Weekly Market Brief
AIB Treasury Economic Research Unit

11th-15th November 2019

Fake News

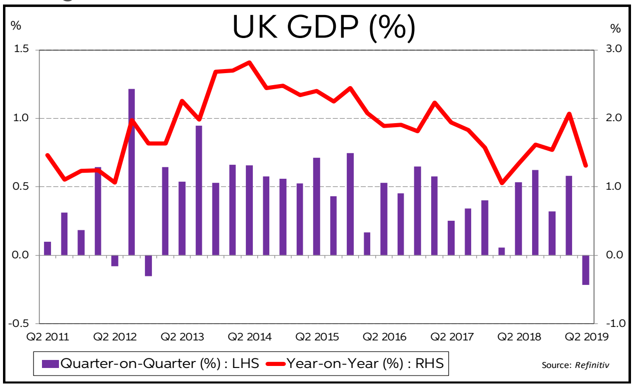
- **Burgeoning risk appetite remained to the fore in financial markets again over the past week, with stock markets continuing to surge ahead and bond yields remaining on a strong upward trend, amid strong investor demand for riskier assets.** US stock markets hit new all-time highs, while ten year Treasury yields touched 1.95%, a marked climb from their level of 1.5% seen just over a month ago. In Europe, ten year bund yields, which had been as low as -0.75% in September, have risen by 50bps to -0.25%. The short-end is not immune to the rising yield trend, although curves have steepened in the past month. Signs of progress in the US-China trade talks have been a key catalyst for the upbeat mood in markets recently, which has also been helped by the revised Withdrawal Agreement concluded by the UK and EU, with a crash-out Brexit avoided at end October.

- **All the while, markets have greatly scaled back their expectations for further monetary easing by central banks.** Futures markets now see just one additional 25bps rate cut from the Fed, which would take the funds rate down to 1.375%. Not that long ago, they were expecting the Fed to cut rates all the way to 1%. In Europe, markets had expected the ECB to deliver another 20-25bps in rate easing. Now they think it's one and done in Frankfurt, with further rate cuts being gradually priced out by markets in recent weeks. A 25bps rate cut is no longer being priced in for the UK either, despite a move in this direction with two MPC members voting to lower rates this week.

- **Meantime, as markets tend to do in times when the 'animal spirits' are let loose, good economic data are often getting a lot of attention in markets, while weak figures are ignored.** Notably, a better than expected US employment report for October was well received by investors. Worryingly though, most lead indicators continue to weaken, with signs that the downturn in manufacturing is now starting to spill over into the much bigger services side of economies. The PMI data for October indicate that the downturn in manufacturing may be bottoming out, with the third consecutive rise in the global index, although it remains just below 50 and thus still in contraction territory. The slowdown in services, though, is gaining momentum with the global index falling to 51.0, from 51.4 in September. Worryingly, this is now translating into a marked weakness in the employment sub-component of the PMI – indeed, the composite global employment index contracted for the first time since early 2010 in October, with employment flat in services but declining in manufacturing.

- **Lead indictors require close watching in the coming months.** Central banks like the Fed and ECB have pressed the pause button on further easing for now as they assess the impact of the measures taken since mid-year. They have not sounded the all clear on the economic outlook, though, and retain an easing bias, being prepared to do more if required. The Bank of England is moving closer to cutting rates, with Brexit complicating monetary policy as it could either boost or further dampen UK activity in 2020. The Bank of China lowered one of its official rates this week. Some form of US-China trade deal would be welcome, but it may not prove the magic pill for the world economy. We need to see lead indicators improving soon if the recent rally in stocks and sell-off in bonds is to prove sustained.

- **Turning to the week ahead, a packed UK schedule includes the first reading of GDP for Q3.** The available hard data, such as the monthly estimate of GDP, suggest the UK avoided entering into a recession. The consensus forecast is for solid growth of 0.4% in the quarter. While growth is anticipated to have picked up, numbers in employment are expected to have fallen by 90k in Q3. Although, the unemployment rate should hold at 3.9%. Underlying wage inflation is also projected to have remained at 3.8%. Despite strong earnings growth, headline CPI may have eased to 1.6%. This equates to good real wage gains and it is envisaged that this may have helped retail sales increase by a modest 0.2% in October.



- **In the US, lower energy prices are anticipated to have contained inflationary pressures in October,** with CPI pencilled in at just 1.7%. Meanwhile, a sharp fall in auto sales in the month could weigh on headline retail sales figures in October. Although, the consensus is that they were still able to eke out a 0.2% rise. Industrial production numbers for October round off the calendar, with a 0.3% decline expected. In terms of monetary policy updates, Fed Chair Powell is due to testify before Congress on the economic outlook.

- **Industrial production figures are also due in the Eurozone.** In September, output is projected to have fallen by 0.3%. On a national level, the first estimate of German GDP for Q3 is due. The forecast is for a 0.1% contraction, which would mean the economy entered into a technical recession. **Elsewhere, we also get Japanese GDP for Q3 this week.** Growth is expected to have slowed to 0.8% in annualised terms, from 1.3%, partly reflecting the impact of severe weather in the quarter.

Interest Rate Forecasts

	Current	End Q4 2019	End Q1 2020	End Q2 2020
Fed Funds	1.625	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.75	0.75
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 Q4 2019	End Q1 2020	End Q2 2020
EUR/USD	1.1025	1.12	1.12	1.13
EUR/GBP	0.8605	0.85	0.86	0.87
EUR/JPY	120.55	122	122	123
GBP/USD	1.2812	1.32	1.30	1.30
USD/JPY	109.31	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 11th—Friday 15th November 2019

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Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		Coeure, Lane (Tuesday); de Guindos, Villeroy de Galhau (Thursday); Mersch (Friday)		
	Fed Speakers:		Barkin, Harker (Tuesday); **Powell** (Wednesday); Bullard, Evans, **Powell**, Williams (Thursday)		
Mon 11th	**US:**		Veteran's Day (Partial Market Holiday)		
	JPN:	05.00	Economy Watchers' Poll (October)	46.7	
	ITA:	09.00	Industrial Output (September)	+0.3% (-1.8%)	-0.6% (-2.1%)
	UK:	09.30	GDP (Q3: First Reading)	-0.2% (+1.3%)	+0.4% (+1.1%)
	UK:	09.30	Industrial Output (September)	-0.6% (-1.8%)	-0.2% (-1.3%)
			- Manufacturing	-0.7% (-1.7%)	-0.3% (-1.6%)
	UK:	09.30	Goods Trade Balance (September)	-£9.81bn	-£10.00bn
			- Non-EU	-£2.21bn	-£2.50bn
Tue 12th	**UK:**	09.30	ILO Employment (3 Months to September)	-56,000	-90,000
			- Unemployment	3.9%	3.9%
	UK:	09.30	Average Weekly Earnings (3 Months to Sept.)	(+3.8%)	(+3.8%)
			- Ex-Bonus	(+3.8%)	(+3.8%)
	GER:	10.00	ZEW Economic Sentiment (November)	-22.8	-13.0
	US:	11.00	NFIB Business Optimism (October)	101.8	
	JPN:	23.50	Domestic Wholesale Prices (October)	+0.0% (-1.1%)	+1.2% (-0.3%)
Wed 13th	**GER:**	07.00	Final HICP (October)	(+0.9%)	(+0.9%)
	UK:	09.30	CPI (October)	(+1.7%)	(+1.6%)
			- Ex-Food & Energy	(+1.7%)	(+1.7%)
	UK:	09.30	PPI Output (October)	(+1.2%)	(+0.9%)
			- Input	(-2.8%)	(-4.9%)
	EU-19:	10.00	Industrial Production (September)	+0.4% (-2.8%)	-0.3% (-2.5%)
	US:	13.30	CPI (October)	(+1.7%)	(+1.7%)
			- Core (Ex-Food & Energy)	(+2.4%)	(+2.4%)
	US:	19.00	Federal Budget (October)	Oct. '18: -$100bn	
	JPN:	23.50	GDP (Q3: First Reading)	+1.3% s.a.a.r.	+0.8%
Thurs 14th	**UK:**	00.01	RICS Housing Survey (October)	-2	-4
	CHINA:	02.00	Industrial Output (October)	(+5.8%)	(+5.4%)
	FRA:	06.30	Unemployment (Q3)	8.5%	8.4%
	GER:	07.00	GDP (Q3: First Reading)	-0.1%	-0.1%
	FRA:	07.45	Final HICP (October)	(+0.9%)	(+0.9%)
	UK:	09.30	Retail Sales (October)	+0.0%	+0.2%
	EU-19:	10.00	Employment (Q3: First Reading)	+0.2% (+1.2%)	
	EU-19:	10.00	GDP (Q3: Second Reading)	+0.2% (+1.1%)	+0.2% (+1.1%)
	IRL:	***11.00***	***Residential Property Prices (September)***	***+0.3% (+2.0%)***	***+0.4% (+1.5%)***
	IRL:	***11.00***	***New Dwelling Completions (Q3)***	***4,920 (+11.8%)***	***5,600 (+20.0%)***
	US:	13.30	Initial Jobless Claims (w/e 4th November)	211,000	215,000
	US:	13.30	PPI (October)	(+1.4%)	(+0.9%)
Fri 15th	**ITA:**	10.00	Final HICP (October)	(+0.2%)	(+0.2%)
	EU-19:	10.00	Final HICP (October)	(+0.7%)	(+0.7%)
			- Ex-Food & Energy	(+1.2%)	(+1.2%)
	IRL:	***11.00***	***Goods Trade Balance (September)***	***€4.7bn***	***€5.0bn***
	US:	13.30	NY Fed / Empire State Index (November)	4.00	5.00
	US:	13.30	Retail Sales (October)	-0.3%	+0.2%
			- Ex-Autos	-0.1%	+0.4%
			- Ex-Gas, Autos & Building Materials	+0.0%	+0.3%
	US:	14.15	Industrial Production (October)	-0.4%	-0.3%
			- Capacity Utilisation	77.5%	77.2%
			- Manufacturing	-0.5%	-0.5%

♦ *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