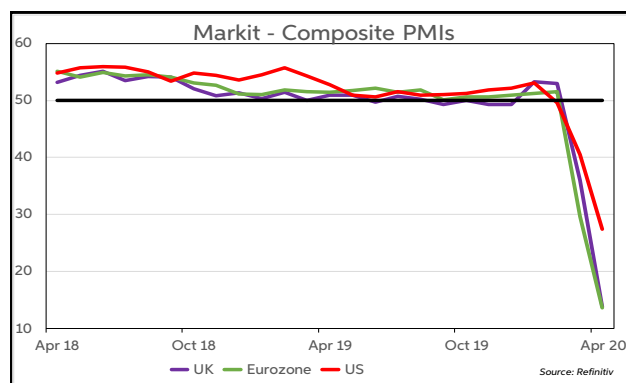


Less Than Zero

- Markets are uncertain about whether we have reached the lower bound in interest rates for the main economies.** The ECB and BoJ do not seem overly keen on moving rates even deeper into negative territory, having focused to date in this crisis on using other non-standard policy measures, in particular large scale QE. Both the Fed and BoE have previously indicated a reluctance to move rates below zero, although they are not prepared to completely rule out such a move. It is clear, however, that the Fed is still not keen on the idea. Chair Powell indicated this week that the FOMC view has not changed on the matter and it is not something the Fed is looking at. Thus, negative rates are unlikely to appear on the horizon anytime soon in the US.
- By contrast, both the BoE Governor and Deputy Governor have been less categorical about ruling out negative rates in their recent comments.** The Governor stated that it's always wise, and particularly in current circumstances "not to rule anything out forever". They remain to be convinced of the merits of such a move, though, with the Governor saying that it is not something the BoE is currently "planning for or contemplating". He added that negative interest rates would also be a very big step to take and not a normal policy move. Hence, it would require considerable preparation and communication. It would seem, then, that any move to negative rates is a long way off in the UK.
- Despite the reticence of the Fed and BoE, futures curves are toying with the idea that US and UK rates could turn negative.** They are pricing in that official rates could be cut by a further 5-10bps to virtually zero this year. Meanwhile, a small cut of 5bps in the ECB deposit rate, which currently stands at -0.5%, is also priced into futures curves. In the near term, though, any additional central bank policy actions are likely to be via the route of non-interest rate measures. It would seem that the current deep recession would need to morph into a prolonged slump in activity for negative interest rates to come on to the policy agenda in the US and UK, or indeed, for rates to move deeper into negative territory in the Eurozone and Japan.
- Markets, though, clearly expect interest rates to remain low for a very long period of time.** A 10bps rise in the ECB deposit rate from its current level of -0.5% to -0.4% is not priced in until mid-2025. In the UK, short-sterling contracts suggest that the Bank rate is unlikely to be increased back up to 0.25% until early 2024 and it could be late 2026 at the earliest before it reaches 0.5%. US future contracts would appear to be looking for the Fed to raise rates to 0.25% only by early 2024 and to 0.5% in mid-2025. The funds rate is not seen rising back up to 1% until the end of the decade. It points to a very downbeat outlook for economic prospects in fixed-income markets. This is something that is unlikely to change in the near term, judging by the warning from the Fed Chair this week about the risk of an extended period of weak economic activity and stagnant incomes.
- Turning to the week ahead, a busy UK schedule includes the release of the labour market bulletin for Q1.** The data are expected to show the relative success of the UK government's furloughing scheme in preventing mass layoffs at the beginning of the crisis. Employment is forecast to have risen in Q1, despite the fall in GDP in the quarter. This increase is expected to result in the jobless rate rising from 4% to 4.4%. Meanwhile, retail sales are projected to have plunged by 16% in April, reflecting the closure of outlets due to the lockdown. At the same time, the sharp fall in domestic demand and the collapse of oil prices could see headline inflation decelerate to 0.9% in April. In terms of timelier data, the flash PMIs for May are set for release. Some easing of Covid-19 restrictions may see the composite index move up from a record low of 13.8 to 24.0.
- In the US, the flash May PMIs will also be of interest.** A number of states have moved to gradually ease lockdowns this month. As a result, some bounce-back in the composite index is to be expected. It is anticipated that the manufacturing PMI will increase from 36.1 to 37.5, while the services index is projected to have improved from 26.7 to 30.0. The May NAHB homebuilder's sentiment index is also expected to rise. On the monetary policy front, the minutes from the Fed's April FOMC meeting are due, though Fed Chair Powell's appearance before a Senate Banking Committee on Tuesday may be of more interest. He will likely stress again that there is a risk of a prolonged downturn in the absence of more fiscal stimulus.
- Finally, the preliminary PMIs in May are also the highlight in the Eurozone.** As in the US, it is anticipated that an easing of restrictions in much of the region over the course of the month will result in the composite index moving off its historically low level of 13.6 to 25. The sharpest improvement is pencilled in for the services component, which is forecast to have increased from just 12 to 24.0. At the same time, it is envisaged that the manufacturing PMI may have picked up from 33.4 to 38. **In Ireland, the Labour Force Survey for the opening quarter of the year is due.** This should show the early impact from the Covid-19 pandemic, which began to hit the economy and labour market hard late in March.



	Interest Rate Forecasts			
	Current	End Q2 2020	End Q3 2020	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 2020	End Q3 2020	End Q4 2020
EUR/USD	1.0826	1.08	1.09	1.10
EUR/GBP	0.8908	0.89	0.91	0.88
EUR/JPY	115.96	116	117	119
GBP/USD	1.2151	1.21	1.20	1.25
USD/JPY	107.09	107	107	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	BoE Speakers:	Bailey (Wednesday)		
	ECB Speakers:	de Guindos, Lane (Tuesday); Panetta (Thursday); Lane (Friday)		
	Fed Speakers:	Bostic (Monday); Kashkari, Powell , Rosengren (Tuesday); Bositc, Bullard (Wednesday); Brainard, Clarida, Powell (Thursday)		
Mon 18th	JPN:	00.50 GDP (Q1: First Reading)	-7.1% s.a.a.r.	-4.6%
	US:	15.00 NAHB Homebuilder Sentiment (May)	30	35
Tue 19th	UK:	07.00 ILO Employment (January - March) - Unemployment	+172,000 4.0%	+100,000 4.4%
	UK:	07.00 Average Weekly Earnings (January - March) - Ex-Bonus	(+2.8%) (+2.9%)	(+2.7%) (+2.7%)
	GER:	10.00 ZEW Economic Sentiment (May)	28.2	33.5
	US:	13.30 Housing Starts (April) - Building Permits	1.216m / -22.3% 1.350m / -7.0%	0.908m / -25.3% 1.04m / -23.0%
Wed 20th	UK:	07.00 CPI (April) - Core (Ex-Food & Energy)	(+1.5%) (+1.6%)	(+0.9%) (+1.4%)
	UK:	07.00 PPI Output (April) - Input	(+0.3%) (-2.9%)	(-0.4%) (-8.4%)
	EU-19:	10.00 Final HICP (April)	(+0.4%)	(+0.4%)
	EU-19:	15.00 Flash Consumer Confidence (May)	-22.7	-23.4
	US:	19.00 Minutes from April FOMC Meeting Published		
Thurs 21st	JPN:	00.50 Trade Balance (April) - Exports	¥5.4bn -11.7%	-¥560.0bn -22.7%
	JPN:	01.30 Flash Jibun Bank Manufacturing PMI (May)	41.9	
	FRA:	08.15 Flash Markit Composite PMI (May)	11.1	
	GER:	08.30 Flash Markit Composite PMI (May)	17.4	36.0
	EU-19:	09.00 Flash Markit Composite PMI (May) - Manufacturing / Services	13.6 33.4 / 12.0	25.0 38.0 / 24.0
	UK:	09.30 Flash CIPS / Markit Composite PMI (May) - Manufacturing / Services	13.8 32.6 / 13.4	24.0 34.5 / 23.1
	UK:	11.00 CBI Industrial Orders (May)	-56	
	IRL:	11.00 LFS—Employment (Q1)	(+3.5%)	(-2.0%)
	US:	13.30 Initial Jobless Claims (w/e 16th May)	2,981,000	2,450,000
	US:	13.30 Philly Fed Index (May)	-56.6	-45.0
	US:	14.45 Flash Markit Composite PMI (May) - Manufacturing / Services	27.0 36.1 / 26.7	37.5 / 30.0
	US:	15.00 Existing Home Sales (April)	5.27m / -8.5%	4.3m / -18.4%
	US:	15.00 Leading Indicators' Index (April)	-6.7%	-5.7%
Fri 22nd	UK:	07.00 PSNB Ex-Interventions (April)	April '19: £6.8bn	
	UK:	09.30 Retail Sales (April)	-5.1% (-5.8%)	-16% (-21.7%)
	EU-19:	12.30 ECB Account from April Governing Council Meeting Published		

◆ 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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