Global Watch

September 2019

Monetary easing amid persistent uncertainty

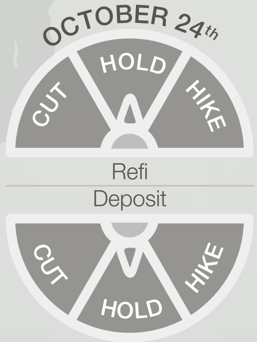
Trade policy uncertainty is weighing on global investment and the manufacturing sector in particular. Services activity has held up relatively well to date, though there are signs that the prolonged **manufacturing downturn** is **starting to spill over** into this sector too. The major central banks have responded by easing monetary policy, significantly so in the case of the **ECB** which has cut the deposit rate further into negative territory and will **restart bond purchases** from November. While it insists it has not yet reached the limit of the support it can provide to the Euro area economy, outgoing President Draghi and incoming President Lagarde have both said fiscal policy needs to help out. In the US, Trump's fiscal stimulus has provided support for the economy, but as its effects have begun to wane the **Fed** has stepped in, **cutting** interest rates twice in two months with room to lower them again if necessary. The Bank of England hasn't joined the 'easing' party but has acknowledged that the longer Brexit uncertainty prevails the more it will dampen UK growth, making a rate cut more likely. Movements in sterling have been a good reflection of recent **Brexit** developments, with the pound weakening sharply against the euro as the chances of a 'no deal' exit seemed to have increased but recovering as they seemed to recede again. But - in reality - just a few weeks out from the **Halloween deadline**, it is unclear if or how the UK will leave the EU on October 31st.

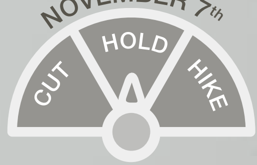
Economic Research Unit

Bank of Ireland

Central Bank Outlook

Economic Conditions			
Growth	2.3%	1.2%	1.1%
Unemployment	3.7%	7.4%	3.8%
Headline Inflation	1.4%	1.0%	1.7%
Core Inflation	1.8%	0.9%	1.5%
Policy Stance	Appropriately set interest rates to sustain the economic expansion	Deploy full toolkit to address persistently weak inflation	Outlook for interest rates continues to be Brexit dependent
Current Policy Rate	1.75%-2.0% Fed Funds	0.0% Refi; -0.5% Deposit	0.75% Bank Rate
Next Meeting	OCTOBER 29th-30th	OCTOBER 24th	NOVEMBER 7th



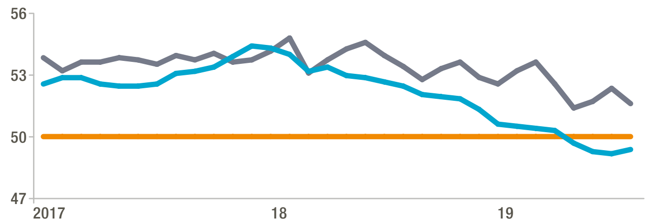


Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England
Growth: Annual % change in GDP (constant prices), US and Euro Area Q2 2019, UK May-July 2019
Unemployment: Rate (%), US August 2019, Euro Area August 2019, UK May-July 2019
Headline and Core Inflation: Annual % change, US PCE August 2019, Euro Area CPI August 2019, UK CPI August 2019, core inflation excludes food and energy (as well as alcohol and tobacco in the case of the Euro Area and UK)
Policy Rates: Federal Funds Rate, ECB Main Refinancing Rate and Deposit Rate; Bank of England Bank Rate

Economy

Slower global growth

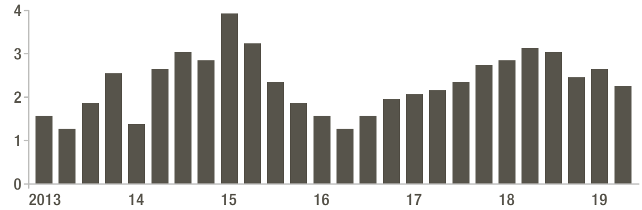
Trade policy uncertainty is weighing on investment and manufacturing. The IMF expects global GDP growth to slow to 3.2% this year, picking up to 3.5% in 2020, but highlights downside risks.



Global Manufacturing PMI Global Services PMI Expansion-Contraction Threshold
Source: JP Morgan & IHS Markit

US activity moderating

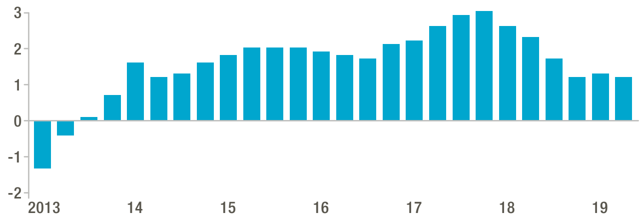
The annual rate of GDP growth in the US eased to 2.3% in the second quarter of 2019. The unemployment rate stood at 3.7% in August, while inflation was subdued at 1.4%.



US GDP (annual % change, constant prices)
Source: BEA

Euro area growth steadies

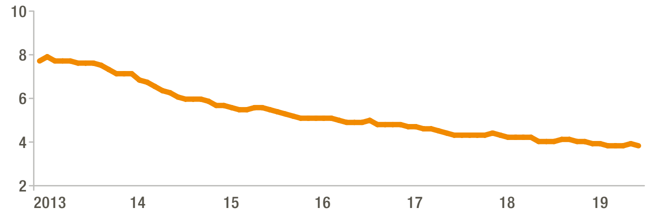
Euro area growth looks to be stabilising, albeit at a modest level, with GDP increasing by 1.2% year-on-year in Q2. The unemployment rate was 7.4% in August, with inflation running at 1.0%.



Euro area GDP (annual % change, constant prices)
Source: Eurostat

Softer UK economy

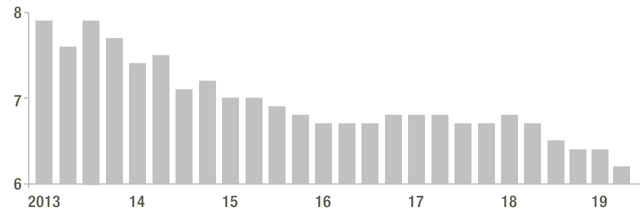
After a stockpiling-related boosted in the opening months of 2019, annual GDP growth in the UK slowed to 1.1% in May-July. The unemployment rate dipped to 3.8% in the 3 months to July, while inflation eased to 1.7% in August.



UK Unemployment Rate (%)
Source: ONS

China under pressure

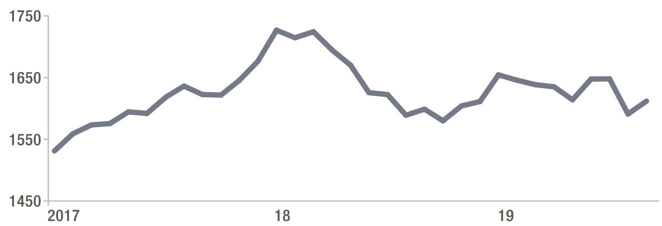
GDP in China rose by 6.2% year-on-year in Q2 – at the lower end of the authorities' 2019 growth target of 6-6.5% – with the recently implemented (and prospective) tariff rate increases on goods exports to the US a headwind.



China GDP (annual % change, constant prices)
Source: National Bureau of Statistics of China

EM currencies remain volatile

Emerging market currencies came under renewed pressure in August as US-China trade tensions escalated, but they have recovered a little ground lately helped by the Fed cutting interest rates again.

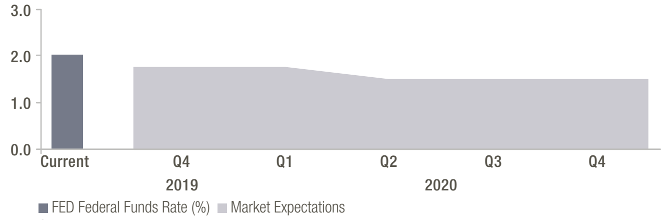


Emerging Markets Currency Index
Source: MSCI

Monetary

Fed cuts again

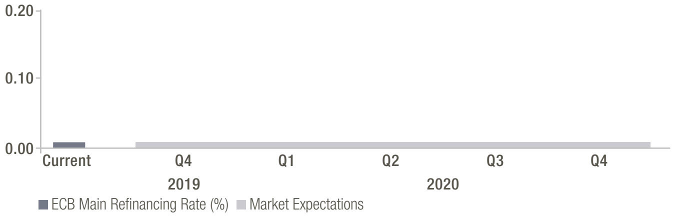
The Fed lowered interest rates for a second time in as many months in September – citing downside risks to the economic outlook – and said it will act as appropriate to sustain the US expansion.



Source: Fed & Bloomberg

ECB unleashes firepower

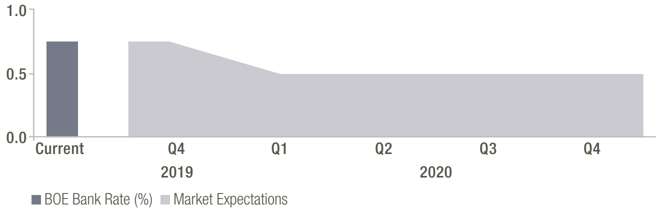
The ECB cut the deposit rate by 10bps to -0.5% at its September meeting and signalled it could reduce it again if warranted. It will also resume bond purchases at a pace of €20bn a month from 1st November.



Source: ECB & Bloomberg

BOE stays on hold

The Bank of England has kept interest rates unchanged since August 2018 amid Brexit-related uncertainty, and indicated that the path ahead will continue to depend on developments on this front.

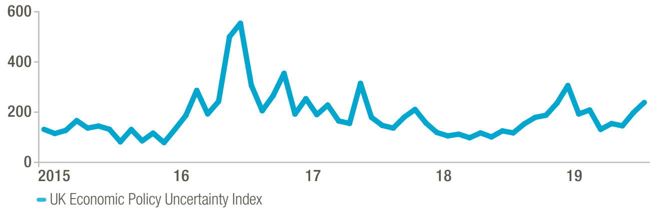


Source: Bank of England & Bloomberg

Policy & Politics

UK MPs take control

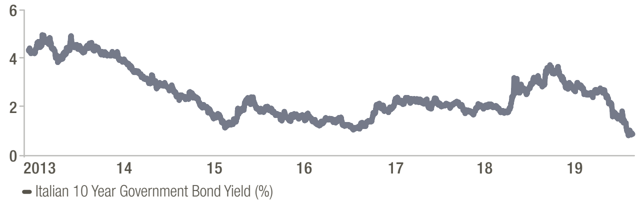
While discussions are taking place to try and reach an agreement, the UK Parliament has passed legislation aimed at preventing a 'no deal' Brexit on 31st October, with increased talk of a general election (possibly in November).



Source: Davis, Baker and Bloom

Spain going to the polls

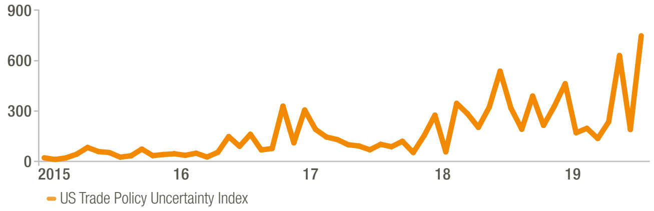
Spain is set for a fourth general election in 4 years as efforts to form an administration failed, while in Italy attempts by the League party to engineer a vote backfired, with a new Five Star-PD coalition government in situ.



Source: Bloomberg

Trade policy by tweet

President Trump – who is facing an impeachment inquiry – has upped the ante in the US trade dispute with China, announcing tariff rate increases on all goods imports (circa $500bn) from China with the latter responding in kind.

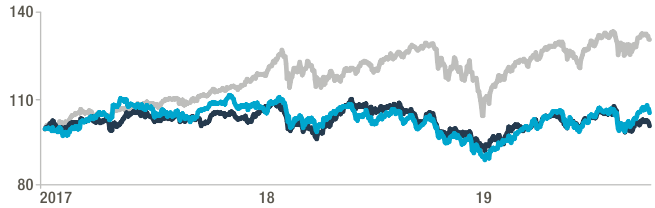


Source: Davis, Baker and Bloom

Markets

Stocks volatile

Having sold off in August as trade tensions flared up again, stocks rebounded in September helped by more accommodative central bank monetary policy though they started Q4 on a soft note.

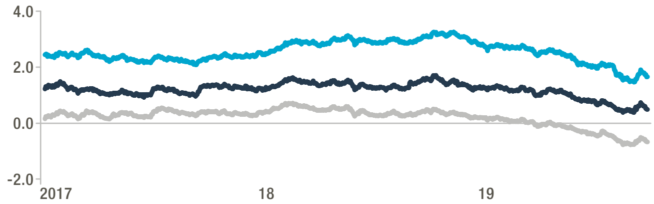


Equity Indices (2017=100) – S&P 500 – Euro Stoxx 50 – FTSE 100

Source: Thomson Reuters

Low bond yields

Core bond yields fell in anticipation of policy action at the most recent Fed and ECB meetings, to all-time lows in the case of German 10-year yields which remain deep in negative territory.

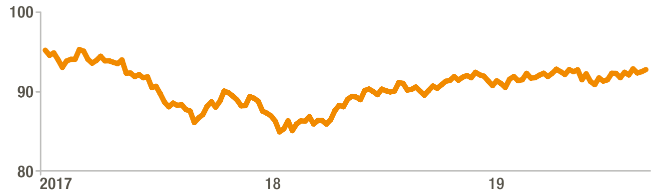


10-Year Government Bond Yields (%) – US – Germany – UK

Source: Thomson Reuters

Dollar firmer

The dollar gained ground against the currencies of its main trading partners in the third quarter, rising by around 2%, as it benefitted from its ‘safe haven’ status amid heightened uncertainty.

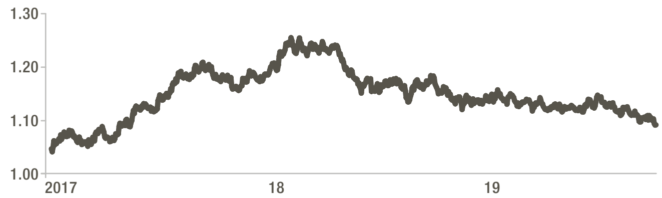


– Dollar Trade Weighted Index Major Currencies (March 1973=100)

Source: Fed

Euro under pressure

The euro has been very much on the back foot recently. It fell to $1.09 against the dollar in late September after the ECB eased policy, which is its weakest level since April 2017.

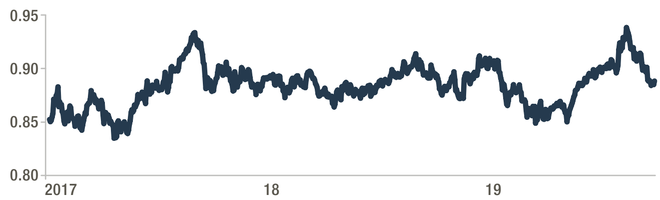


– €/$

Source: Thomson Reuters

Sterling ebbs and flows

Q3 was a quarter of two halves for the pound, which fell to over 93p against the euro in August as fears of a ‘no deal’ Brexit intensified but subsequently recovered to around 89p as concerns eased somewhat.

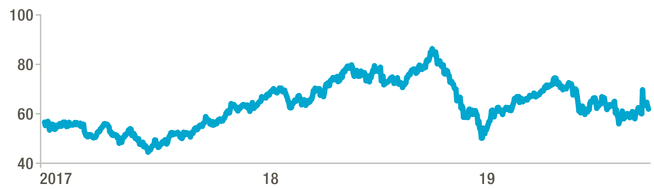


– €/£

Source: Thomson Reuters

Short-lived oil price spike

A drone attack on an important Saudi oil production facility caused Brent crude oil prices to jump by more than $10 to circa $72 per barrel in mid-September, but they have since dropped back to circa $60.



– Brent Crude Oil ($ per barrel)

Source: Thomson Reuters

Forecasts

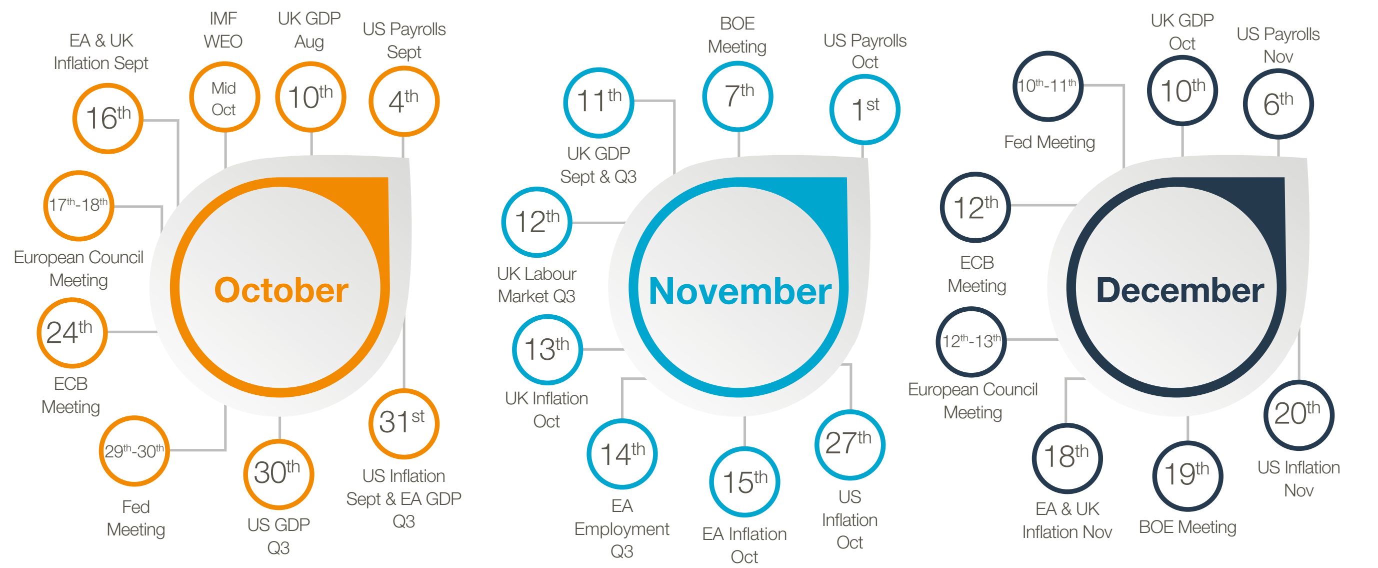
GDP Growth*	2018	2019 (f)	2020 (f)
Global Economy	3.6%	3.2%	3.5%
Advanced	2.2%	1.9%	1.7%
Emerging	4.5%	4.1%	4.7%

FX**	Current	End Dec 2019	End Mar 2020
€/$	1.09	1.10	1.12
€/£	0.89	0.89	0.87
£/$	1.23	1.24	1.29

*Annual % change, constant prices (Source: IMF)

**Current Rate is as of 30th September 2019 (Source: Bloomberg); Rate forecasts, assumes current EU-UK trading arrangements continue to apply consistent with an extension of Article 50 or a transition period (Source: Bank of Ireland)

Upcoming Events



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