Weekly Market Brief

AIB Treasury Economic Research Unit

1st - 5th June 2020

Saving the Day

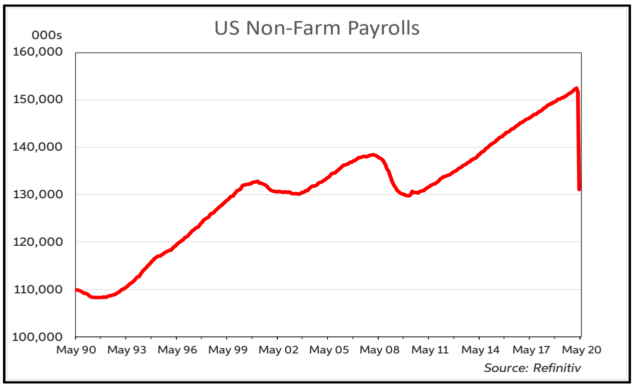
- **The recovery in stock markets from their mid-March lows continues unabated despite the plethora of weak economic data and the cautious approach of governments to lifting restrictions in re-opening their economies.** In particular, social distancing requirements are likely to remain in place for quite some time, which will inhibit the pace of economic recovery. The S&P index moved back above the 3,000 level this week, and amazingly has returned to levels that pertained late last year following its big gains over the course of 2019. It is up by over 35% since mid-March, while the Nikkei has risen by nearly one-third. The rebound in European shares has been less pronounced, though still impressive, with the FTSEurofirst 300 up by 25%. Stock markets are taking the view that while it may take economies some time to recover, the exceptionally expansionary stance to fiscal and monetary policy has laid the foundations for a strong rebound in activity in 2021-22. There are also hopes that a vaccine for the coronavirus will be developed within the next year, which will unleash economies from all restrictions.

- **The consumer is critical to a recovery as household spending is the lynchpin of virtually all economies.** One notable and unusual feature of this recession is that even though there has been a collapse in economic activity and employment, **household savings are going through the roof.** Household incomes are being supported not just by the workings of automatic stabilisers, but targeted government income support measures, including wage subsidy schemes. The US savings rate shot up to a 40 year high of 12.7% in March and skyrocketed to 33% in April. The European Commission has forecast that the household savings rate in the Eurozone could climb to a record 19% this year from 12.8% in 2019. The FT has noted that this is being reflected in a **surge in household deposits** with banks. Irish banking statistics for April showed household bank deposits rose by a record €3bn in the month, having increased by less than €400m per month on average in the previous three years.

- **Much of this sharp rise is due to forced or involuntary savings as restrictions on economic and social activities to control the spread of the virus have taken a heavy toll on consumer spending.** The timing and pace of the unwinding of this build-up in involuntary household savings is one of the key macro issues that will greatly impact the nature of the economic recovery. With a very loose monetary policy set to anchor yield curves at very low or even negative rates in the next number of years, investors are prepared to be patient. They know that a **major economic rebound should come at some stage**, even if it has to await the arrival of a vaccine. It will be fuelled by many forces, including strong fiscal stimuli, loose monetary conditions, and an unwinding of forced savings and pent-up demand. The key will be to limit scarring effects so that this recession does not morph into another financial crisis or leave permanently high unemployment or a long trail of failed businesses in its wake. That is why policymakers are gearing up for even more action to effectively save the day, even as economies begin to re-open.

- **In this regard, the ECB will hold its June Governing Council meeting on Thursday.** It is anticipated that the deposit rate will again be left at its current –0.50%. Recent comments from Governing Council members suggest that the central bank will instead opt to increase the size of its €750bn Pandemic Emergency Purchase Programme (PEPP) in order to prevent a tightening of financing conditions as sovereign debt issuance soars due to blow out budget deficits. At the current rate of purchases, PEPP would be exhausted by October. Meanwhile, updated macro-economic projections are due. Downgrades are expected to be made to the scenarios drawn up by the ECB in May, which estimated GDP could fall by between 5-12% in 2020.

- **Data-wise, Eurozone retail sales for April will offer an insight into the impact of Covid-19 lockdowns on consumer spending.** Sales are expected to have plummeted by a record 15% on a depressed March level. The April print of unemployment will also feature, though the measurement method used means the data will likely understate the deterioration in labour market conditions. **In the UK, the schedule is sparse, though the next round of EU-UK trade talks will get underway. Closer to home, Irish GDP for Q1 is set for release.** The data will be looked to for evidence of the initial hit from the Covid-19 crisis and the extent to which strong exports in the multi-national sector mitigated the impact on the domestic economy. Irish GDP in Q1 is likely to remain positive on a year-on-year basis, unlike in the UK and Eurozone.



- **Across the Atlantic, the highlight is the US employment report for May.** The initial weekly jobless claims data point to another sharp fall in payrolls. Lay-offs remain at an elevated level despite the gradual easing of Covid-19 restrictions in some states. The forecast is for a 10m contraction in payrolls, following May's historically large 20.5m fall. It is anticipated that severe job losses will push the unemployment rate from 14.7% to a Depression-Era level of 19.6%. Meantime, the May ISMs are also due. It is envisaged that the indices will move higher, consistent with the other output indicators which suggest that the downturn is bottoming out.

Interest Rate Forecasts

	Current	End Q2 2020	End Q3 2020	End Q4 2020
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 Q2 2020	End Q3 2020	End Q4 2020
EUR/USD	1.1124	1.08	1.09	1.10
EUR/GBP	0.9004	0.89	0.91	0.88
EUR/JPY	119.46	116	117	119
GBP/USD	1.2353	1.21	1.20	1.25
USD/JPY	107.37	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 1st - Friday 5th June

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:					
Mon 1st	***IRL / Parts EU-19:***		***Market Holiday***		
	CHINA:	02.45	Caixin Manufacturing PMI (May)	49.4	49.6
	EU-19:	09.00	Final Markit Manufacturing PMI (May)	33.4 / 39.5 (p)	39.5
	UK:	09.30	Final CIPS / Markit Manufacturing PMI (May)	32.6 / 40.6 (p)	40.6
	US:	14.45	Final Markit Manufacturing PMI (May)	36.1 / 39.8 (p)	39.8
	US:	15.00	Construction Spending (April)	+0.9%	-6.0%
	US:	15.00	Manufacturing ISM (May)	41.5	43.5
Tue 2nd	***IRL:***	***01.01***	***AIB Manufacturing PMI (May)***	***36.0***	
	UK:	09.30	BoE Mortgage Approvals (April)	56,161	25,000
Wed 3rd	**CHINA:**	02.45	Caixin Services PMI (May)	44.4	
	ITA:	08.45	Markit Composite PMI (May)	10.9	
	FRA:	08.50	Final Markit Composite PMI (May)	11.1 / 30.5 (p)	30.5
	GER:	08.55	Final Markit Composite PMI (May)	17.4 / 31.4 (p)	31.4
	GER:	08.55	Unemployment (May)	5.8%	6.2%
	ITA:	09.00	Unemployment (April)	8.4%	9.3%
	EU-19:	09.00	Final Markit Composite PMI (May)	13.6 / 30.5 (p)	30.5
			- Services	12.0 / 28.7 (p)	28.7
	UK:	09.30	Final CIPS / Markit Composite PMI (May)	13.8 / 28.9 (p)	28.9
			- Services	13.4 / 27.8 (p)	27.8
	EU-19:	10.00	PPI (April)	(-2.8%)	(-4.0%)
	EU-19:	10.00	Unemployment (April)	7.4%	8.2%
	IRL:	***11.00***	***Covid Adjusted Unemployment (May)***	***28.2%***	***27.0%***
	US:	14.45	Final CIPS / Markit Composite PMI (May)	27.0 / 36.4 (p)	36.4
			- Services	26.7 / 36.9 (p)	36.9
	US:	15.00	Factory Orders (April)	-10.3%	-12.4%
	US:	15.00	Non-Manufacturing ISM (May)	41.8	43.0
			- Business Activity	26.0	
	IRL:	***16.30***	***Exchequer Returns (May)***	***-€0.06bn***	***-€8.75bn***
Thurs 4th	***IRL:***	***01.01***	***AIB Services PMI (May)***	***13.9***	
	EU-19:	10.00	Retail Sales (April)	-11.2%	-15.0%
	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	International Trade (April)	-$44.4bn	-$41.0bn
	US:	13.30	Initial Jobless Claims (w/e 30th May)	2,123,000	
Fri 5th	**GER:**	07.00	Industrial Orders (April)	-15.6%	-20.0%
	IRL:	***11.00***	***GDP (Q1)***	***(+5.5%)***	***(+2.0%)***
	US:	13.30	Non-Farm Payrolls (May)	-20.5m	-10.0m
			- Unemployment	14.7	19.6%
			- Average Earnings	(+7.9%)	

♦ *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