Weekly Market Brief

AIB Treasury Economic Research Unit

6th-10th July 2020

Long Climb Out of This Hole

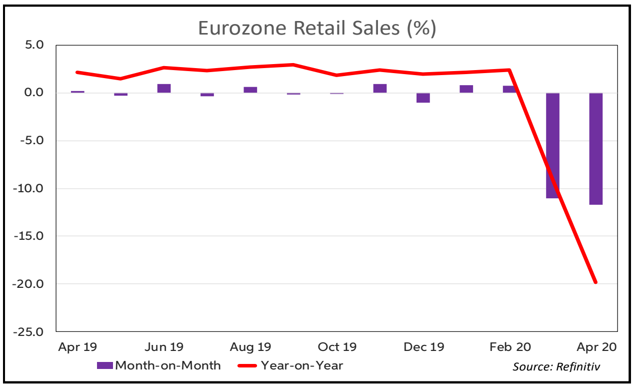
- **Stocks markets continue to be underpinned by the run of good data from economies emerging from the great lockdown imposed to contain the spread of Covid-19.** The figures have generally come in ahead of expectations across the board, most notably in regard to retail spending, the labour market, consumer confidence and activity surveys. The US employment report for the second month running in June, saw a higher than expected 4.8m rebound in non-farm payrolls and a bigger than forecast fall in the unemployment rate to 11.1%. German retail sales for May were far ahead of expectations, rebounding by 13.9% after a fall of 6.5% in April, to leave them 4.8% above year earlier levels. These add to the very strong May retail figures already published for the UK, Australia and US. PMI data for the manufacturing sector for June also exceeded forecasts virtually everywhere, with the ISM in the US surging to 52.6 from 43.1. Meanwhile, the June Services PMI for China jumped to 58.4. It all suggests that while this may have been the deepest recession in recent history, it is also proving to be the shortest.

- **Indeed, the BoE Chief Economist, Andy Haldane, proclaimed that recent data show the deepest recession in hundreds of years in the UK was already "ancient history".** He noted that the latest indicators show the recovery in activity was proving significantly faster than the BoE had expected as recently as May. Other central bankers, though, have struck a more cautious note. ECB Chief Economist, Philip Lane, highlighted that the strong rebound needed to be seen in the context of the exceptionally large contraction in output during the lockdown. A run of positive data was only to be expected but even so, activity will remain far below the pre-crisis level for an extended period. He warned the current rebound does not provide a guide to what's going to happen over the winter and is likely to be interrupted from time to time. Indeed, it could take a full year before we know how the European economy is recovering from the shock according to Dr Lane.

- **A cautious note was also struck by Fed Chair Powell. He acknowledged that the upturn in spending and hiring had occurred sooner than the Fed had expected.** However, it was driven by the early lifting of lockdown restrictions, which is bringing new challenges, notably the need to keep the virus in check. The US is failing miserably in this regard, with new cases surging again which could do lasting damage to the economy and labour market. In this regard, it is important to bear in mind that while payrolls rose by 4.8m in June and 2.5m in May, they are still 14.5m below their pre-crisis levels. The rebound in payrolls could now stall, with new cases of the virus in the US reaching record numbers in the past week, leading to a re-imposition of lockdown restrictions in some states. The payrolls figures also highlight that this is a great big hole that the US and global economies have fallen into. Even with good progress and no interruptions, it is going to take a long time to climb out of it. Setbacks, such as the resurgence of the virus, will only further delay a full recovery.

- **Despite the recent strong data, interest rate markets are leaning towards further policy easing by central banks, including rate cuts, although not over the balance of this year.** Futures contracts are discounting that both the Fed and BoE will lower official rates by a further 10bps next year to zero, with money market rates turning slightly negative. They are also looking for the ECB to lower rates by close to 10bps, even though the key deposit rate already stands at -0.5%. Whatever about the recent run of good data and optimism in stock markets, fixed income markets are not convinced that the world economy can dig itself out of the great big Covid hole that it finds itself in anytime soon.

- **Turning to the week ahead, there is a sparse look to the global macro data schedule.** In the Eurozone, the highlight is the retail sales report for May. It will be looked to for evidence of a bounce back in household spending as Covid-19 related restrictions were eased following the March/April lockdown. The already released national data suggest that sales may have increased by a record 15%, though this would still leave the index well below its February level. On a national level, industrial production figures for May from Germany, France and Italy are also due. The general consensus is that output rebounded strongly in the month as factories re-opened following the lockdowns which saw non-essential activity grind to a halt.



- **In the US, the only item on the diary of any interest is the June print of the non-manufacturing ISM.** In keeping with the trend seen in other releases, it is envisaged that the index continued to rebound off its April lows and is forecast to have picked up to 49.5 from 45.4. While this is still slightly below the 50 level separating expansion from contraction, this may be due to the fact that respondents are basing their answers off where activity was prior to the crisis. Market watchers will also keep a very close eye on the latest weekly jobless claims figure to see what impact the sharp rise in new coronavirus cases is having on the labour market. **Finally, there are no noteworthy releases in the UK this week.**

Interest Rate Forecasts

	Current	End Q3 2020	End Q4 2020	End Q1 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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 Q3 2020	End Q4 2020	End Q1 2020
EUR/USD	1.1232	1.12	1.13	1.14
EUR/GBP	0.9012	0.91	0.88	0.88
EUR/JPY	120.73	120	122	124
GBP/USD	1.2460	1.23	1.28	1.30
USD/JPY	107.50	107	108	109

Current Rates Reuters, Forecasts AIB's ERU

AIB Treasury Economic Research

Oliver Mangan Chief Economist

John Fahey Senior Economist

Conor Beakey Economist

ECONOMIC DIARY

Monday 6th July - Friday 10th July

Date		*UK & Irish Time (GMT+1)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		de Guindos (Wednesday); de Guindos (Friday)		
	Fed Speakers:		Bostic (Tuesday)		
Mon 6th	**GER:**	07.00	Industrial Orders (May)	-25.8%	+15.0%
	EU-19:	08.30	Markit Construction PMI (June)	39.5	
	UK:	09.30	CIPS / Markit Construction PMI (June)	28.9	47.0
	EU-19:	09.30	Sentix Index (July)	-24.8	-11.0
	EU-19:	10.00	Retail Sales (May)	-11.7% (-19.6%)	+15.0% (-7.5%)
	US:	14.45	Final Markit Composite PMI (June)	37.0 / 46.8 (p)	46.8
			- Services	37.5 / 46.7 (p)	46.7
	US:	15.00	Non-Manufacturing ISM (June)	45.4	49.5
Tue 7th	**GER:**	07.00	Industrial Output (May)	-17.9%	+10.0%
	FRA:	07.45	Trade Balance (May)	-€5.02bn	
Wed 8th	**US:**	20.00	Consumer Credit (May)	-$68.8bn	-$17.5bn
Thurs 9th	**JPN:**	00.50	Core Machinery Orders (May)	(-17.7%)	(-17.1%)
	GER:	07.00	Trade Balance (May)	€3.2bn	
			- Exports	-24.0%	+11.8%
	IRL:	***11.00***	***CPI (June)***	***-0.5% (-0.5%)***	***+0.3% (-0.4%)***
	US:	13.30	Initial Jobless Claims (w/e 4th July)	1,427,000	1,375,000
Fri 10th	**JPN:**	00.50	Domestic Wholesale Prices (June)	(-2.7%)	(-1.9%)
	FRA:	07.45	Industrial Output (May)	-20.1%	+15.0%
	ITA:	09.00	Industrial Output (May)	-19.1%	+19.2%
	US:	13.30	PPI (June)	(-0.8%)	(-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