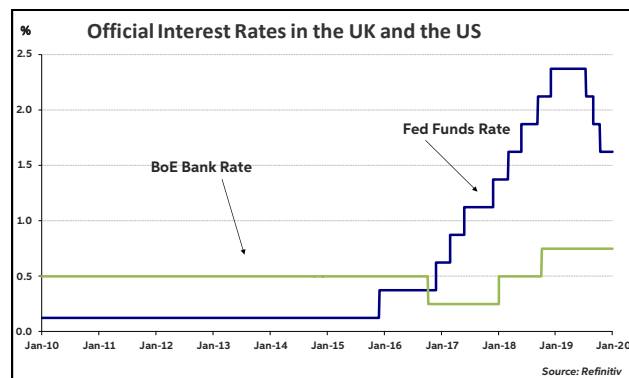


Marking Time

- Monetary policy returned to easing mode last year in response to a marked slowdown in global growth, amid weak inflationary pressures.** The IMF estimates that the monetary easing added around 0.5% to world growth in 2019. The policy loosening was extensive, with a total of 71 rate cuts by 49 central banks according to the IMF, in what proved the most synchronised easing of monetary policy since the global financial crisis over a decade ago. This IMF believes that without this action by central banks, we would now be looking at a global recession, but this has been avoided.
- Despite expectations of on-going subdued growth and weak inflation, many central banks are reluctant to continue on an easing path. Indeed, one central bank, Sweden's Riksbank, hiked rates by 25bps before Christmas.** Meanwhile, after cutting rates by 75bps in 2019, not one member of the Fed's monetary policy committee sees a need for official rates to be reduced any further. Yesterday's ECB meeting also showed a central bank that is very much on hold. The Bank of England may cut rates soon, but it is expected to be 'one and done'. In fairness to central banks, official rates in many countries are close to their effective lower bound, leaving only limited room for monetary policy to combat a further weakening in growth. Thus, the IMF, OECD, ECB and others are calling on governments that have the budgetary space, to use fiscal policy to stimulate activity, if growth weakens further.
- In this regard, the latest data suggest what the IMF calls a "tentative stabilisation" in activity, with signs in particular that the declines in international trade and industrial output may be bottoming out.** However, the outlook for the world economy is still challenging, with both the OECD and IMF expecting global growth to remain sluggish in the next two years and highlighting that the risks remain to the downside. This has all left bond markets marking time, with yields in most markets remaining within narrow ranges ever since most of the main central banks took to the sidelines late last year. Meanwhile, stock markets have also turned more range bound to date this year, as they await clear signs on the direction of the world economy. This may not become apparent for some time.
- We will get a number of monetary policy updates this week and the focus will be firmly on the UK, with the BoE due to hold its much anticipated January policy meeting.** A number of dovish comments from MPC members recently have heightened speculation that the central bank may move to cut the Bank rate from 0.75% to 0.5% this week. Weak UK macro data for Q4 would appear to support this view. Although, the significant improvement in the flash January PMIs, a strong CBI survey for the same month, and better than expected labour market figures for the 3 months to November, may dissuade the BoE from acting immediately. Overall, we believe that any pick-up in the UK will not be sustained given that uncertainty associated with the upcoming EU-UK trade talks will act as a headwind. Therefore, even if the central bank does not cut this week, we expect that it will do so at some stage this year. In terms of market expectations, futures contracts suggest a 50:50 chance of a cut on Thursday. Also of interest this week will be the publication of the BoE's Monetary Policy Report and Governor Carney's press conference.



- In contrast, the Fed's January meeting is likely to be a non-event.** Recent US macro releases have generally been in-line with expectations, while speeches by FOMC members have served to re-emphasise the message from December's meeting that policy is now on hold. Although, futures contracts are still pricing in a 25bps cut by end-year. **Data-wise, we get the first reading of US GDP for Q4.** The forecast is for solid growth of 2.1% in annualized terms, matching Q3's rate. The Q4 print of the Fed's preferred measure of earnings growth, the wages subcomponent of the ECI, should remain near to 3.0% on a year-on-year basis. Inflation, though, remains well contained and core-PCE is pencilled in at 1.6% in December. In terms of survey data, the Conference Board measure of consumer confidence is expected to have moved higher in January.
- In the Eurozone, the first estimate of GDP will also feature.** The available survey data were somewhat weaker in the quarter, suggesting that growth may have moderated to 0.2% quarter-on-quarter, from 0.3%. This would leave the full year growth rate at a modest 1.2% and represent the 8th consecutive quarter that Eurozone quarterly growth has come in at between 0.2% and 0.4%. More positively, it is envisaged that the January reading of the EC sentiment index will move higher for a third straight month. Preliminary inflation figures for January should show the headline HICP rate edging up from 1.3% to 1.4%, while the core measure is forecast to have eased back to 1.3%, from 1.4%. Meantime, the unemployment rate is likely to have held at its multi-decade low of 7.5% in December. On a national level, the German Ifo for January is also due.

	Interest Rate Forecasts			
	Current	End Q1	End Q2	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	End Q2	End Q3
	2020			
EUR/USD	1.1031	1.12	1.13	1.14
EUR/GBP	0.8417	0.86	0.87	0.89
EUR/JPY	120.74	123	124	125
GBP/USD	1.3102	1.30	1.30	1.28
USD/JPY	109.46	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Mersch (Monday); Lane (Tuesday); Mersch, Schnabel (Friday)		
Mon 27th	GER:	09.00 Ifo Business Climate (January)	96.3	97.0
	US:	15.00 New Home Sales (December)	+1.3% / 0.719m	+1.3% / 0.728m
Tue 28th	UK:	11.00 CBI Distributive Trades (January)	0	
	IRL:	11.00 Retail Sales (December)	-3.3% (+1.4%)	+3.0% (+4.7%)
	US:	13.30 Durable Goods Orders (December)	-2.1%	+0.8%
	US:	14.00 Case-Shiller House Prices (November)	+0.4% (+2.2%)	+0.4% (+2.4%)
	US:	15.00 Conference Board Consumer Confidence (Jan)	126.5	128.0
Wed 29th	GER:	07.00 GfK Consumer Sentiment (February)	9.6	9.6
	FRA:	07.45 Consumer Confidence (January)	102	101
	ITA:	09.00 ISTAT Business Confidence (January)	99.1	99.3
	EU-19:	09.00 M3 Money Supply (December)	(+5.6%)	(+5.5%)
	US:	13.30 Advance Goods Trade Balance (December)	-\$62.99bn	
	US:	15.00 Pending Home Sales (December)	+1.2% / 108.5	+0.5% / 109.0
	US:	19.00 Fed Interest Rate Announcement	1.50-1.75%	1.50-1.75%
	US:	19.30 Fed Press Conference		
Thurs 30th	GER:	08.55 Unemployment (January)	5.0%	5.0%
	ITA:	09.00 Unemployment (December)	9.7%	9.7%
	EU-19:	10.00 Business Climate (January)	-0.25	-0.20
	EU-19:	10.00 Economic Sentiment Index (January)	101.5	101.9
		- Industrial / Services / Consumer	-9.3 / 11.4 / -8.1	-9.0 / 11.5 / -8.1
	EU-19:	10.00 Unemployment (December)	7.5%	7.5%
	UK:	12.00 BoE Interest Rate Announcement	0.75%	0.75%
		- Meeting Minutes / Monetary Policy Report		
	UK:	12.30 BoE Press Conference		
	GER:	13.00 Preliminary HICP (January)	(+1.5%)	(+1.7%)
	US:	13.30 GDP (Q4: Advance Reading)	+2.1% s.a.a.r.	+2.1%
	US:	13.30 Initial Jobless Claims (w/e 20th January)	211,000	211,000
	JPN:	23.50 Industrial Output (December)	-1.0%	+0.7%
	JPN:	23.50 Unemployment / Jobs: Applicants (December)	2.2% / 1.57	2.3% / 1.56
Fri 31st	UK:	00.01 GfK Consumer Confidence (January)	-11	-9
	CHINA:	01.00 NBS Manufacturing PMI (January)	50.2	50.0
		- Non-Manufacturing	53.5	
	FRA:	06.30 GDP (Q4: First Reading)	+0.3%	+0.2%
	GER:	07.00 Retail Sales (December)	+2.1%	-0.5%
	FRA:	07.45 Preliminary HICP (January)	(+1.6%)	(+1.5%)
	FRA:	07.45 Consumer Spending (December)	+0.1%	+0.1%
	SPA:	08.00 GDP (Q4: First Reading)	+0.4%	+0.4%
	UK:	09.30 BoE Mortgage Approvals (December)	64,994	65,500
	ITA:	10.00 GDP (Q4: First Reading)	+0.1%	+0.1%
	EU-19:	10.00 Preliminary HICP (January)	(+1.3%)	(+1.4%)
		- Ex-Food & Energy	(+1.4%)	(+1.3%)
	EU-19:	10.00 GDP (Q4: First Reading)	+0.2% (+1.2%)	+0.2% (+1.1%)
	US:	13.30 Personal Income / Consumption (December)	+0.5% / +0.4%	+0.3% / +0.3%
		- Core PCE Prices	(+1.6%)	(+1.6%)
	US:	13.30 Employment Cost Index—Wages (Q4)	(+2.9%)	
	US:	15.00 Final Michigan Consumer Sentiment (January)	99.1	99.1
	UK:	23.00 UK Leaves the European Union		

◆ 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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