

Global Watch

November 2020
Economic Update

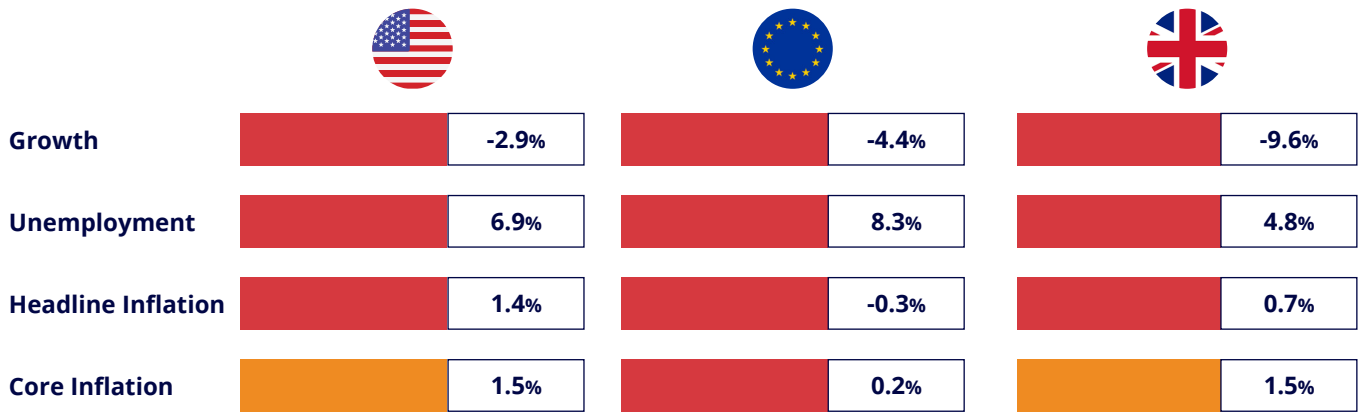


Bank of
Ireland

Hesitant recovery to follow sharp downturn

Global GDP contracted over the first half of this year as strict measures to contain the spread of COVID-19 were implemented in most countries, though the extent of the decline in output varied across economies. Activity has since rebounded as lockdowns were lifted, helped also to an important degree by the unprecedented monetary and fiscal policy actions taken by central banks and governments. Support from the latter has to date amounted to some \$12 trillion, or the equivalent of about 12% of world GDP. However there are signs that the recovery is losing some momentum amid a renewed increase in the incidence of the disease in many places, which has resulted in targeted restrictions and local/partial lockdowns having to be imposed. The IMF in its latest forecasts expects global GDP to fall by 4.4% for 2020 as a whole followed by growth of 5.2% in 2021, but acknowledges that the path ahead is clouded with 'extraordinary uncertainty'. Apart from the obvious downside risks related to the virus, a wave of bankruptcies and deteriorating financial market sentiment are threats to the outlook. On the other hand, faster progress on health treatments such as therapies and vaccines - there has been positive news on this front lately - could speed up the recovery. In any case, it warns against the premature withdrawal of policy supports to both firms and households, while also arguing for a significant increase in public investment (at a time of exceptionally low borrowing costs) to strengthen economies and promote employment.

Economic Conditions



Policy Stance



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

0.0%-0.25%

Fed Funds

0.0%

ECB Refi

-0.5%

Deposit

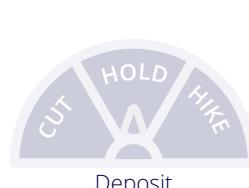
0.1%

BOE Bank Rate

Next Meeting



Refi



Deposit



Economy

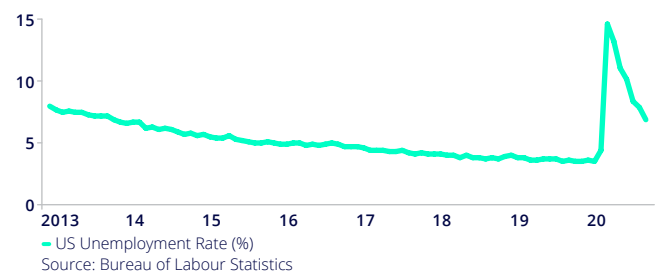
Global recovery underway

The global Composite PMI remained above 50 for a fourth consecutive month in October, though the IMF still expects world GDP to fall by 4.4% this year as a whole, followed by an increase of 5.2% in 2021.



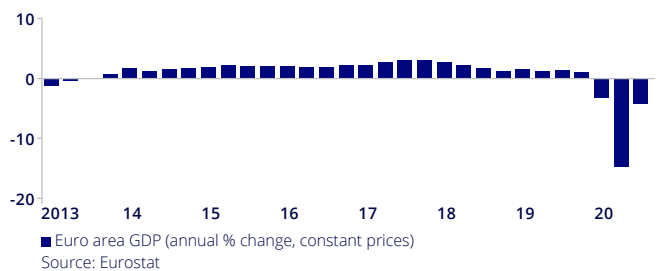
US unemployment drops

GDP in the US rebounded in Q3, increasing by 7.4% quarter-on-quarter, and the unemployment rate came down further in October to 6.9%. The IMF sees the economy contracting by 4.3% for the full-year 2020 before expanding by 3.1% in 2021.



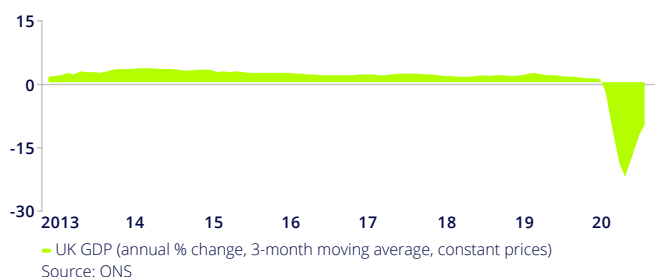
Euro area inflation negative

Euro area GDP rose by 12.6% quarter-on-quarter in Q3 2020, having fallen sharply in Q2. The IMF expects a full-year decline of 8.3%, followed by an increase of 5.2% in 2021. Annual inflation remained in negative territory in October at -0.3%.



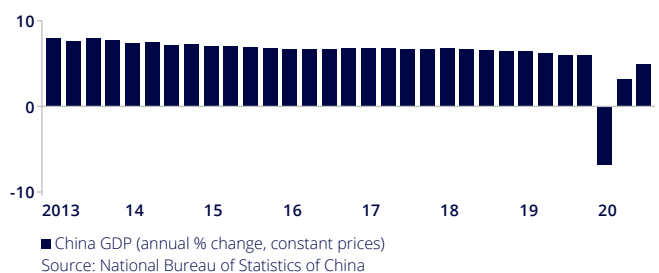
UK recovers ground

GDP in the UK rose again in September, bringing the cumulative increase from April's trough to 22.9%. The IMF projects a fall of 10.4% for 2020 as a whole, with growth of 5.7% forecast in 2021.



China growing

The Chinese economy grew for a second quarter in a row in Q3 with GDP increasing by 4.9% year-on-year. The IMF expects full-year growth of 1.9% in 2020, accelerating to 8.2% in 2021.



EMs improving

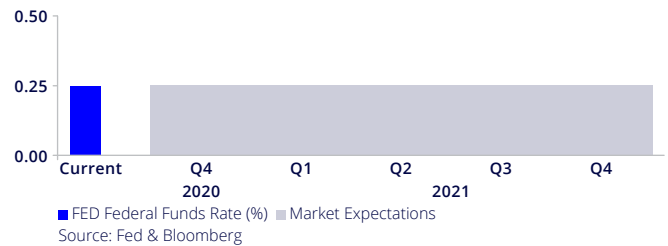
The emerging markets Composite PMI returned to expansionary territory (>50) in July and rose in each of the three months to October. The IMF still expects GDP to fall by 3.3% this year, before increasing by 6.0% in 2021.



Monetary

Fed stays on hold

The Fed left policy unchanged in October saying interest rates are expected to remain at their current level until inflation is on track to moderately exceed 2% for some time.



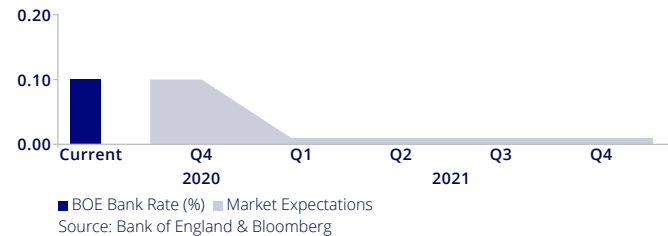
ECB preparing to act

The ECB has been on hold since upping its emergency bond purchases in June but has indicated it will announce a package of easing measures in December.



BOE increases bond purchases

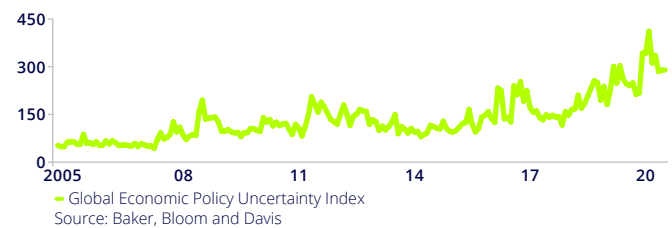
The Bank of England increased the size of its bond purchases programme by £150 billion in November, while it is also exploring the use of negative interest rates.



Policy & Politics

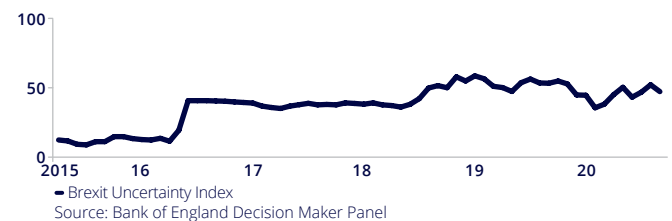
Uncertainty remains high

Notwithstanding substantial policy support by governments and central banks the world over, uncertainty is still high amid rising incidences of the virus which may act as a drag on the global recovery.



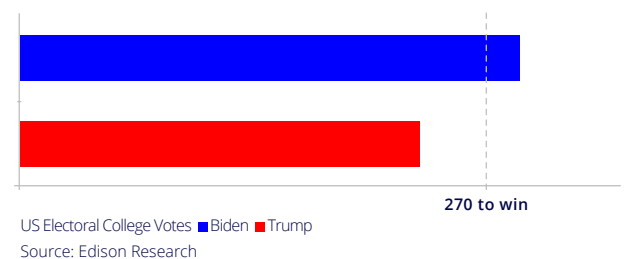
Brexit end game

After a brief hiatus related to tensions over Downing Street's Internal Market Bill, negotiations on the future UK-EU relationship have intensified ahead of the end of the transition period.



President-elect Biden

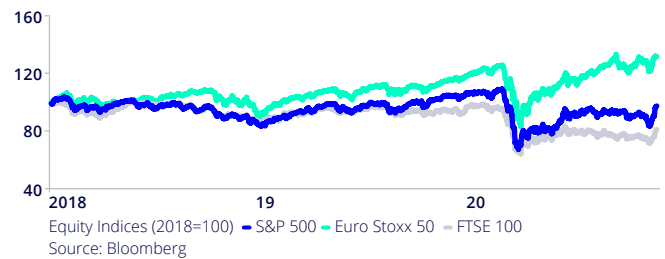
Joe Biden won the US presidential election having secured the required majority of the 538 Electoral College votes, though the result has yet to be formally declared and Donald Trump has yet to concede.



Markets

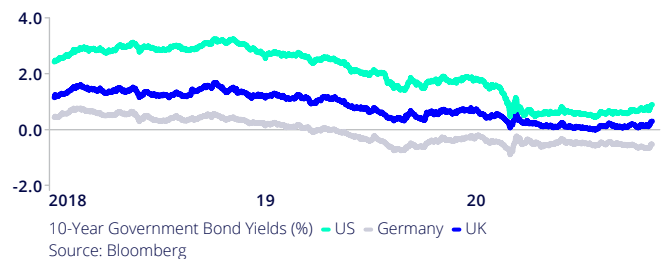
Equities advance

A post-US presidential election relief rally and positive news on a COVID-19 vaccine have propelled stocks higher lately with European markets leading the way.



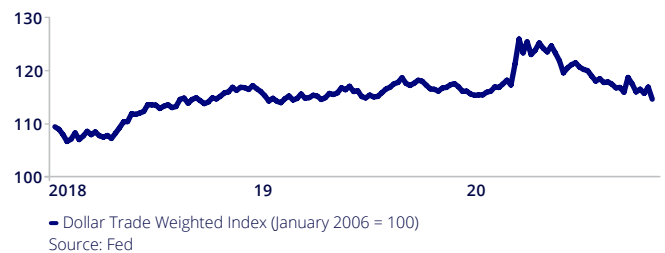
Bond yields nudge up

Having remained in relatively narrow ranges in late summer and early Autumn, core bond yields have nudged higher recently led by US yields.



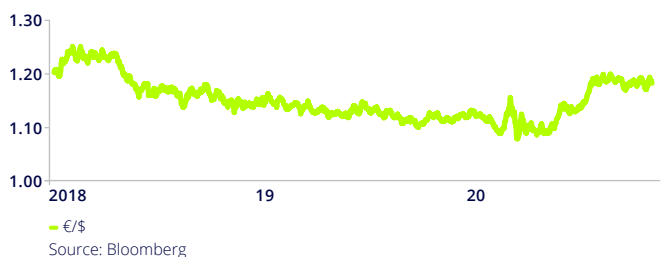
Dollar weaker

The dollar has weakened against the currencies of its main trading partners in recent months and it is now down about 8% from last spring's all-time high.



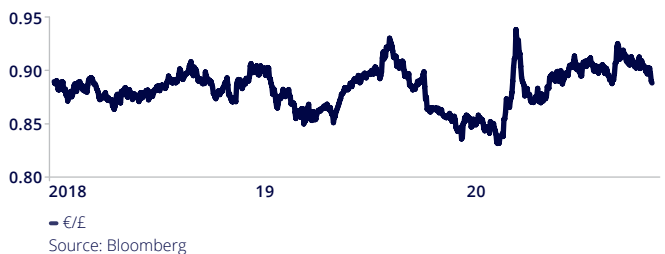
Euro off highs

The euro rose to a more than 2-year high of \$1.20 against the dollar in August before giving up ground after the ECB said it was closely monitoring developments in the exchange rate.



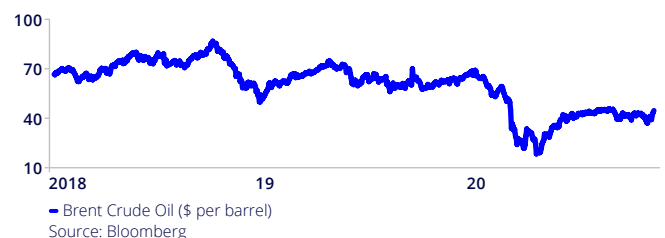
Sterling fluctuates

The pound fell to 93p against the euro in early September amid a serious flare up of tensions between the UK and EU but has since recovered to around 90p.



Oil prices broadly steady

The price of Brent crude has been reasonably steady of late and at about \$44 per barrel remains well off its low of \$20 earlier this year.



Forecasts

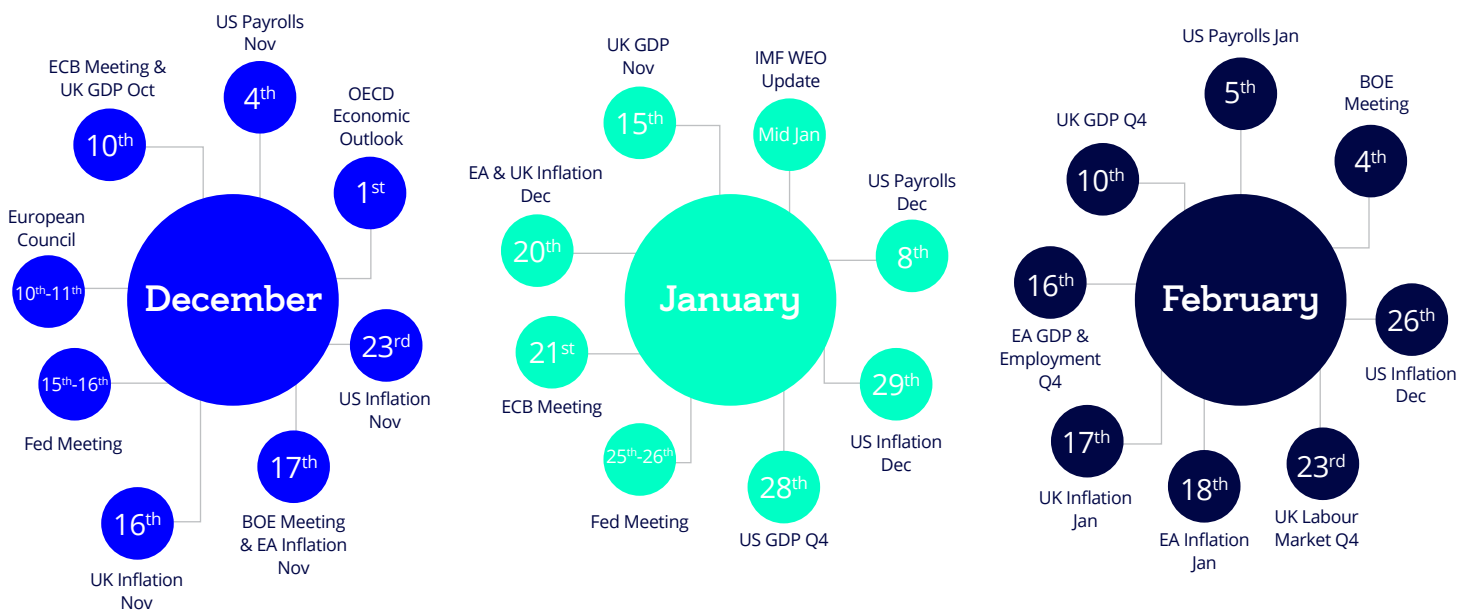
GDP Growth*	2019	2020 (f)	2021 (f)
Global Economy	2.8%	-4.4%	5.2%
Advanced	1.7%	-5.8%	3.9%
Emerging	3.7%	-3.3%	6.0%

FX**	Current	End Dec 2020	End Mar 2021
e/\$	1.18	1.17	1.18
e/£	0.90	0.87	0.85
£/\$	1.32	1.34	1.39

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

**Current Rate is as of 18 November 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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