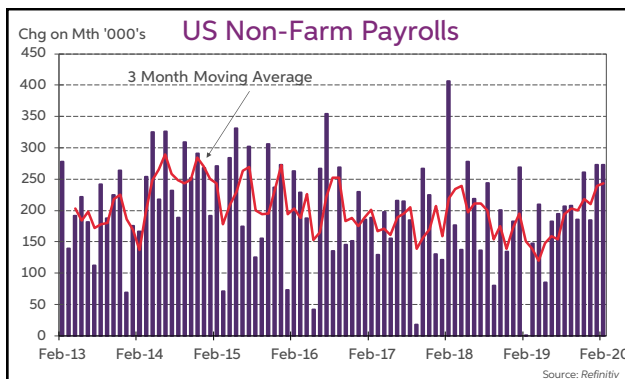


Sudden, Sharp but Hopefully Short Shock

- Data are beginning to flow through for March and are showing the extent of the unprecedented shock that has hit the world economy.** The most eye-catching figure was the surge in weekly initial jobless claims in the US, which rocketed from circa 300k to 3.3 million. Previous highs reached were below the 700k level, set during the recessions in 1982 and 2009. Meanwhile, flash March PMI data show very steep falls in activity in the services sector of economies in particular. Other March survey data have also been very weak. The data highlight the severity and suddenness of the economic downturn and that it is also broad based, impacting virtually all sectors and all economies. This is only the beginning. Data are going to get much worse in the next couple of months given that large parts of the world economy have effectively been put in cold storage.
- Markets, though, have enjoyed a better week despite the poor data. Large scale central bank QE asset buying programmes have calmed bond markets, with yields falling.** Forex markets have become more range bound, with an easing in the scramble for dollars as central banks moved to provide funding in the US currency. Stock markets have also regained some ground, rising by circa 15% over a number of days. However, they are still down by some 25% from their February highs. The extent of the falls in stock markets in such a short period of time is unusual, so a bounce is not surprising. However, it is doubtful that the falls are over as there is likely to be a lot of bad news on economies and from corporates in the next couple of months that will weigh on stock markets.
- Risk markets are taking comfort from the extraordinary measures being taken by both governments and central banks to cushion the economic impact of the coronavirus pandemic.** These actions won't prevent a very deep recession, but they will help ameliorate some of the most severe impacts on households and businesses and lay the groundwork for a recovery when the virus fades. Investors will at some stage have to extend their time horizon beyond the recession to the recovery. The Bank of England at its policy meeting yesterday noted that while the scale of the economic shock will be large and sharp, it should "ultimately prove temporary".
- Naturally, there is a lot of focus on the depth of the recession that economies are now entering.** We have not seen this type of recession before. However, it will likely be short lived. Activity should rebound in the second half of the year. There is much uncertainty about the exact timing and strength of the rebound. It could be impeded by scarring effects such as lingering damage to confidence, lasting impacts on some businesses and tighter financial conditions. There is also the risk of a second smaller wave to the virus later in the year. Even if the recovery is modest in H2 2020, resulting in a very sharp fall in GDP for the year as a whole, economies can be expected grow at very strong rates in 2021. Thus, to get the full picture, we need to look at not just the deep recession, but also the recovery that follows, including into next year.
- In regard to near-term data, the release of the US employment report for March will be of considerable interest this week.** However, it will likely understate the impact of the coronavirus on the labour market, given the survey period precedes the implementation of lockdowns in many states. Non-farm payrolls are still forecast to have dropped by 123k, which would represent the largest single monthly fall since 2009. This is turn may see the unemployment rate rise from 3.5% to 3.9%, while a moderation in wage inflation from 3% to 2.9% is envisaged. **A raft of survey data for March is also due in the US, with attention likely to focus on the ISMs.** Both the manufacturing and the service sector indices are expected to plummet, reflecting the impact of the shutdown on large parts of the economy. The final prints of the March PMIs will likely be revised lower. The Conference Board measure of consumer confidence is also set to nosedive.
- In the Eurozone, the EC sentiment indices for March will also paint an extremely grim picture of the economy.** The index is forecast to fall to 91.8 from 103.5 in February, though it could be an incomplete survey as the virus outbreak may have disrupted the collection process. Final March PMI readings are also due. On the inflation front, it is anticipated that the recent collapse in oil prices will see the headline rate of HICP fall from 1.2% to 0.8% in March. **Meanwhile, there is a sparse look to the UK schedule.** Further declines are pencilled in for the final readings of the March PMIs. **In Ireland, a surge in the Live Register is expected in March,** reflecting large scale job losses stemming from the onset of the coronavirus crisis. **Further afield, this week's Chinese PMI data for March** will be looked to for any evidence of a pick-up in activity as restrictions aimed at halting the spread of the virus have been gradually lifted there in recent weeks.



	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	1.1022	1.10	1.10	1.11
EUR/GBP	0.8963	0.90	0.90	0.89
EUR/JPY	119.21	120	121	122
GBP/USD	1.2293	1.22	1.22	1.25
USD/JPY	108.15	109	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast		
This Week:						
Mon 30th	EU-19:	10.00	Business Climate (March)	-0.04		
	EU-19:	10.00	Economic Sentiment Index (March) - Industrial / Services / Consumer	103.5 -6.1 / 11.2 / -11.6	91.8 -12.9 / -3.4 / -11.6	
	GER:	13.00	Preliminary HICP (March)	(+1.7%)	(+1.4%)	
	US:	15.00	Pending Home Sales (February)	+5.2% / 108.8	-1.3% / 107.4	
Tue 31st	UK:	00.01	GfK Consumer Confidence (March)	-7	-15	
	JPN:	00.30	Industrial Output (February)	+1.0%	+0.1%	
	JPN:	00.30	Unemployment / Jobs: Applicants (February)	2.4% / 1.49	2.4% / 1.47	
	CHINA:	02.00	NBS Manufacturing PMI (March) - Non-Manufacturing	35.7 29.6	45.0	
	UK:	07.00	GDP (Q4: Final Reading)	+0.0% (+1.1%)	+0.0% (+1.1%)	
	FRA:	07.45	Consumer Spending (February)	-1.1%		
	FRA:	07.45	Preliminary HICP (March)	(+1.6%)	(+0.9%)	
	GER:	08.55	Unemployment (March)	5.0%		
	ITA:	10.00	Preliminary HICP (March)	(+0.2%)		
	EU-19:	10.00	Preliminary HICP (March) - Core (Ex-Food & Energy)	(+1.2%) (+1.3%)	(+0.8%) (+1.2%)	
	US:	14.00	Case-Shiller House Prices (January)	(+2.9%)	(+3.2%)	
	US:	15.00	Conference Board Consumer Confidence (Mar.)	130.7	111.5	
	Wed 1st	JPN:	00.50	Tankan Big Manufacturing Index (Q1) - Non-Manufacturing	0 20	-10 6
		IRL:	01.01	AIB Manufacturing PMI (March)	51.2	
CHINA:		02.45	Caixin Manufacturing PMI (March)	40.3	45.8	
ITA:		09.00	Unemployment (February)	9.8%		
EU-19:		09.00	Final Markit Manufacturing PMI (March)	49.2 / 44.8 (p)	44.8	
UK:		09.30	Final CIPS/Markit Manufacturing PMI (March)	51.7 / 48.0 (p)	47.0	
EU-19:		10.00	Unemployment (February)	7.4%	7.4%	
US:		14.45	Final Markit Manufacturing PMI (March)	50.7 / 49.2 (p)	48.5	
US:		15.00	Manufacturing ISM (March)	50.1	44.3	
Thurs 2nd		IRL:	11.00	Live Register (March)	-1.4k / 182.5k	+100k / 282.5k
	US:	13.30	Initial Jobless Claims (w/e 23rd March)	3,283,000	3,000,000	
	US:	15.00	Factory Orders (February)	-0.5%	+0.2%	
	IRL:	16.30	Exchequer Returns (March)	March '19: -€0.97bn	-€1.0bn	
Fri 3rd	IRL:	01.01	AIB Services PMI (March)	59.9		
	CHINA:	02.45	Caixin Services PMI (March)	26.5		
	ITA:	08.45	Markit Composite PMI (March)	50.7		
	FRA:	08.50	Final Markit Composite PMI (March)	52.0 / 30.2 (p)	30.2	
	GER:	08.55	Final Markit Composite PMI (March)	50.7 / 37.2 (p)	36.5	
	EU-19:	09.00	Final Markit Composite PMI (March) - Services	51.6 / 31.4 (p) 52.6 / 28.4 (p)	31.4 28.4	
	UK:	09.30	Final Markit Composite PMI (March) - Services	53.0 / 37.1 (p) 53.2 / 35.7 (p)	36.4 34.8	
	EU-19:	10.00	Retail Sales (February)	+0.6%	+0.1%	
	US:	13.30	Non-Farm Payrolls (March) - Unemployment - Average Earnings (March)	+273,000 3.5% (+3.0%)	-123,000 3.9% (+2.9%)	
	US:	14.45	Final Markit Composite PMI (March) - Services	49.6 / 40.5 (p) 53.2 / 39.1 (p)		
	US:	15.00	Non-Manufacturing ISM (March)	57.3	45.0	

◆ 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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