Global Watch

July 2020

Economic Update

Bank of Ireland

Recovery underway as economies re-open

The COVID-19 pandemic imparted a sudden and severe shock to global activity. Measures to contain the spread of the virus led to many economies effectively shutting down, resulting in a large decline in output, a reduction in hours worked via higher unemployment and/or a furloughing of employees, and lower inflation. In China, the initial epicentre of the public health emergency, GDP fell sharply in the opening quarter of the year as the country went into lockdown before rebounding in the second quarter as the economy re-opened. In the case of the US and Euro area economies, while both contracted in Q2 as a whole, hard indicators and survey evidence suggest output bottomed in April and has since picked up as restrictions have started to be lifted. Looking ahead, the unprecedented easing of fiscal and monetary policy in response to the crisis - with the likelihood of more to come - will support the economic recovery, though the extent of the rebound in activity may depend on the impact and duration of physical distancing measures that are in place as well as the path of the virus. The IMF in its latest forecasts now sees a contraction in global GDP of 4.9% in 2020, a downward revision from its previous projection of -3.0%, with growth of 5.4% expected in 2021. However, as recent increases in the incidence of the virus in some areas cautions, a widespread resurgence remains a significant downside risk to the global outlook. This would also pose a serious headwind to international equity markets, which have rallied very strongly from their lows of mid-March.

Central Bank Outlook

Bank of Ireland

Economic Conditions

	US	Euro area	UK
Growth	-9.5%	-15.0%	-18.6%
Unemployment	11.1%	7.8%	3.9%
Headline Inflation	0.8%	0.4%	0.6%
Core Inflation	0.9%	1.2%	1.4%

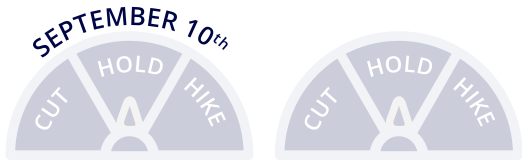
Policy Stance

US	Euro area	UK
Committed to using full range of tools to support the economy	Will do everything necessary to help the economy through the COVID-19 crisis	Respond as necessary to the economic disruption caused by COVID-19

Current Policy Rate

Fed Funds	ECB Refi	Deposit	BOE Bank Rate
0.0%-0.25%	0.0%	-0.5%	0.1%

Next Meeting



Refi

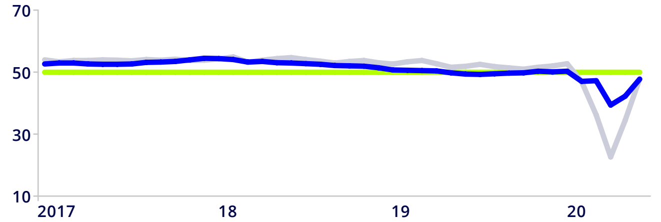
Deposit

Source: Bank of Ireland, BEA, Eurostat, ONS, Fed, ECB, Bank of England
Growth: Annual % change in GDP (constant prices), US and Euro area Q2 2020, UK March-May 2020
Unemployment: Rate (%), US June 2020, Euro area June 2020, UK March-May 2020
Headline and Core Inflation: Annual % change, US PCE June 2020, Euro area flash CPI July 2020, UK CPI June 2020, 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

Severe global recession

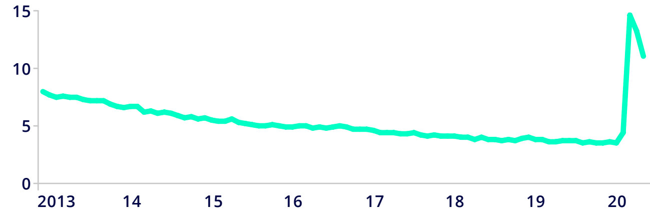
The IMF says the downturn in H1 2020 has been deeper than expected and with the recovery in H2 likely to be more gradual, global GDP is now projected to fall by 4.9% in 2020, before increasing by 5.4% in 2021.



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

US unemployment elevated

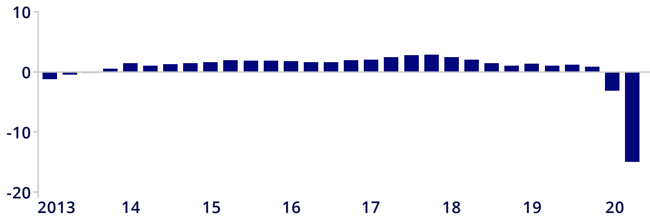
GDP in the US fell by 9.5% year-on-year in Q2 2020. The IMF sees the economy contracting by 8.0% for the year as a whole but growing by 4.5% in 2021. The unemployment rate stood at 11.1% in June, up from a low of 3.5% in February.



US Unemployment Rate (%)
Source: Bureau of Labour Statistics

Deep Euro area downturn

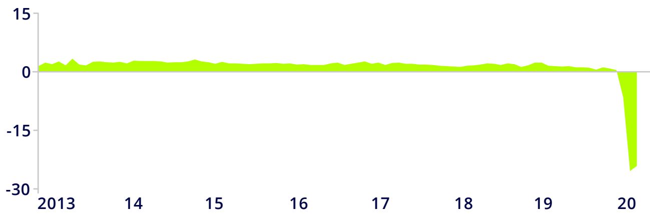
Euro area GDP contracted again in Q2, falling by 15.0% on an annual basis. The IMF expects a full-year decline of 10.2%, followed by a rebound of 6.0% in 2021. Unemployment rose to 7.8% in June, while inflation ticked up to 0.4% in July.



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

UK economy contracts sharply

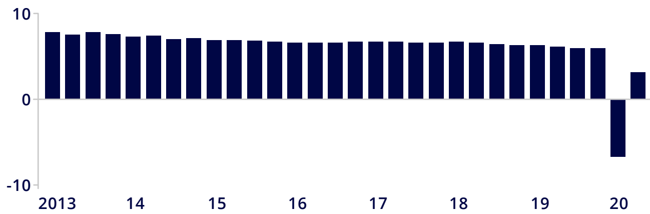
Having fallen sharply in March/April, GDP in the UK rose marginally in May but was still 24.0% lower than in May 2019. The IMF is forecasting a drop of 10.2% for 2020 as a whole, before the economy expands by 6.3% next year.



UK GDP (annual % change, constant prices)
Source: ONS

China's GDP rebounds

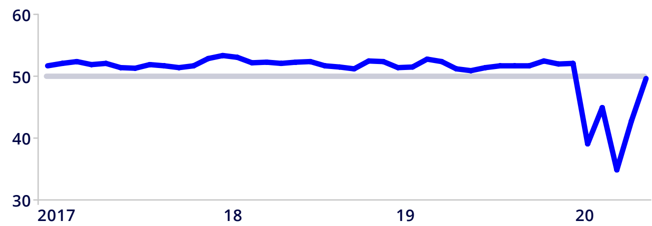
After contracting by 6.8% year-on-year in the first quarter, the Chinese economy recovered ground in Q2 with GDP increasing by 3.2%. The IMF is projecting modest growth of 1% for the full year 2020, accelerating to 8.2% in 2021.



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

Broad hit to EMs

Amid an intensification of COVID-19 in some countries, the IMF expects emerging markets' GDP to decline by 3.0% this year. Growth of 5.9% is forecast for 2021, albeit revised down from 6.6% previously.

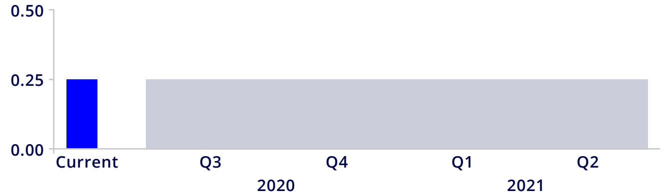


Emerging Markets Composite Purchasing Managers' Index
Expansion-Contraction Threshold
Source: JP Morgan & IHS Markit

Monetary

Fed on hold

The Fed left policy unchanged at its July meeting and reiterated that it would continue bond purchases at a pace of circa $120 billion per month in order to support the flow of credit to households and businesses.



FED Federal Funds Rate (%) Market Expectations
Source: Fed & Bloomberg

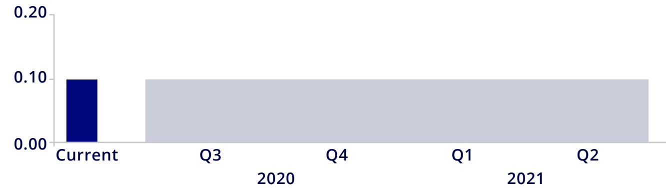
ECB ups bond purchases

The ECB has upped the size of its emergency bond purchase programme by €600 billion (to €1.35 trillion), noting that this - rather than cutting interest rates - is the most effective policy measure at this juncture.

ECB Main Refinancing Rate (%) Market Expectations
Source: ECB & Bloomberg

BOE expands QE

The Bank of England announced an increase in bond purchases of £100 billion (to run until the end of 2020) at its June meeting, and has said it is keeping the option of lowering interest rates into negative territory under review.

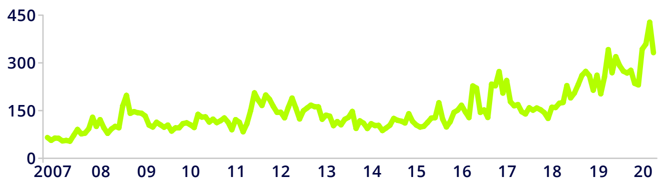


BOE Bank Rate (%) Market Expectations
Source: Bank of England & Bloomberg

Policy & Politics

Uncertainty still elevated

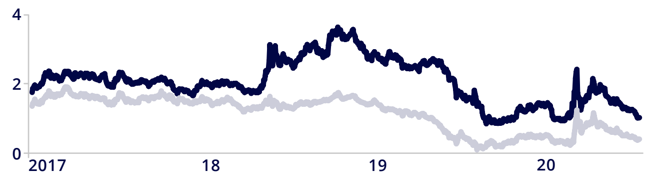
The COVID-19 shock to global activity was sudden and sharp and uncertainty remains exceptionally high even as economies have gradually re-opened, which may weigh on the pace of the recovery.



Global Economic Policy Uncertainty Index
Source: Baker, Bloom and Davis

Recovery fund for Europe

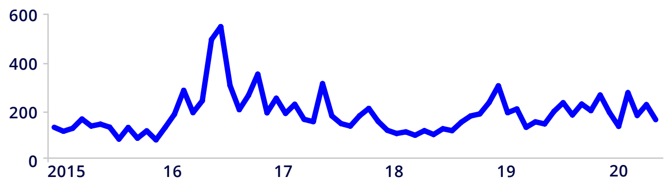
After much debate and argument, European leaders have agreed a €750 billion recovery fund, with the monies to be borrowed on financial markets and used particularly to help Member States most impacted by COVID-19.



10 Year Government Bond Yield (%) Italy Spain
Source: Bloomberg

Brexit not gone away

The UK has formally ruled out extending the transition period beyond the end of 2020, so negotiations with the EU are intensifying to try to reach agreement on a new post-Brexit relationship.

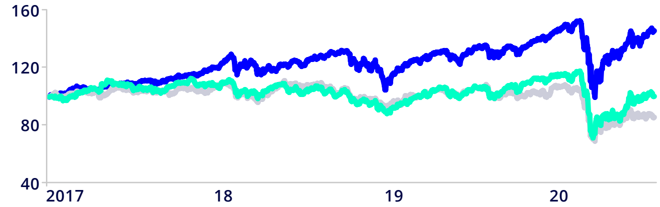


UK Economic Policy Uncertainty Index
Source: Baker, Bloom and Davis

Markets

Stocks rally

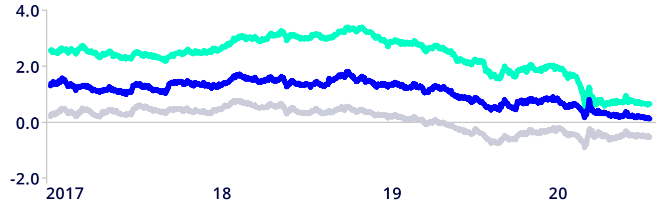
Equities have rallied strongly from their lows of mid-March, and have remained resilient more recently even as the incidences of COVID-19 increased in some areas.



Equity Indices (2017=100) ▬ S&P 500 ▬ Euro Stoxx 50 ▬ FTSE 100
Source: Bloomberg

Bond yields steady

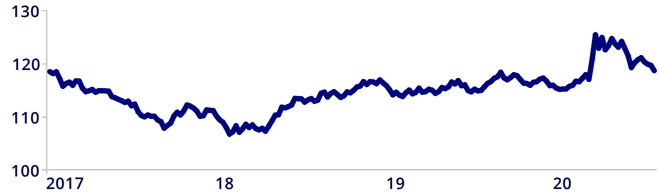
US and German 10-year yields have been relatively stable as central bank bond purchases continue apace, though equivalent UK yields have hit fresh lows lately.



10-Year Government Bond Yields (%) ▬ US ▬ Germany ▬ UK
Source: Bloomberg

Dollar off its highs

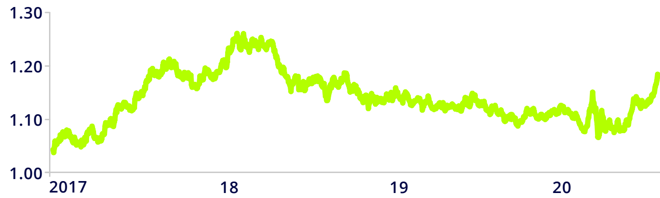
The dollar has given up ground against the currencies of its main trading partners, and is now down around 6.0% from the multi-decade high reached in early April.



▬ Dollar Trade Weighted Index (January 2006=100)
Source: Fed

Euro firmer

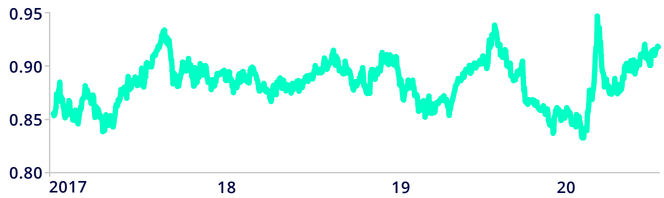
The single currency weakened to under $1.07 against the dollar in March but has since managed to claw back more than the ground it lost to trade at about $1.18 currently.



▬ €/$
Source: Bloomberg

Sterling under pressure

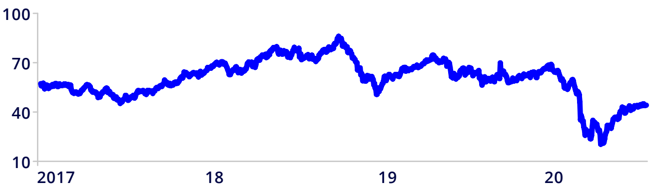
With Brexit coming back on the agenda, and concerns about whether the UK and EU can reach a trade deal, the pound has weakened to around 91p against the euro.



▬ €/£
Source: Bloomberg

Oil prices rebound

Having plunged in March through April, the price of Brent crude has bounced back by around $25 to $44 per barrel helped by a pick up in demand as economies restart.



▬ Brent Crude Oil ($ per barrel)
Source: Bloomberg

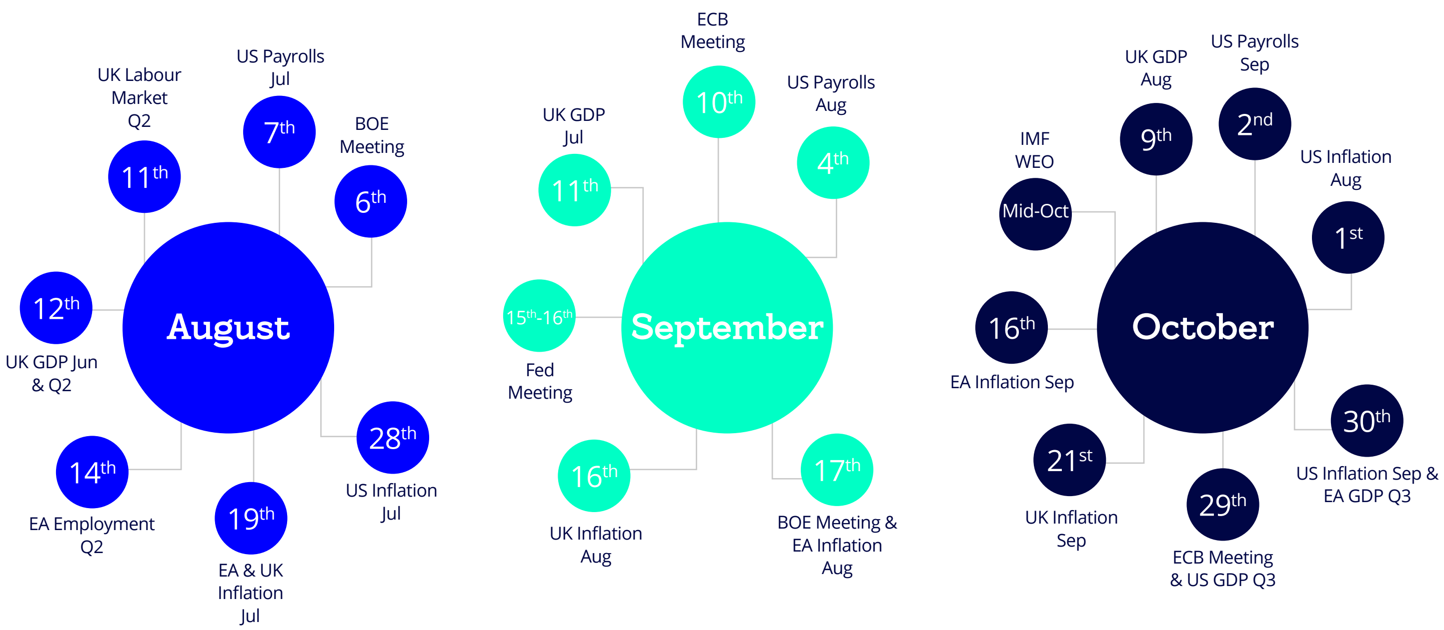
Forecasts

GDP Growth*	2019	2020 (f)	2021 (f)
Global Economy	2.9%	-4.9%	5.4%
Advanced	1.7%	-8.0%	4.8%
Emerging	3.7%	-3.0%	5.9%

FX**	Current	End Sep 2020	End Dec 2020
€/$	1.18	1.16	1.16
€/£	0.91	0.90	0.87
£/$	1.30	1.29	1.33

*Annual % change, constant prices (Source: IMF)
**Current Rate is as of 30th July 2020 (Source: Bloomberg); Rate forecasts, the UK and EU are assumed to reach agreement on a limited trade deal by end-2020 (Source: Bank of Ireland)

Upcoming Events



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