

# Global Watch

September 2018

## Ongoing growth but the picture is cloudier

The global environment has become more unsettled recently. A number of **emerging market currencies** have been **under pressure**, prompting some central banks to raise interest rates. Trade tensions have increased, with the **Trump** administration imposing **tariffs** on a broader range of goods imports from China and the latter retaliating in kind. In **Italy**, government **bond yields** have risen on concerns about the budgetary outlook, and Fitch has downgraded the country's credit outlook, though contagion has been limited to date. The **Brexit talks** have also arrived at a critical juncture, and with time running out, the UK and EU remain at loggerheads over some important issues. Reflecting the more uncertain backdrop, the OECD in September revised down its forecasts for global GDP growth to a still healthy 3.7% for this year and next, a touch lower than the IMF projected in July. The major central banks, meanwhile, are focused on returning **monetary policy** to a **more normal setting**. The ECB is due to end asset purchases in December though a first increase in interest rates seems some way off yet. The Fed raised rates in September, the eighth increase in the current cycle, and indicated that more lie ahead. After hiking in August, the Bank of England stayed on hold in September but said further gradual increases are likely. However, it acknowledged that the path for rates – and indeed for sterling – could be significantly influenced by how the Brexit negotiations evolve in the period immediately ahead.



# Central Bank

## Outlook

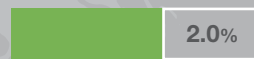
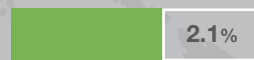
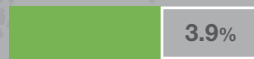
### Economic Conditions

Growth

Unemployment

Headline Inflation

Core Inflation



### Policy Stance



Further rate hikes ahead as growth solid, unemployment low and inflation on track



Better inflation outlook so QE to end in December but rates to stay at historic low



Gradual upward path for rates though Brexit dependent

### Current Policy Rate

2%-2.25%

0.0%

0.75%

### 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 Q2 2018, UK May-July 2018

Unemployment: Rate (%), US August 2018, Euro Area July 2018, UK May-July 2018

Headline and Core Inflation: Annual % change, US PCE August 2018, Euro Area CPI August 2018, UK CPI August 2018, 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, Bank of England Bank Rate

# Economy

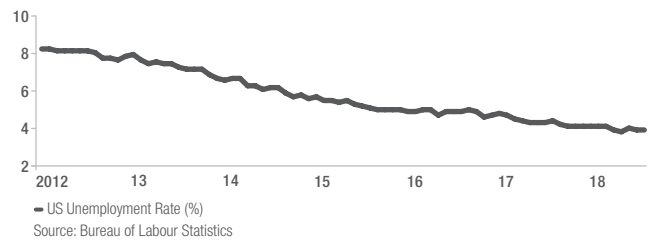
## Global economy expanding

The global expansion is continuing but with a number of emerging market economies under pressure and trade concerns to the fore, the pace of growth appears to have eased.



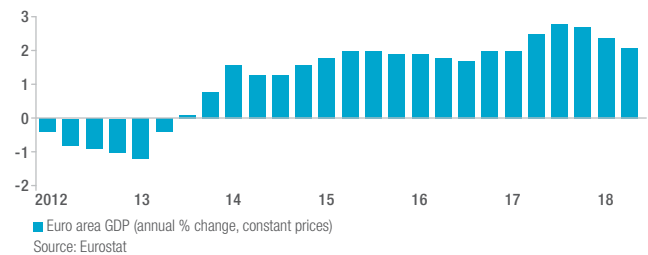
## Strong US picture

US GDP posted its highest growth rate in three years in Q2 2018 at 2.9% year-on-year. The unemployment rate stood at 3.9% in August, with headline inflation running slightly above target at 2.3% in July.



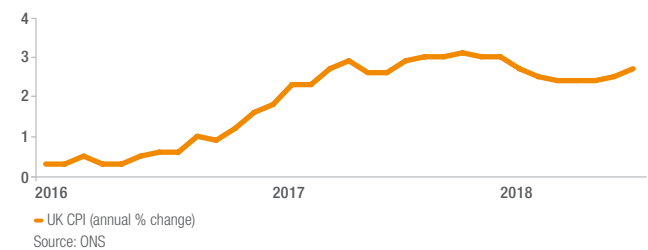
## Euro area softer

GDP growth in the Euro area eased to an annual rate of 2.1% in the second quarter of the year, though unemployment fell further (to 8.2% in July). Higher oil prices have boosted headline inflation, which came in at 2.0% in August.



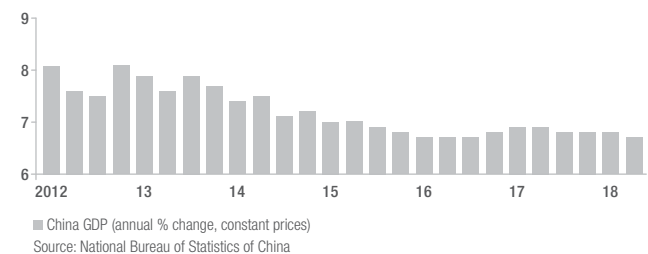
## Firmer UK activity

Growth in the UK has picked up after a soft patch in early 2018, with GDP up 1.4% year-on-year in May-July. The unemployment rate is down at 4.0% (3 months to July) but inflation has ticked up again, though it is still lower than late last year.



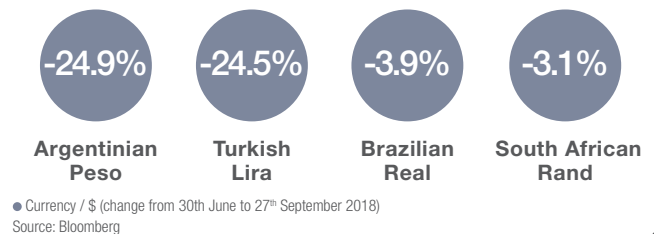
## Solid growth in China

China's economy is expanding at a solid pace, with GDP increasing by 6.7% year-on-year in Q2 2018. It has been hit with tariffs on around 50% of its exports to the US however, which doesn't bode well.



## EM currency woes

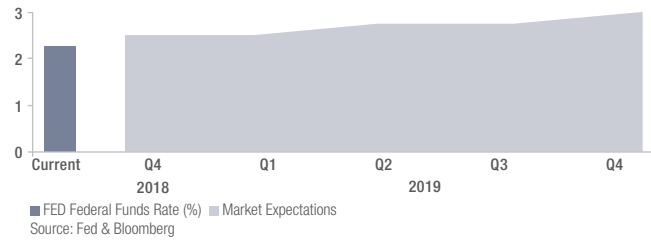
A number of emerging market currencies, most notably the Turkish lira and Argentinian peso, have fallen sharply in recent months. This has led some central banks to raise interest rates, which is likely to dampen growth.



# Monetary

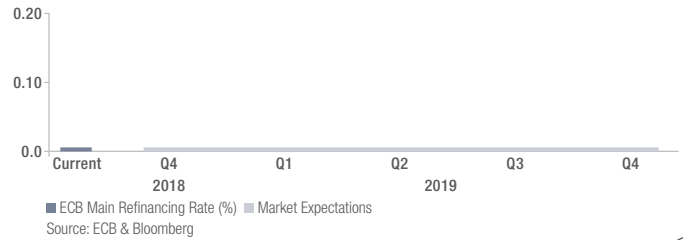
## Fed lifts rates again

September saw the Fed raise interest rates by 25bps for an 8th time in the current hiking cycle. It added that one further increase is likely this year and three in 2019.



## ECB to reduce QE

The ECB is set to reduce the pace of its asset purchases in October and end them altogether in December. It expects to keep interest rates at their present levels through the summer of 2019 though.



## BOE signals rate hikes

The Bank of England stayed on hold in September. It indicated that limited rate increases lie ahead, but acknowledged that this path could be significantly influenced by Brexit developments.



# Policy & Politics

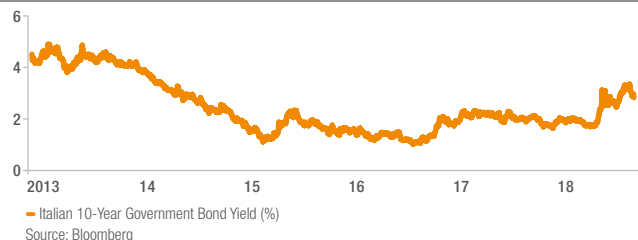
## Brexit talks at a critical stage

With the negotiations at an important juncture, the two sides are at odds with each other on the Irish Border backstop and the framework for the future relationship, while the UK party conference season is in full swing.



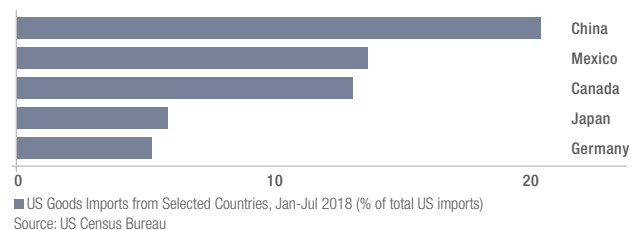
## Italy still in focus

Budgetary concerns have pushed up Italian 10-year bond yields recently. The new government is targeting a larger deficit for 2019 than was proposed by the previous administration.



## Trump ups the trade ante

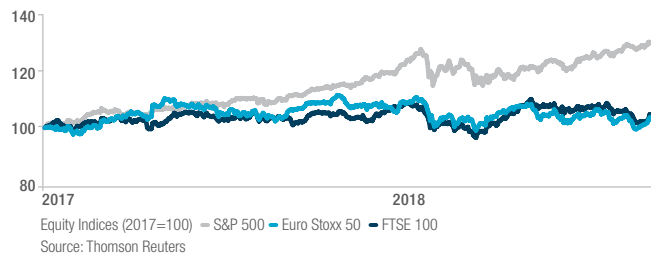
The US administration has slapped tariffs on a further \$200bn of good imports from China and has its sights set on another c.\$267bn, though it has reached agreement with Mexico on a revamped NAFTA.



# Markets

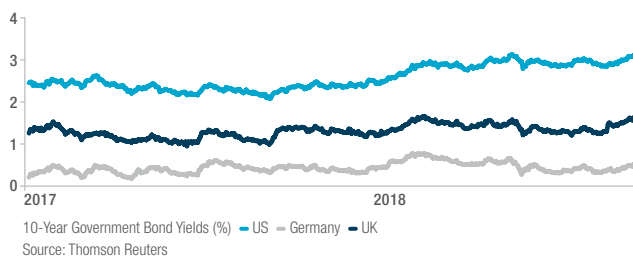
## Stock markets diverge

While Turkey and Brexit have weighed on European equities, in the US the economy's strong performance is supporting stocks which set fresh all-time highs in September.



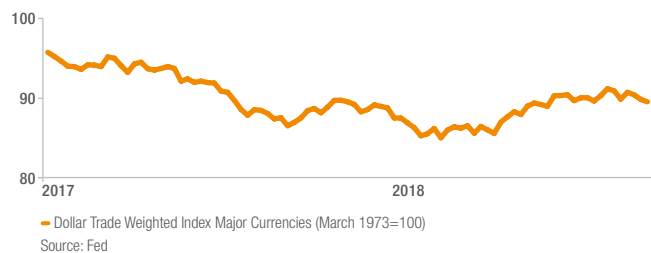
## Bond yields edging up

After falling on a flight to safety (as some emerging market currencies came under pressure), core bond yields have been moving up steadily over the past month.



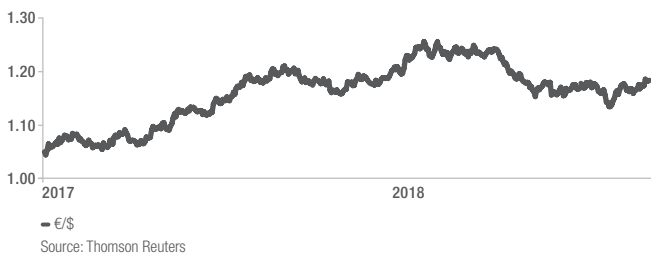
## Dollar steady

The dollar is being underpinned by Fed rate hikes and relatively high US bond yields, although it has consolidated recently following strong gains earlier this year.



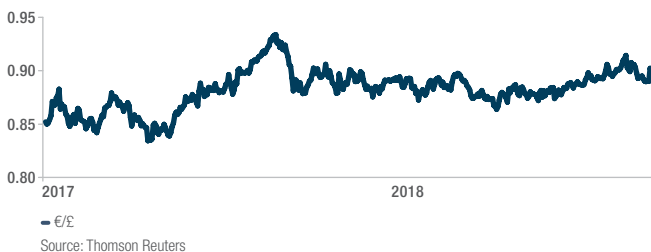
## Euro range bound

Having weakened sharply against the dollar in April-June, the euro has been in a range of \$1.15 to \$1.18 since save for a short-lived fall to \$1.13 during the height of Turkey's currency crisis.



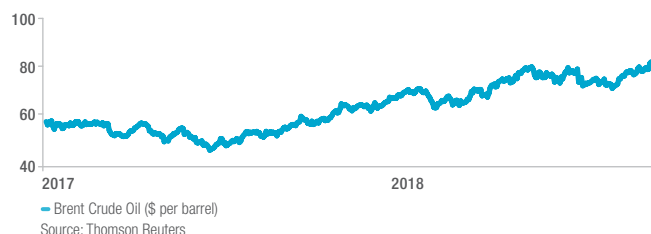
## Sterling in holding pattern

While sterling is being buffeted by the news flow in relation to Brexit, it has remained within a relatively narrow range of 88p to 91p against the euro over the past couple of months.



## Oil prices firming

The decision by OPEC and other oil producers in the summer to boost supply helped to arrest the rise in prices, though they are on the up again with Brent crude at c.\$82 per barrel.



# Forecasts

GDP Growth*	2017	2018 (f)	2019 (f)
Global Economy	3.7%	3.9%	3.9%
Advanced	2.4%	2.4%	2.2%
Emerging	4.7%	4.9%	5.1%

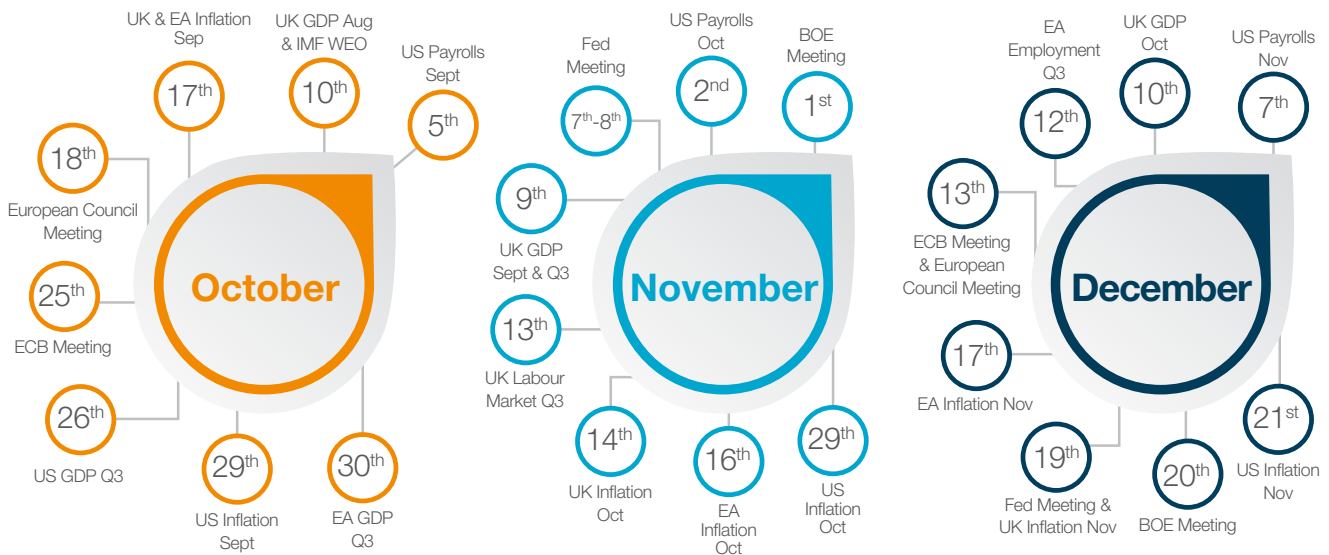
  

FX**	Current	End Dec 2018	End Mar 2019
€/\$	1.17	1.18	1.20
€/£	0.89	0.87	0.86
£/\$	1.31	1.36	1.40

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

\*\*Current rate as of 27<sup>th</sup> September 2018 (Source: Bloomberg); Rate forecasts, progress towards a Brexit deal assumed (Source: Bank of Ireland).

## Upcoming Events



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