

Global Watch

December 2019

Some grounds for cautious optimism

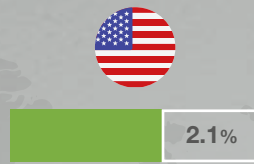
While 2019 was characterised by persistent policy uncertainty, which weighed on global growth, it did end with two reasonably positive developments. Firstly, the **US and China** reached an interim **trade agreement**, which included a modest reduction in some tariffs already imposed and the cancellation of a fresh round due to take effect at the close of the year. Secondly, a **'no deal' Brexit** was **avoided** and the UK is now preparing to leave the European Union on January 31st with a 'status quo' transition period in place until December 2020, albeit this is only the end of the beginning and negotiating a new relationship still lies ahead. To the extent that these developments contribute to some reduction in uncertainty, they should help to **support** the **global economy**, as should the recent easing of monetary policy by the Fed and the ECB, among other central banks. However, the escalation in tensions between the US and Iran at the start of the New Year suggests it won't be all plain-sailing in 2020. At the same time, the dollar, which has benefited from the unsettled environment, may give up some ground against the euro, while the fortunes of sterling, which chalked up strong gains against the single currency in the closing months of 2019, may depend on how the next phase of Brexit evolves.



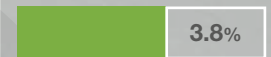
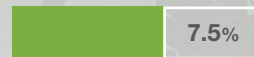
Central Bank Outlook

Economic Conditions

Growth



Unemployment



Headline Inflation



Core Inflation



Policy Stance



Interest rates are appropriate to sustain the economic expansion



Prepared to use full toolkit to address persistently weak inflation



Rate path depends on economy's response to Brexit developments

Current Policy Rate

1.5%-1.75%

Fed Funds

0.0%

Refi

-0.5%

Deposit

0.75%

Bank Rate

Next Meeting



Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England

Growth: Annual % change in GDP (constant prices), US and Euro Area Q3 2019, UK August-October 2019

Unemployment: Rate (%), US November 2019, Euro Area October 2019, UK August-October 2019

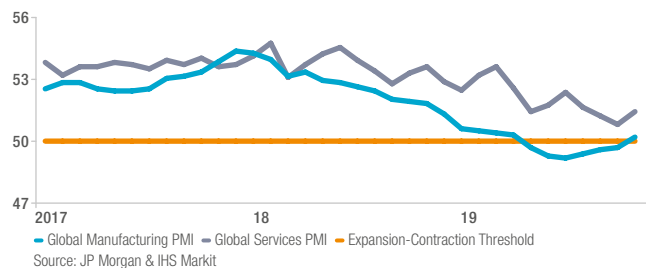
Headline and Core Inflation: Annual % change, US PCE November 2019, Euro Area CPI November 2019, UK CPI November 2019, core inflation excludes food and energy (as well as alcohol and tobacco in the case of the Euro Area and UK)

Policy Rates: Federal Funds Rate, ECB Main Refinancing Rate and Deposit Rate, Bank of England Bank Rate

Economy

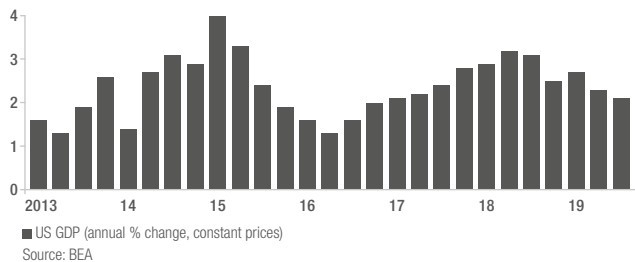
Subdued global growth

Trade policy uncertainty has weighed on manufacturing especially over the past year but there are signs the worst may be over. The IMF expects global GDP to expand by 3.4% in 2020, after an increase of 3.0% in 2019.



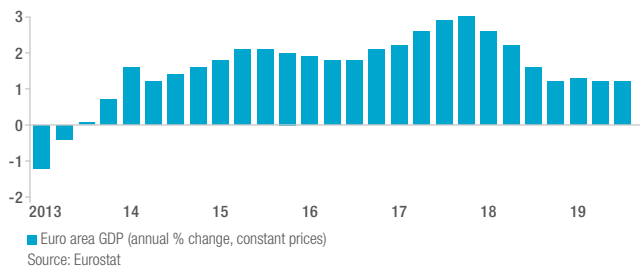
US economy easing

The annual rate of GDP growth in the US eased to 2.1% in Q3 2019. The unemployment rate dipped to 3.5% in November, matching August's 50-year low, while inflation remained subdued at 1.5%.



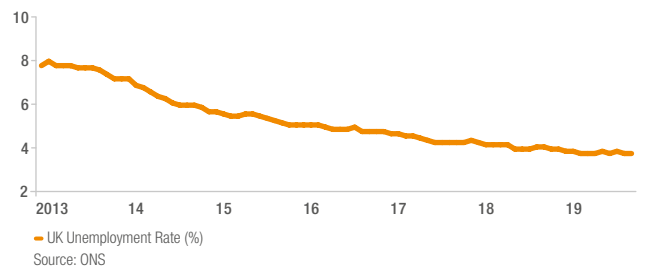
Euro area stable

Euro area growth held up during 2019 – albeit modestly – with GDP increasing by 1.2% year-on-year in the third quarter. The unemployment rate was 7.5% in October, with inflation running at 1.0% in November.



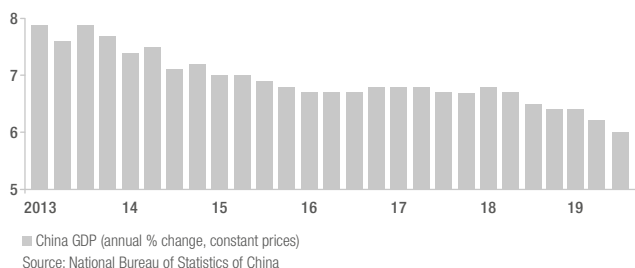
Soft UK economy

Annual GDP growth in the UK slowed to 0.8% in August-October 2019, the weakest outturn in almost a decade. The unemployment rate stood at 3.8% in the same three-month period, while inflation remained at 1.5% in November.



China still moderating

GDP growth in China slowed to 6.0% year-on-year in Q3, which is the bottom of the government's 2019 target range of 6-6.5%, though the trade truce with the US should provide some relief in 2020.



EM activity improves

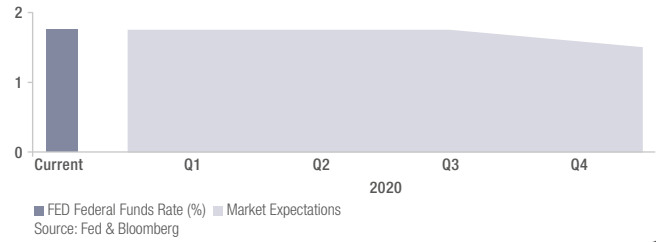
Activity in the emerging economies picked up to an eight-month high in November 2019 according to the Composite PMI, driven by gains in services in particular with manufacturing also in expansionary territory.



Monetary

Fed goes on hold

Having cut interest rates for a third time in 2019 in October, the Fed stood pat at its December meeting and is now in 'wait and see' mode as it assesses the impact of past easing.



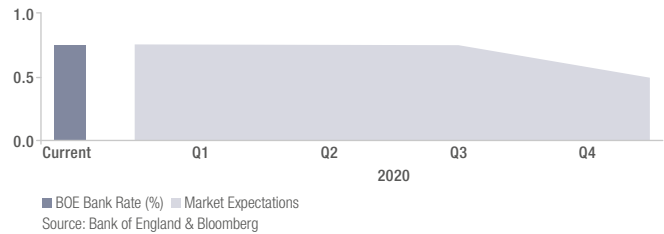
ECB prepared to act

After lowering the deposit rate in September and restarting bond purchases in November, the ECB remained on hold in December but indicated it is ready to use all its policy tools again if necessary.



BOE stands pat

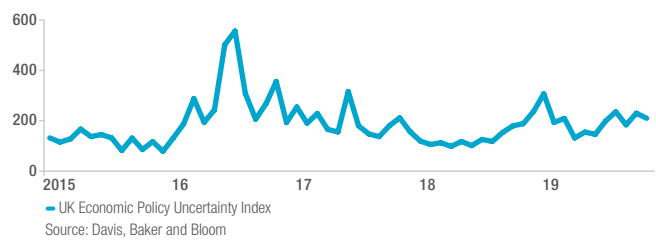
The Bank of England kept interest rates unchanged at its final meeting of 2019 and said the path ahead will depend on how the economy responds to Brexit developments.



Policy & Politics

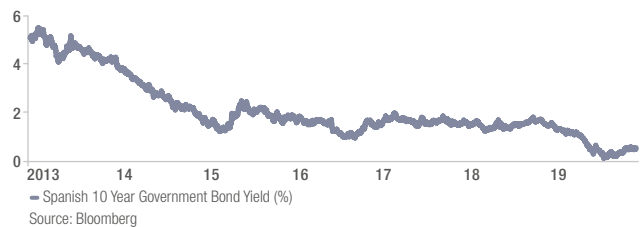
Tories win UK election

Boris Johnson's Conservatives won the general election with a comfortable 80 seat majority, and the UK is set to leave the EU at the end of January 2020 on the basis of the revised deal agreed last October.



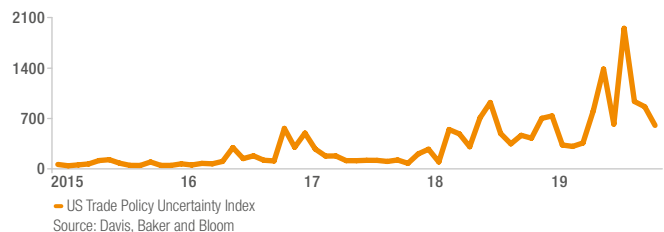
New government in Spain

Following the November election, the Socialists and Podemos have formed a left-wing minority coalition government in Spain, while protests over pension reform continue in France.



Trade relief for now

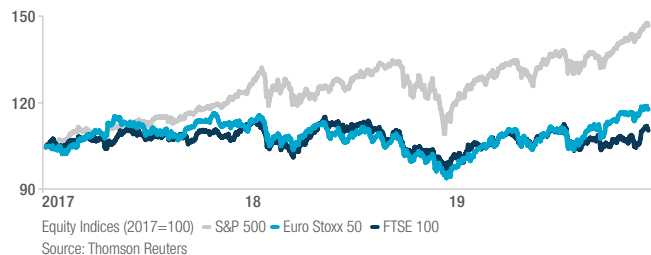
The interim deal agreed between the US and China, which provides for a modest reduction in some tariffs, may help to alleviate uncertainty and lend support to global activity in 2020.



Markets

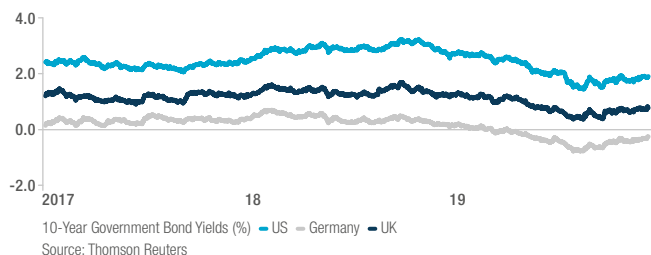
Stocks gain ground

US and European equities rose in Q4 2019 with the S&P 500 hitting an all-time high. UK stocks lagged but December's decisive general election outcome gave them a lift.



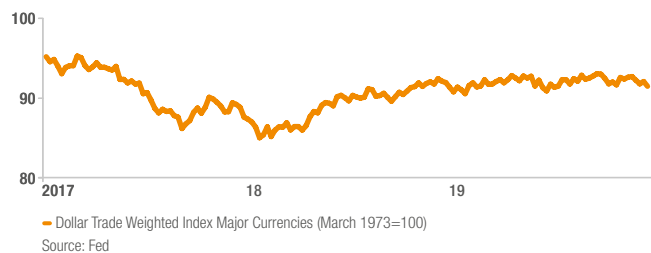
Bond yields off lows

Core bond yields moved up in the fourth quarter, with 10-year yields increasing by about 40bps, but remained below their levels at the beginning of 2019.



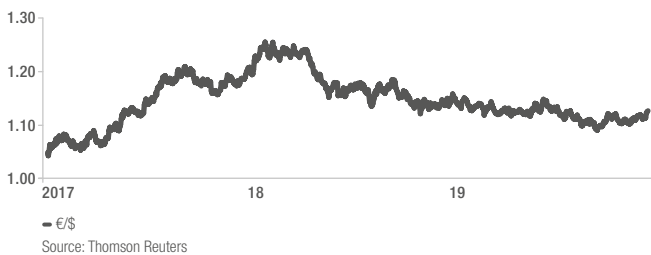
Firm dollar

The dollar benefited from the elevated uncertainty that prevailed in 2019 even as the Fed cut interest rates, though it softened a touch towards the end of the year.



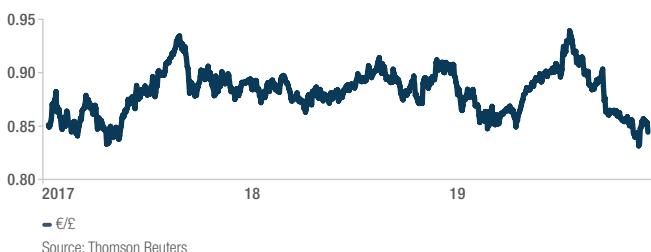
Euro gains a little

The euro was under pressure for much of the year, falling to a low of \$1.09 against the dollar in late September, but it had a better final quarter, strengthening to around \$1.12.



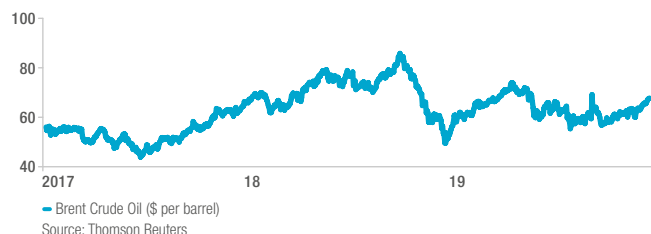
Sterling the star performer

The pound rallied strongly in the closing months of 2019 as a 'no deal' Brexit was avoided and the market correctly priced in a Tory majority government.



OPEC cuts output

The decision by OPEC plus Russia to cut output from the start of 2020 has boosted oil prices, with escalating US-Iran tensions exerting further upward pressure.



Forecasts



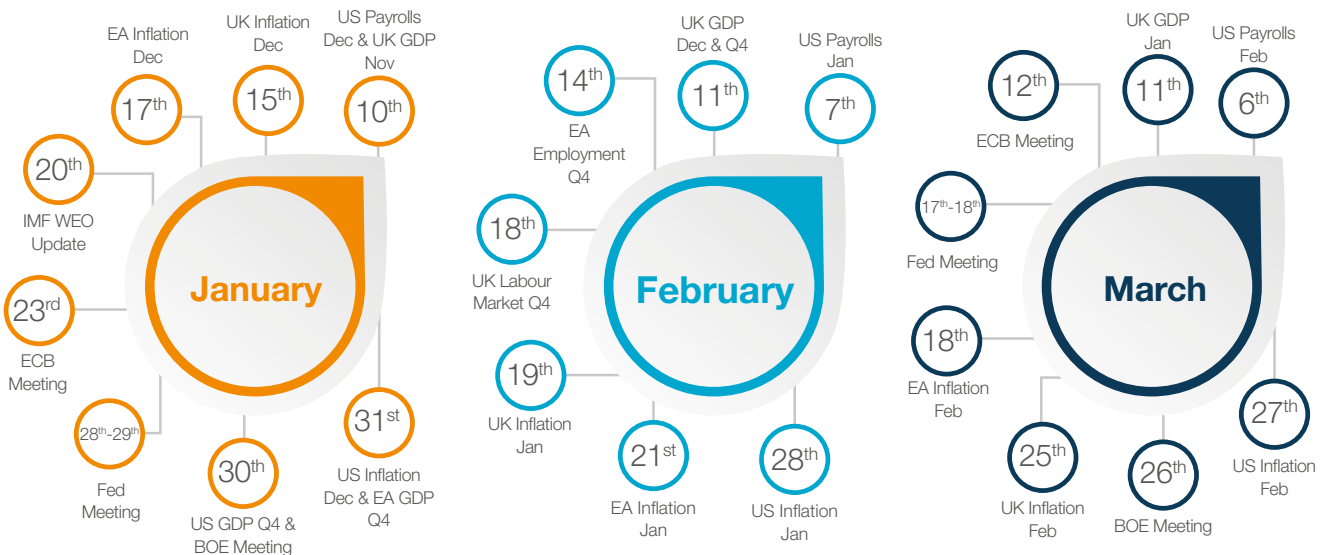
GDP Growth*	2018	2019 (f)	2020 (f)
Global Economy	3.6%	3.0%	3.4%
Advanced	2.3%	1.7%	1.7%
Emerging	4.5%	3.9%	4.6%

FX**	Current	End Mar 2020	End Jun 2020
€/\$	1.12	1.13	1.14
€/£	0.85	0.85	0.86
£/\$	1.32	1.33	1.33

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

**Current Rate is as of 31st December 2019 (Source: Bloomberg); Rate forecasts (Source: Bank of Ireland)

Upcoming Events



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