Weekly Market Brief

AIB Treasury Economic Research Unit

16th - 20th March 2020

Testing Times

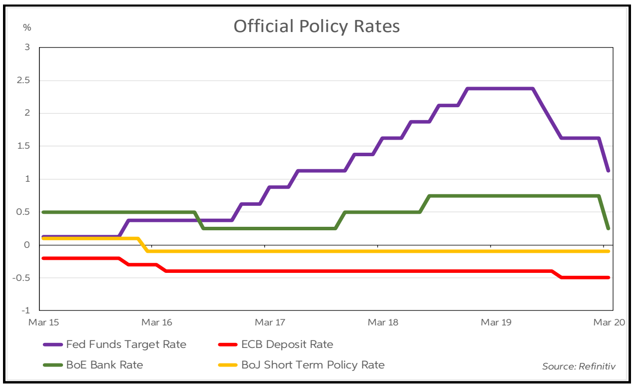
- **It is now clear that the coronavirus will result in a major hit to global growth this year, with many economies entering recession in H1 2020.** The depth and duration of the downturn in activity will depend on a number of factors – how quickly countries can bring the virus outbreak under control, the extent to which governments load up the fiscal bazooka to offset some of the hit to private demand and avoiding the coronavirus morphing into a broad financial crisis. The latter factor will be also important in terms of ensuring that the global economy can rebound quickly from the coronavirus – the lessons of history are that the scars of a financial crisis take a long time to heal. Central banks have a key role to play in this regard and have started to inject large amounts of liquidity into markets.

- **Markets have been in complete turmoil this week, with some equity indices registering their biggest one-day falls since Black Monday, 1987.** Most are now in bear territory, i.e. down over 20%. Risk adverse sentiment will continue to dominate until there are signs that the coronavirus is being brought under control. This appears to be at least a couple of months away. Market sentiment, though, can turn quickly once lasting damage is not done to the global economy and financial system.

- **Europe is now at the epicentre of the virus outbreak.** The lessons from Asia are that aggressive action early on can halt the spread of the virus. There have been positive trends in a number of Asian countries in this regard. A close eye should be kept on South Korea, in particular, which looks to be getting on top of a large outbreak. However, there are doubts about whether the populaces in Western democracies will tolerate some of the measures introduced by Asian countries and be willing to endure the short-term severe economic disruption and costs involved. European governments, though, are moving in this direction.

- **The jury is still out, then, on whether or not this is a short-lived pandemic that will abate after a few months, allowing the world economy to rebound in the second half of the year.** The extent of the dislocation in financial markets suggests they believe this crisis will last the full year, with the global economy entering a recession that endures for all of 2020. Time will tell.

- **This week, the Fed will be squarely in focus.** The central bank cut the target range for its key funds rate by 50bps in an out of course meeting earlier in the month, leaving it at 1.00-1.25%. However, ongoing turmoil in financial markets linked to fears surrounding the economic fallout associated with the coronavirus, as well as an oil price war between Russia and Saudi Arabia, have seen futures contracts move to price in further significant easing. Our view is that the FOMC will vote to cut rates by at least 75bps. Markets view such a move as a certainty and are attaching a circa 50% chance to a 100bps rate reduction. This would bring the fed funds target range down to 0.00-0.25%, levels last seen in the aftermath of the financial crisis. Following on from Thursday's announcement from the NY Fed that it will make $60bn of QE-type purchases in the next month, it is expected to be confirmed that these will run indefinitely. With regard to Chair Powell's press conference, he will likely emphasise that the Fed stands ready to continue to provide support. This week will also bring an update of the central bank's rate dot plot.



- **Sticking with monetary policy, the Bank of Japan will also hold its March rate-setting meeting.** Prior to the coronavirus outbreak, the economy was already on a very weak footing, following a consumption tax hike and natural disasters in Q4 2019. It is a foregone conclusion that the economy will enter a technical recession in Q1. As a result, the central bank may cut its key policy rate by 10bps. Although, there is some disagreement about whether this is an appropriate policy response. This may make the BoJ reluctant to act and instead it may simply adjust its QE programme. Futures contracts are pricing in an 75% chance of a cut.

- **Meanwhile, data releases will continue to attract minimal attention, given the focus on stimulus efforts to combat the coronavirus impact.** However, industrial production figures from China for February will be closely watched as they will provide evidence of the impact from the coronavirus on output. The March print of the Philly Fed index in the US may also be of some interest. The index is likely to point to a rapid deterioration in economic activity, reflecting the hit from the virus outbreak. Retail sales and industrial production figures for February are also due in the US. Survey data suggest the economy was performing strongly up to the that point, so we expect solid reports. In the UK, the labour market bulletin for the 3 months to January will likely point to continued decent employment growth, a jobless rate that remains close to recent historic lows and no change in underlying wage inflation.

Interest Rate Forecasts

	Current	End Q1 2020	End Q2 2020	End Q3 2020
Fed Funds	1.125	0.375	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.60	-0.60
BoE Repo	0.75	0.25	0.25	0.25
BoJ OCR	-0.10	-0.10	-0.20	-0.20

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	1.1110	1.14	1.15	1.13
EUR/GBP	0.8875	0.87	0.87	0.87
EUR/JPY	118.94	120	121	120
GBP/USD	1.2515	1.31	1.32	1.30
USD/JPY	107.03	105	105	106

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ECONOMIC DIARY

Monday 16th—Friday 20th March 2020

Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:					
Mon 16th	**CHINA:**	02.00	Industrial Output (February)	(+6.9%)	(+1.5%)
	ITA:	10.00	Final HICP (February)	(+0.3%)	(+0.3%)
	US:	12.30	NY Fed / Empire State Index (February)	12.9	3.0
Tue 17th	***IRL:***		***Public Holiday (St. Patrick's Day)***		
	UK:	09.30	ILO Employment (3 Months to January)	+180,000	+148,000
			- Unemployment	3.8%	3.8%
	UK:	09.30	Average Weekly Earnings (3 Months to Jan.)	(+2.9%)	(+3.0%)
			- Ex-Bonus	(+3.2%)	(+3.2%)
	GER:	10.00	ZEW Economic Sentiment (March)	8.7	-25.0
	EU-19:	10.00	Wage Inflation (Q4)	(+2.6%)	(+2.4%)
	US:	12.30	Retail Sales (February)	+0.3%	+0.2%
			- Ex-Autos	+0.3%	+0.2%
			- Ex-Gas, Autos & Building Materials	+0.0%	+0.4%
	US:	13.15	Industrial Production (February)	-0.3%	+0.4%
			- Capacity Utilisation	76.8%	77.0%
			- Manufacturing Production	-0.1%	+0.2%
	US:	14.00	NAHB Homebuilder Sentiment (March)	74	74
	JPN:	23.50	Trade Balance (February)	-¥1,312.6bn	¥917.2bn
			- Exports	-2.6%	-4.3%
Wed 18th	**EU-19:**	10.00	Trade Balance (January)	€22.2bn	
	EU-19:	10.00	Final HICP (February)	(+1.2%)	(+1.2%)
			- Ex-Food & Energy	(+1.4%)	(+1.4%)
	US:	12.30	Housing Starts (February)	1.567m / -3.6%	1.502m / -4.1%
			- Building Permits	1.550m / +9.2%	1.511m / -2.5%
	US:	18.00	Fed Interest Rate Announcement	1.00-1.25%	0.25-0.50%
	US:	18.30	Fed Press Conference		
	JPN:	23.30	CPI (February)	(+0.7%)	(+0.4%)
Thurs 19th	**JPN:**	02.00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	US:	12.30	Initial Jobless Claims (w/e 9th March)	211,000	
	US:	12.30	Philly Fed Index (March)	36.7	28.0
	US:	14.00	Leading Indicators' Index (February)	+0.8%	+0.0%
Fri 20th	**GER:**	07.00	PPI (February)	(+0.2%)	(+0.2%)
	UK:	09.30	PSNB Ex-Interventions (February)	-£9.813bn	
	US:	14.00	Existing Home Sales (February)	5.46m (-1.3%)	5.52m (+1.1%)

♦ *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