Weekly Market Brief

AIB Treasury Economic Research Unit

6th-10th January 2020

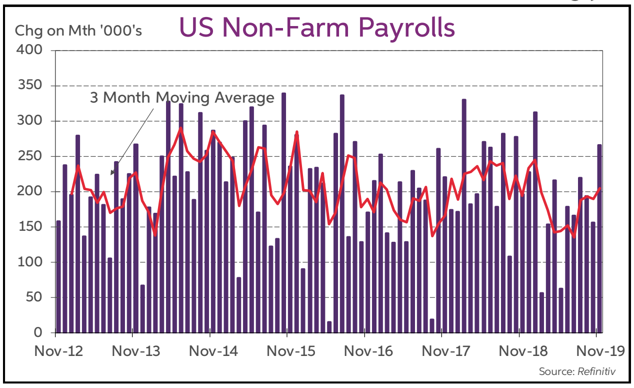
A Tough Act to Follow

- **The main global stock market indices registered sizeable double-digit gains in 2019.** US equities were particularly strong, with the S&P up 29% and the Nasdaq climbing by 38%. In Europe, the Euro Stoxx 50 rose by over 25%. The strong gains occurred despite a marked slowdown in global growth. A key factor in the 2019 stock market rally was a return to policy loosening by many central banks. The Fed moved in spring to an easing bias and followed through on this with three 25bps rate cuts in the second half of the year. The ECB also introduced further monetary stimulus, including a 10bps cut to its deposit rate in September and the restarting of its quantitative easing programme. Other central banks, including in China, Australia, India and New Zealand, also cut rates.

- **The cuts in interest rates led to a marked decline in bond yields virtually everywhere and a corresponding increase in bond prices.** Furthermore, the improved risk appetite saw credit spreads narrow significantly, with corporate bonds performing particularly well. Thus, the two major asset classes in financial markets – stocks and bonds – made strong gains last year. Meanwhile, commodities also enjoyed a very good year. Indeed, virtually every asset class in financial markets performed strongly in 2019.

- **Financial markets, though, will find it tough to repeat this strong performance again in 2020.** Abating trade tensions between the US and China is a positive development. Stock markets also ended 2019 on a strong note, with much optimism that equities can perform well again in 2020. However, concerns remain about global growth prospects, with the OECD warning that there are signs that the slowdown in the world economy is becoming entrenched. It does not foresee a pick-up in global growth in either 2020 or 2021. Meanwhile, monetary policy is back on hold again at all the main central banks, who do not seem inclined to ease policy any further. Markets are pricing in just one 25bps rate cut from the US Fed this year. Overall then, much less monetary easing is anticipated globally for 2020 than occurred in 2019. Against this backdrop, the year ahead could be a challenging one for financial markets.

- **Turning to the coming week, the US employment report for December is expected to confirm that the labour market remains in good health.** In November, payrolls unexpectedly surged by 266k, the largest increase since January. This partly reflected the impact of striking GM workers returning to the factory floor. However, a number of other areas also recorded strong job gains, most notably in the services sector. Some pullback is to be expected in December, particularly given the fact that survey data point to slowing employment growth. The consensus is for a 160k rise, which is slightly below 2019's year-to-date average gain of 180k. However, this still represents a very solid increase given the late stage of the economic cycle. At the same time, the unemployment rate is expected to have held at its 50-year low of 3.5%, while wage inflation looks to have remained unchanged at 3.1%. With regard to the output side of the economy, we get the December reading of the non-manufacturing ISM. Mirroring the services PMI, it is projected to have increased in the month and is forecast at 54.4, a level consistent with good growth in the sector.



- **The highlight of a busy Eurozone schedule is the release of the EC economic sentiment indices for December.** It is anticipated that the headline index edged slightly higher for a second consecutive month. In relation to the underlying breakdown, improvements are expected in both the services and the industrial sub-indices. However, the flash estimate of consumer confidence fell sharply in the month so there may be downside risks to the ECI forecasts. In terms of 'hard data' releases, industrial output figures for November from Germany, France and Italy are all due this week.

- **Meanwhile, the first estimate of Eurozone HICP for December will warrant some attention.** It is envisaged that headline inflation may have accelerated in the month to 1.3%, from 1.0%, as base effects see the drag from lower energy prices from a year earlier fade somewhat. Meanwhile, the core rate looks to have edged slightly higher to 1.5%, from 1.4%. Overall though, given that both economic activity and jobs growth have softened, a sustained pick-up in inflation does not appear close to hand. However, the unemployment rate is likely to have held at its multi-year low rate of 7.5% in November.

- **Finally, the UK macro-data calendar has a barren look to it this week.** The final readings of the composite and services December PMIs may attract some limited interest, following the disappointing flash figures that were consistent with economic contraction. Parliament is to reconvene this week. Thus, the process of passing the Withdrawal Agreement Bill will continue.

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	0.50	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	1.1150	1.11	1.12	1.13
EUR/GBP	0.8523	0.86	0.88	0.89
EUR/JPY	120.59	122	123	124
GBP/USD	1.3081	1.29	1.27	1.27
USD/JPY	108.16	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 6th—Friday 10th January 2020

AIB Treasury Economic Research

Oliver Mangan Chief Economist

John Fahey Senior Economist

Conor Beakey Economist

Date	*UK & Irish Time (GMT)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		de Guindos (Wednesday); Lane, Schnabel (Thursday)		
	Fed Speakers:		Bullard, Evans, Williams (Thursday)		
Mon 6th	***IRL:***	***01.01***	***AIB Services PMI (December)***	***53.7***	
	CHINA:	01.45	Caixin Services PMI (December)	53.5	
	GER:	07.00	Retail Sales (November)	-1.9% (+0.8%)	+1.1% (+0.9%)
	ITA:	08.45	Markit Composite PMI (December)	49.6	
	FRA:	08.50	Final Markit Composite PMI (December)	52.1 / 52.0 (p)	52.0
	GER:	08.55	Final Markit Composite PMI (December)	49.4 / 49.4 (p)	49.4
	EU-19:	09.00	Final Markit Composite PMI (December)	50.6 / 50.6 (p)	50.6
			- Services	52.0 / 52.4 (p)	52.4
	UK:	09.30	Final CIPS / Markit Composite PMI (December)	49.3 / 48.5 (p)	48.5
			- Services	49.3 / 49.0	49.0
	EU-19:	09.30	Sentix Index (January)	0.7	2.6
	EU-19:	10.00	PPI (November)	(-1.9%)	(-1.5%)
	US:	14.45	Final Markit Composite PMI (December)	52.0 / 52.2 (p)	52.2
			- Services	51.6 / 52.2 (p)	52.2
Tue 7th	**ITA:**	10.00	Preliminary HICP (December)	(+0.2%)	(+0.5%)
	EU-19:	10.00	Preliminary HICP (December)	(+1.0%)	(+1.3%)
			- Ex-Food & Energy	(+1.4%)	(+1.5%)
	EU-19:	10.00	Retail Sales (November)	-0.6% (+1.4%)	+0.6% (+1.3%)
	IRL:	***11.00***	***Unemployment (December)***	***4.8%***	***4.8%***
	US:	13.30	International Trade (November)	-$47.2bn	-$44.0bn
	US:	15.00	Factory Orders (November)	+0.3%	-0.8%
	US:	15.00	Non-Manufacturing ISM (December)	53.9	54.4
			- Business Activity	51.6	
Wed 8th	**GER:**	07.00	Industrial Orders (November)	-0.4%	+0.1%
	FRA:	07.45	Consumer Confidence (December)	106	104
	FRA:	07.45	Trade Balance (November)	-€4.73bn	
	EU-19:	10.00	Business Climate (December)	-0.23	-0.16
	EU-19:	10.00	Economic Sentiment Index (December)	101.3	101.4
			- Industrial / Services / Consumer	-9.2 / 9.3 / -8.1	-9.0 / 9.5 / -8.1
	IRL:	***11.00***	***Retail Sales (November)***	***-0.5% (+3.0%)***	***+0.5% (+4.4%)***
	US:	20.00	Consumer Credit (November)	$18.91bn	$16.70bn
Thurs 9th	**UK:**	00.01	BRC Retail Sales (December)	(-4.9%)	
	UK:	00.01	RICS House Price Survey (December)	-12	-10
	GER:	07.00	Industrial Output (November)	-1.7%	+0.7%
	GER:	07.00	Trade Balance (November)	€20.6bn	€19.7bn
			- Exports	+1.2%	-0.5%
	ITA:	09.00	Unemployment (November)	9.7%	
	EU-19:	10.00	Unemployment (November)	7.5%	7.5%
	IRL:	***11.00***	***Live Register (December)***	***-2,300 / 186,400***	***-400 / 186,000***
	US:	13.30	Initial Jobless Claims (w/e 30th December)	222,000	
Fri 10th	**JPN:**	05.00	Leading Indicators' Index (November)	-0.3	
	FRA:	07.45	Industrial Output (November)	+0.4%	+0.1%
	ITA:	09.00	Industrial Output (November)	-0.3%	+0.0%
	US:	13.30	Non-Farm Payrolls (December)	+266,000	+160,000
			- Unemployment	3.5%	3.5%
			- Average Earnings	(+3.1%)	(+3.1%)

♦ *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