2 / 50.8 (p)	50.8
	UK:	09.30	CIPS/Markit Services PMI (January)	51.2	51.0
	EU-19:	10.00	Retail Sales (December)	+0.6%	-1.6%
	IRL:	***11.00***	***Unemployment (January)***	***5.3%***	***5.2%***
	US:	14.45	Final Markit Composite PMI (January)	54.4 / 54.5	54.5
			- Services	54.4 / 54.2 (p)	54.2
	US:	15.00	Non-Manufacturing ISM (January)	58.0	57.0
			- Business Activity	61.2	
Wed 6th	**GER:**	07.00	Industrial Orders (December)	-1.0%	+0.3%
	US:	13.30	International Trade Balance (November)	-$55.5bn	-$54.0bn
Thurs 7th	**JPN:**	05.00	Leading Indicators' Index (December)	-0.6	
	GER:	07.00	Industrial Output (December)	-1.9%	+0.7%
	FRA:	07.45	Trade Balance (December)	-€5.1bn	
			- Exports	-4.6%	
	UK:	08.30	Halifax House Prices (January)	+2.2% (+1.3%)	-0.5% (+1.5%)
	ITA:	09.00	Retail Sales (December)	+0.7%	
	IRL:	***11.00***	***Live Register (January)***	***-3,000/204,000***	***-3,000/201,000***
	IRL:	***11.00***	***New Dwelling Completions (2018)***	***(+45.7%)/14,435***	***(+28.2%)/18,500***
	UK:	12.00	BoE Interest Rate Announcement	0.75%	0.75%
			- Meeting Minutes / January Inflation Report		
	UK:	12.30	BoE Press Conference		
	US:	13.30	Initial Jobless Claims (w/e 28th January)	253,000	227,000
	US:	20.00	Consumer Credit (December)	$22.1bn	$17.00bn
Fri 8th	**JPN:**	05.00	Economy Watchers' Poll	48.0	
	GER:	07.00	Trade Balance (December)	€19.0bn	€18.4bn
			- Exports	-0.4%	+0.6%
	FRA:	07.45	Industrial Output (December)	-1.3%	+0.9%
	ITA:	09.00	Industrial Output (December)	-1.6%	+0.4%

♦ *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