Weekly Market Brief

AIB Treasury Economic Research Unit

2nd - 6th March 2020

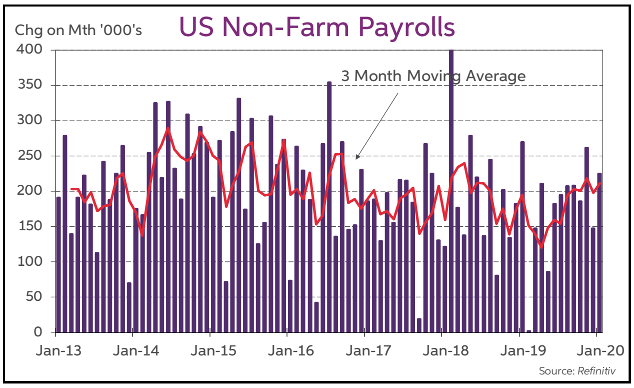
Panic on the Street

- **We warned in January that "investors seem very complacent entering 2020 after a stellar year across all markets in 2019"**, that markets were "ill-prepared for shocks, meaning they are vulnerable to unexpected bad news" and "likely to encounter choppy waters before too long", while the year ahead could be "a challenging one for financial markets". However, we did not foresee the extent of the carnage of the past week, which has seen the worst run on financial markets since the global financial crisis a decade ago. All the main stock markets are down 12-13%, while ten-year US Treasury yields have fallen to record lows. Indeed year-to-date, ten-year US Treasury yields are down 70bps, while their UK and German equivalents have fallen by 40bps. Oil prices are off by circa 22%. The speed of the price movements in financial markets has been staggering. Investors had become overly reliant on directional trading in a rising stock market. As noted in the FT today, "the market fall-out from the coronavirus is now exposing investors who overcommitted themselves into these long positions".

- **The global economy appeared to have turned a corner over the winter months.** It looked to be starting 2020 on a firmer footing after losing momentum over the previous eighteen months. However, the disruption to economic activity caused by the efforts to contain the coronavirus outbreak, including the impact on supply chains, tightening financial conditions, and heightened uncertainty will almost certainly see the signs of a global pick-up snuffed out in the next couple of months. In these circumstances, and with markets in turmoil, central banks are unlikely to stand idly by. Unless significant progress is made in containing the coronavirus outbreak in the next couple of weeks, central banks are likely to act. The Fed has the most room for manoeuvre and could well cut rates by 25bps at its March and May meetings. Markets are discounting that the Fed could cut by 100bps in total in the coming year, which we think is excessive at this stage. The BoE and ECB have less scope for action, so markets see rate cuts of 25bps and 10bps by May, respectively. The rate cuts could come earlier if the market turmoil persists.

- **It is not the coronavirus itself, but the efforts to contain it that are impacting economic activity and financial markets.** To put the coronavirus in context, in the last two winters in the US (2017/18 and 2018/19), 43-45 million people got the flu, close to 1 million required hospitalisation, and deaths from flu were reported at 60,000 and 75,000. These figures are not out of kilter with previous years. It should be noted also that the vast bulk of coronavirus cases are mild, unlike the SARS virus. At the moment, there is a lot of panic, but authorities are going to have to weigh measures to contain the spread of the virus against the impact they will have on economic activity. The outbreak will eventually be contained and economic activity and markets will bounce back. However, it is impossible to put a timing on this. For now, we note that markets had become over-extended and were due a correction. The coronavirus was just the catalyst. Central banks will act soon if the market turmoil persists to ensure that this does not become a market collapse, which would impact the global economy.

- **Data-wise, the highlight of the calendar this week is the release of the US employment report for February.** Non-farm payrolls were boosted in January by the impact of milder weather, coming in at a robust 225,000. The good weather persisted in February, but some moderation in employment growth is expected. Payrolls are projected at a solid 175,000, matching 2019's average monthly gain. The jobless rate is expected to have edged back down from 3.6% to 3.5%, while wage inflation may ease from 3.1% to 3.2%.



- **The US schedule also contains the ISMs for February.** It will be interesting to see what impact, if any, the coronavirus has on the indices, though the true picture may not emerge until March's surveys. The forecast is for a fall in the manufacturing ISM from 50.9 to 50.2, while the non-manufacturing index is projected to have declined from 55.5 to 54.5. Meantime, the Fed will publish the Beige Book, while speeches by FOMC members may attract greater attention given the aforementioned rising expectations for significant early policy easing by central banks. Attention will also be focused on the Super Tuesday Democratic Primaries.

- **In the Eurozone, the spotlight will be on the preliminary HICP figures for February.** The available national data suggests that price pressures remained muted in the month. Headline inflation is expected to have moderated from 1.4% to 1.2%, while the core measure may have held at 1.3%. With regard to the labour market, it is envisaged that the Eurozone jobless rate remained at its multi-decade low of 7.4% in January.

- **Finally, there is little out data-wise in the UK.** As a result, the focus will likely be on the EU-UK trade talks, which get underway on Monday. **Elsewhere, the release of the Chinese Caixin PMIs for February will be looked to for the first real indication of how the coronavirus has impacted activity there. A big fall is expected in the manufacturing PMI.**

Interest Rate Forecasts

	Current	End Q1 2020	End Q2 2020	End Q3 2020
Fed Funds	1.625	1.375	1.125	1.125
ECB Deposit	-0.50	-0.50	-0.60	-0.60
BoE Repo	0.75	0.75	0.50	0.50
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	1.0978	1.09	1.10	1.10
EUR/GBP	0.8546	0.85	0.86	0.87
EUR/JPY	119.18	119	121	121
GBP/USD	1.2847	1.28	1.28	1.26
USD/JPY	108.54	109	110	110

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 2nd—Friday 6th March 2020

Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		af Jochnick, de Guindos, Schnabel (Tuesday)		
	Fed Speakers:		Mester (Tuesday); Kaplan, Williams (Wednesday); Bullard, Evans, George, Mester, Rosengreen, Williams (Friday)		
Mon 2nd	***IRL:***	***01.01***	***AIB Manufacturing PMI (February)***	***51.4***	
	CHINA:	01.45	Caixin Manufacturing PMI (February)	51.1	45.7
	EU-19:	09.00	Final Markit Manufacturing PMI (February)	47.9 / 49.1 (p)	49.1
	UK:	09.00	BoE Mortgage Approvals (January)	67,241	68,000
	UK:	09.30	Final CIPS / Markit Manufacturing PMI (Feb.)	49.7 / 51.9 (p)	51.9
	US:	14.45	Final Markit Manufacturing PMI (February)	51.9 / 50.8 (p)	50.8
	US:	15.00	Manufacturing ISM (February)	50.9	50.2
	US:	15.00	Construction Spending (January)	-0.2%	+0.7%
Tue 3rd	**US:**		Super Tuesday Democratic Primaries		
	ITA:	09.00	Unemployment (January)	9.8%	9.8%
	UK:	09.30	CIPS / Markit Construction PMI (February)	48.4	48.4
	EU-19:	10.00	Preliminary HICP (February)	(+1.4%)	(+1.2%)
			- Ex-Food & Energy	(+1.3%)	(+1.3%)
	EU-19:	10.00	PPI (January)	(-0.7%)	(-0.5%)
	EU-19:	10.00	Unemployment (January)	7.4%	7.4%
	IRL:	***11.00***	***Unemployment (February)***	***4.8%***	***4.8%***
	IRL:	***16.30***	***Exchequer Returns (February)***	***Feb '19: €139m***	***€250m***
Wed 4th	***IRL:***	***01.01***	***AIB Services PMI (February)***	***56.9***	
	CHINA:	01.45	Caixin Services PMI (February)	51.8	
	GER:	07.00	Retail Sales (January)	-3.3%	+1.0%
	ITA:	08.45	Markit Composite PMI (February)	50.4	
	FRA:	08.50	Final Markit Composite PMI (February)	51.1 / 51.9 (p)	51.9
	GER:	08.55	Final Markit Composite PMI (February)	51.2 / 51.1 (p)	51.1
	ITA:	09.00	GDP (Q4: Second Reading)	-0.3% (+0.0%)	-0.3% (+0.0%)
	EU-19:	09.00	Final Markit Composite PMI (February)	51.3 / 51.6 (p)	51.6
			- Services	53.9 / 52.8 (p)	52.8
	UK:	09.30	Final Markit Composite PMI (February)	53.3 / 53.3 (p)	53.3
			- Services	53.9 / 53.3 (p)	53.3
	EU-19:	10.00	Retail Sales (January)	-1.6% (+1.3%)	+0.6% (+1.1%)
	US:	14.45	Final Markit Composite PMI (February)	53.3 / 49.6 (p)	49.6
			- Services	53.4 / 49.4 (p)	49.4
	US:	15.00	Non-Manufacturing ISM (February)	55.5	54.5
			- Business Activity	60.9	
	US:	19.00	Fed's Beige Book Published		
Thurs 5th	***IRL:***	***11.00***	***Live Register (February)***	***-1,300 / 183,900***	***-900 / 183,000***
	US:	13.30	Initial Jobless Claims (w/e 24th February)	219,000	
	US:	15.00	Factory Orders (January)	+1.8%	-0.3%
Fri 6th	**GER:**	07.00	Industrial Orders (January)	-2.1%	+1.5%
	FRA:	07.45	Trade Balance (January)	-€4.05bn	
	US:	13.30	Non-Farm Payrolls (February)	225,000	175,000
			- Unemployment	3.6%	3.5%
			- Average Earnings	(+3.1%)	(+3.0%)
	US:	13.30	International Trade (January)	-$48.9bn	-$48.5bn
	US:	20.00	Consumer Credit (January)	$22.1bn	$17.5bn

♦ *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