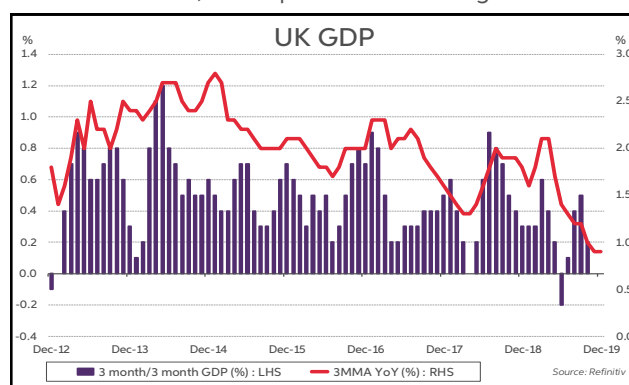


Shock to Global Growth

- The OECD's analysis of the impact of the coronavirus on the world economy sets out two scenarios.** In the base case, the epidemic peaks in China in quarter one and the outbreaks elsewhere prove mild and contained. Nonetheless, supply chains are interrupted and demand weakens, with the tourism and travel sectors most impacted. GDP growth is forecast at 2.4% for the global economy in 2020, down from 2.9% previously. The world economy regains momentum as the virus fades, with the OECD raising its growth forecast for next year from 3% to 3.3%, helped also by policy loosening.
- In the second more adverse scenario, there is a longer lasting and more intensive coronavirus outbreak that spreads throughout the world.** There is a significant hit to global demand with the peak of the shock occurring in the second half of this year, before gradually fading away by early 2021. In this scenario, the projected growth rate of the world economy in 2020 is halved to 1.5%. This would imply that output falls for two to three quarters and many major economies enter recession such as the Eurozone, UK and Japan and possibly the US. While economic activity is expected to regain momentum next year, the average growth for the year is likely to be low. The OECD did not publish individual country forecasts for this scenario. By our calculations, GDP growth could average around 0.5% next year in many advanced economies.
- It would seem that financial markets expect a coronavirus impact that resembles the adverse OECD scenario rather than its base case.** Central banks have already started to cut interest rates and further significant policy easing is expected this year. The Fed cut rates by 50bps to 1.125% this week and futures contracts are pricing in 75bps of additional loosening by the summer. The BoE is expected to cut rates by 50bps to 0.25%, with 20bps in rate reductions priced in for the ECB and BoJ, where rates are already negative – this would take the ECB deposit rate down to -0.7%. The anticipated easing is not a surprise given the potential extent of the shock hitting the world economy this year, which will take growth well below trend.
- Most notably, though, markets do not expect central banks to start reversing the policy easing for a considerable period of time.** The first rate hike in the US is not expected until 2023 and the funds rate is only seen getting back up to 1% in 2026. In the UK, a 25bps rate hike is not priced in until 2025. Thus, the bank rate is expected to be at 0.25% for the first half of the decade. A 10bps hike from the ECB is anticipated in 2023, with the deposit rate getting back to its current level of -0.5% in 2024. However, the deposit rate is expected to still be well in negative territory, at -0.3%, by 2026. Futures contracts, then, appear to be taking a downbeat view of economic activity for years to come. The expert opinion, though, is that the virus will have abated by end 2020. Thus, economic activity should rebound next year. Nonetheless, we expect markets to remain weak and volatile in the next couple of months. Indeed, markets have not been this volatile since the financial crisis a decade ago. Their focus is very much on the shock to activity from the virus, not the subsequent rebound.
- On that note, it will be of interest to see what measures, if any, the ECB announces this week to mitigate the impact of the coronavirus.** Last week, we saw the BoC, the Fed and the RBA reduce rates in the face of the outbreak. Futures contracts pricing currently implies a 90% probability of the ECB following suit and cutting the deposit rate by 10bps. The central bank has indicated that it stands ready to act, but it is notable that a number of Governing Council members have questioned whether policy easing represents an appropriate policy response. It will be a close call but we believe that given the moves taken elsewhere, the central bank will cut the depo rate from -0.5% to -0.6%. If it does not, we expect President Lagarde to state that the ECB will be closely watching incoming data, setting itself up for a rate cut in April if the virus continues to spread rapidly. The ECB could adjust TLTRO 3, but a revision to its latest net asset purchases programme appears unlikely. We will also get updated macro-projections this week, with downward revisions anticipated.
- With regard to UK data releases, GDP for the 3 months to January is due.** However, with markets fixated on the coronavirus, the data may attract less attention than usual. On that note, investors will hope **Budget 2020** will contain details on possible fiscal efforts to lessen the economic fallout associated with the outbreak.
- In the US, the flash March estimate of the University of Michigan measure of consumer sentiment** will be looked to for evidence of how the coronavirus is impacting on the key consumer side of the economy. A sharp fall in the index is anticipated, though this would still leave it a relatively elevated level. The February print of CPI is also due. Headline inflation is expected to have eased to 2.3% from 2.5% on the back of lower energy prices.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2020	2020	2020
Fed Funds	1.125	1.125	0.625	0.625
ECB Deposit	-0.50	-0.60	-0.70	-0.70
BoE Repo	0.75	0.50	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	End Q2	End Q3
		2020	2020	2020
EUR/USD	1.1346	1.14	1.15	1.13
EUR/GBP	0.8697	0.87	0.87	0.87
EUR/JPY	119.37	120	121	120
GBP/USD	1.3046	1.31	1.32	1.30
USD/JPY	105.20	105	105	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast	
This Week:					
Mon 9th	GER:	07.00	Industrial Output (January)	-3.5%	+1.7%
	GER:	07.00	Trade Balance (January) - Exports	€19.2bn +0.1%	
	EU-19:	09.30	Sentix Index (March)	5.2	-11.1
Tue 10th	FRA:	07.45	Industrial Output (January)	-2.8%	+1.8%
	ITA:	09.00	Industrial Output (January)	-2.7%	+2.0%
	EU-19:	10.00	GDP (Q4: Third Reading)	+0.1% (+0.9%)	+0.1% (+0.9%)
	US:	10.00	NFIB Business Optimism (February)	104.3	
Wed 11th	UK:	09.30	GDP (3 Months to January)	+0.0% (+1.2%)	+0.1% (+0.9%)
	UK:	09.30	Industrial Output (January) - Manufacturing	+0.1% (-1.8%) +0.3% (-2.5%)	+0.2% (-2.6%) +0.4% (-3.4%)
	UK:	09.30	Goods Trade Balance (January) - Non-EU	£0.845bn £6.721bn	-£7.000bn
	US:	12.30	CPI (February) - Core (Ex-Food & Energy)	(+2.5%) (+2.3%)	(+2.3%) (+2.3%)
	UK:	12.30	Chancellor Sunak Announces UK Budget		
	JPN:	23.50	Domestic Wholesale Prices (February)	(+1.7%)	(+1.0%)
Thurs 12th	EU-19:	10.00	Industrial Production (January)	-2.1% (-4.1%)	+1.2% (-3.4%)
	IRL:	11.00	CPI (February)	-0.7% (+1.3%)	+0.7% (+1.2%)
	IRL:	11.00	Residential Property Prices (January)	-0.6% (+0.9%)	-0.4% (+1.1%)
	US:	12.30	Initial Jobless Claims (w/e 2nd March)	216,000	
	US:	12.30	PPI (February)	(+2.1%)	(+1.9%)
	EU-19:	12.45	ECB Refi Rate Announcement - Deposit Rate	0.00% -0.50%	0.00% -0.60%
	EU-19:	13.30	ECB Press Conference		
Fri 13th	GER:	07.00	Final HICP (February)	(+1.7%)	(+1.7%)
	FRA:	07.45	Final HICP (February)	(+1.6%)	(+1.6%)
	US:	14.00	Prelim' Michigan Consumer Sentiment (March)	101.0	97.0

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.