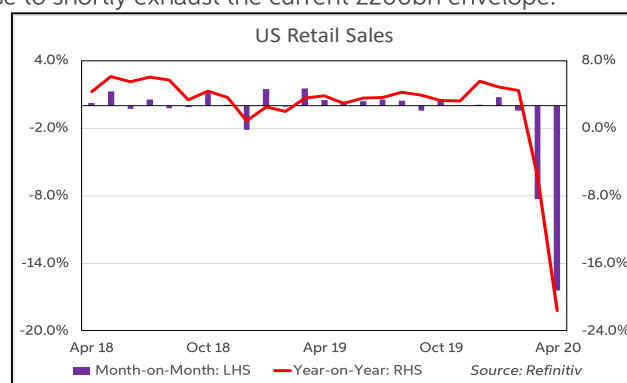


V is for Virus

- Risk markets were due a correction after the major gains posted in the last three months, in particular since mid-May.** It duly arrived in the past week, with big falls in stock markets and credit spreads widening sharply. Concerns about a rise in new cases of the coronavirus in parts of the US, which has triggered talk of a 'second wave', together with a sombre assessment of the economic outlook from the Fed, dented market confidence. Chair Powell's comment that it is a long road ahead in terms of the economic recovery attracted a lot of attention. In particular, it will take a long time to regain the 20 million net jobs lost in the US since February. The Fed is projecting an unemployment rate of 5.5% by end 2022, still significantly above the 3.5% rate before the virus struck.
- Meanwhile, a downbeat assessment of global growth prospects from the OECD in its mid-year economic outlook added to the risk-off sentiment.** The OECD sees world GDP declining by between 6% and 7.6% this year, with output in developed economies contracting by between 7.5% and 9.3%. It says the recovery in activity will be hesitant, with an usually high degree of uncertainty around the pace of the rebound. The OECD sees the world economy growing by between 2.8% and 5.2% in 2021. Even in its more optimistic scenario, the OECD sees only a partial recovery in developed economies next year, with GDP still 3% below its level in 2019. This echoes the Fed Chair's comment about a long road ahead to recovery.
- The Fed, though, like other central banks, emphasised that it is in for the long haul in terms of the battle to return the economy to a strong footing.** Chair Powell commented that the Fed is "strongly committed to using our tools to do whatever we can and for as long as it takes" to help the economy recover. There is ample liquidity in the system, while interest rates will be anchored at zero or negative levels for the next number of years, which will help support risk appetite. Markets, then, are grappling with the dilemma that both fiscal and monetary authorities are fully committed to policy actions to fuel growth, but downside risks persist amid considerable uncertainty about the economic outlook. On top of this, the course of the coronavirus over the second half of the year remains unknown.
- The rise in new cases of the virus in some States in the US that ended lockdowns early is a worry and suggests that there are no short cuts to be had in tackling the pandemic.** Ireland's strategy of opting for a strict lockdown and not starting to re-open the economy until the number of new virus cases had fallen to de minimis levels may well prove to be the correct one. As one commentator advised, remember the tortoise beat the hare! With the virus still prevalent in many countries, investors are likely to remain on tenterhooks in regard to news about new treatments and progress in developing a vaccine, with the ebb and flow of developments in this regard capable of moving markets. Given the numerous competing forces now at play, it suggests that there could be bouts on intense market volatility in the months ahead.
- This week, it's the turn of the BoE to hold its policy setting meeting for June.** Since the onset of the Covid-19 crisis, it has acted aggressively. This has included lowering the Bank Rate by a total of 65bps to a record low of 0.1%. It also added £200bn to its QE asset purchases as well as providing liquidity supports to corporates and SMEs. Interestingly, the BoE has also become more open to the option of negative interest rates. Governor Bailey stated that such a policy was under "active review". The market had been toying with this idea as well, although it is looking for rates to fall to zero, rather than go negative. The expectation is that the BoE will leave rates unchanged this week, but will announce a increase in asset purchases (consensus forecast is for a £100bn rise, 2 members already voted for this in May) as it is on course to shortly exhaust the current £200bn envelope.
- Data-wise, the UK diary features a raft of labour market updates for the 3 months to April.** Given that April was the month where most of the economy was in lockdown, we expect the 3 month averages to start to reflect this, including an increase in the unemployment rate and falls in employment. We look to the May retail sales data for some indication of an improvement in spending.
- Across the Atlantic, it is also a fairly packed schedule for US.** On the production side, industrial output for May is expected to register some growth as restrictions started to ease. The regional NY/ Empire and Philly Fed surveys for June will provide a more timely insight into how the sector is performing. On the consumer side, retail sales for May should show some degree of a bounce back in spending after falling by over 16% in April. There is also data on the housing market, including housing starts (May) and homebuilder sentiment (June). **Meanwhile, Fed Chair Powell is scheduled for his semi-annual Congressional testimony.** In contrast, the Eurozone macro diary is sparse. Elsewhere, no policy changes are expected from the BoJ meeting. Finally, a further strong rise is forecast in industrial production for May in China.



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|--------|--------|--------|
| | Current | End Q2 | End Q3 | 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 | End Q3 | End Q4 |
| | 2020 | | | |
| EUR/USD | 1.1287 | 1.12 | 1.13 | 1.13 |
| EUR/GBP | 0.8975 | 0.90 | 0.92 | 0.88 |
| EUR/JPY | 121.23 | 122 | 123 | 123 |
| GBP/USD | 1.2572 | 1.21 | 1.23 | 1.28 |
| USD/JPY | 107.39 | 109 | 109 | 109 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|-------------------------|--|----------------------|----------------------|
| This Week: | ECB Speakers: | Mersch, deGuindos (Wednesday) | | |
| | Fed Speakers: | Daly (Monday); Powell , Clarida (Tuesday); Powell , Mester (Wednesday); Mester (Thursday); Rosengren, Quarles, Mester (Friday) | | |
| Mon 15th | CHINA: | 03.00 Industrial Output (May) | (+3.9%) | (+5.0%) |
| | ITA: | 09.00 Final HICP (May) | (-0.2%) | (-0.2%) |
| | EU-19: | 10.00 EU Trade Balance (April) | €23.5bn | |
| | US: | 13.30 NY Fed / Empire State Index (June) | -48.5 | -30.0 |
| Tue 16th | JPN: | 03.00 BoJ Interest Announcement | -0.10% | -0.10% |
| | GER: | 07.00 Final HICP (May) | (+0.5%) | (+0.5%) |
| | UK: | 07.00 ILO Employment (3 Months to April) | +211,000 | |
| | | - Unemployment | 3.9% | 4.5% |
| | UK: | 07.00 Average Weekly Earnings (3 Months to April) | (+2.4%) | (+1.3%) |
| | | - Ex-Bonus | (+2.7%) | (+1.8%) |
| | GER: | 10.00 ZEW Economic Sentiment (June) | 51 | 60 |
| | EU-19: | 10.00 Wage Inflation (Q1) | (+2.3%) | |
| | US: | 13.30 Retail Sales (May) | -16.4% | (+7.6%) |
| | | - Ex-Autos | -17.2% | (+5.1%) |
| | | - Ex-Gas, Autos & Building Materials | -15.3% | (+4.0%) |
| | US: | 14.15 Industrial Production (May) | -11.2% | +2.5% |
| | | - Capacity Utilisation | 64.9% | 66.5% |
| | | - Manufacturing Output | -13.7% | +3.5% |
| | US: | 15.00 NAHB Homebuilder Sentiment (June) | 37 | 43 |
| Wed 17th | JPN: | 00.50 Trade Balance (May) | -¥931.9bn | |
| | | - Exports | -21.9% | |
| | UK: | 07.00 CPI (May) | (+0.8%) | (+0.5%) |
| | | - Core (Ex-Food & Energy) | (+1.4%) | (+1.2%) |
| | UK: | 07.00 PPI Output (May) | (-0.7%) | (-0.9%) |
| | | - Input | (-9.8%) | |
| | EU-19: | 10.00 Final HICP (May) | (+0.1%) | (+0.1%) |
| | | - Ex-Food & Energy | (+1.1%) | (+1.1%) |
| | IRL: | 11.00 Residential Property Prices (April) | +0.1% (+1.0%) | +0.2% (+1.0%) |
| | US: | 13.30 Housing Starts (May) | 0.891m / -30.2% | 1.09m / +22.3% |
| | | - Building Permits | 1.066m / -21.4% | 1.215m / +13.9% |
| Thurs 18th | UK: | 12.00 BoE Interest Rate Announcement | 0.10% | 0.10% |
| | | - Meeting Minutes | | |
| | US: | 13.30 Initial Jobless Claims (w/e 13th June) | 1,542,000 | 1,300,000 |
| | US: | 13.30 Philly Fed Index (June) | -43.1 | -22.7 |
| | US: | 15.00 Leading Indicators' Index (May) | -4.4% | +2.0% |
| Fri 19th | JPN: | 00.30 CPI (May) | (+0.1%) | |
| | GER: | 07.00 PPI (May) | (-1.9%) | (-2.1%) |
| | UK: | 07.00 PSNB Ex-Interventions (May) | £62.1bn | £48bn |
| | UK: | 07.00 Retail Sales (May) | -18.1% | +5.8% |

◆ 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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