Weekly Market Brief

AIB Treasury Economic Research Unit

20th-24th January 2020

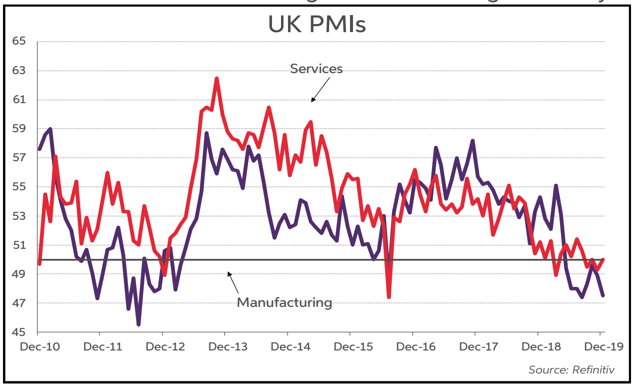
The Band Plays On

- **We have entered a period of remarkably narrow trading ranges for most of the major currency pairs.** The notable exception has been sterling, which has been bounced around by the ebb and flow of sentiment on Brexit in recent years. By contrast, the historically volatile dollar-yen rate has traded in a very narrow band of ¥105-114 for the past three years, a range of less than 10 per cent. The euro-dollar rate has been confined to an even narrower corridor in the past year of $1.09-1.15, a range of just 6 percent. This is the narrowest yearly trading range for the euro against the dollar since the launch of the single currency in 1999. The Aussie dollar has also been very range bound against the US currency in the past year, while both the Canadian and New Zealand dollars have traded in very narrow bands against the greenback since mid-2018.

- **The range trading has occurred despite a backdrop of elevated geo-political risks, trade wars, a marked slowdown in global growth and a shift in global monetary policy from tightening to easing.** These would normally be a recipe for major moves on FX markets. However, we have seen very little volatility. There have been just limited flows into safe-haven currencies like the yen and Swiss franc at times of heightened geo-political risks and market stress. It may be that carry trades are no longer that predominant in markets, given that very low interest rates are now a feature of virtually all economies, not just Japan and Switzerland. Furthermore, the dollar is at a high level against a range of currencies, which may have made it difficult for it to make more gains in the past year. It is also the case that the US economy slowed in 2019, with the Fed cutting rates by 75bps in response, much more easing than elsewhere. This may have taken some of the wind out of the strong dollar's sails.

- **Nonetheless, the relative strength of the US economy and still wide interest rate differentials remain supportive of the dollar.** The persistence of very low or even negative interest rates in other economies also makes it difficult for their currencies to make ground against the dollar. This is particularly the case for the euro, with the ECB deposit rate now pitched at –0.5%, while euro swap rates are negative out the curve as far as seven years. Indeed, it is worth noting that the EUR/USD rate has spent very little time above the $1.20 level ever since the ECB's move to negative interest rates in 2014. With very little change in interest rates expected in the coming year, range trading may remain the order of the day on FX markets in 2020, with the continuing notable exception of sterling.

- **On that note, this week's flash PMIs for January in the UK will attract significant attention ahead of the BoE's meeting at the end of this month.** The data will be looked to for any sign of a so-called "Boris Boost" to growth following the Tory's resounding election win. The clearing of a path to a smooth Brexit at end January may help the composite index rise above the key 50 level for the first time since August, driven by increases in both the manufacturing and service sector sub-indices. Should the data disappoint, it will lead to further speculation that the BoE will cut rates this month. Even if the PMIs do improve, any boost to activity may be temporary. Trade talks with the EU this year are likely to prove difficult and act as a headwind to the economy in 2020.



- **Labour market data for the three months to November are also out in the UK.** Although, as they pre-date the election they may attract less attention than usual. 115,000 jobs are forecast to have been created in the period, which would leave employment growth at 0.8% on a year-on-year basis, down from 1.0%. Despite this, it is expected that the jobless rate will remain at 3.8%. Meanwhile, underlying wage inflation is judged to have eased further to 3.4%, from 3.5%.

- **In the Eurozone, the ECB will hold its first Governing Council meeting of the new year.** However, it should be a non-event, with no changes to policy anticipated. The central bank will likely retain its easing bias, though market expectations are for policy to stay on hold in 2020. **Data-wise, the highlight in the Eurozone is the release of the flash PMIs for January.** The composite index is forecast to have improved from 50.9 to 51.2, a level still consistent with sluggish growth. In terms of the breakdown, it is anticipated that the manufacturing PMI may have moved higher, but remained deep in contractionary territory at 46.8. At the same time, at 52.9, the services index is projected to hold close to December's reading.

- **Flash PMIs for January are also set to feature in the US this week.** It is anticipated that the composite will remain at a level broadly similar to December's print of 52.7 and continue to point to solid growth. No major changes are pencilled in for either the manufacturing or service sector sub-indices. **Elsewhere, the Bank of Japan will hold its January policy meeting.** Subdued inflation and weakening domestic demand will likely see policy left unchanged.

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	0.50	0.50	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	1.1100	1.12	1.13	1.14
EUR/GBP	0.8512	0.86	0.87	0.89
EUR/JPY	122.27	123	124	125
GBP/USD	1.3039	1.30	1.30	1.28
USD/JPY	110.13	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 20th—Friday 24th January 2020

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Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde** (Friday)		
	Fed Speakers:		Bostic, Rosengren (Monday); George, Williams (Tuesday) Harker, Kaplan (Wednesday); Bowman (Thursday); Harker, Quarles (Friday)		
Mon 20th	**GER:**	07.00	PPI (December)	(-0.7%)	(-0.2%)
Tue 21st	**JPN:**	02.00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	UK:	09.30	ILO Employment (3 Months to November)	+24,000	+115,000
			- Unemployment	3.8%	3.8%
	UK:	09.30	Average Weekly Earnings (3 Months to Nov.)	(+3.2%)	(+3.1%)
			- Ex-Bonus	(+3.5%)	(+3.4%)
	GER:	10.00	ZEW Economic Sentiment (January)	10.7	15.0
Wed 22nd	**FRA:**	07.45	INSEE Business Climate (January)	102	101
	UK:	09.30	PSNB Ex-Interventions (December)	Dec '18: £3.01bn	£5.20bn
	UK:	11.00	CBI Industrial Orders (January)	-28	
	CAN:	15.00	Bank of Canada Interest Rate Decision	1.75%	1.75%
	US:	15.00	Existing Home Sales (December)	-1.7% / 5.35m	+1.5% / 5.43m
	JPN:	23.50	Trade Balance (December)	-¥85.2bn	-¥150.0bn
			- Exports	(-7.9%)	(-4.2%)
Thurs 23rd	**NOR:**	09.00	Norges Bank Interest Rate Decision	1.50%	1.50%
	EU-19:	12.45	ECB Refi Rate Announcement	0.00%	0.00%
			- Deposit Rate	-0.50%	-0.50%
	EU-19:	13.30	ECB Press Conference		
	US:	13.30	Initial Jobless Claims (w/e 13th January)	204,000	212,000
	EU-19:	15.00	Flash Consumer Confidence (January)	-8.1	-7.6
	JPN:	23.30	CPI (December)	(+0.5%)	(+0.7%)
Fri 24th	**JPN:**	00.30	Flash Jibun Bank Manufacturing PMI (January)	48.4	
	FRA:	08.15	Flash Markit Composite PMI (January)	52.0	52.1
	GER:	08.30	Flash Markit Composite PMI (January)	50.2	50.8
	EU-19:	09.00	Flash Markit Composite PMI (January)	50.9	51.2
			- Manufacturing / Services	46.3 / 52.8	46.8 / 52.9
	UK:	09.30	Flash CIPS / Markit Composite PMI (January)	49.3	50.6
			- Manufacturing / Services	47.5 / 50.0	48.8 / 51.0
	US:	14.45	Flash Markit Composite PMI (January)	52.7	
			- Manufacturing / Services	52.4 / 52.8	52.6 / 52.9

♦ *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