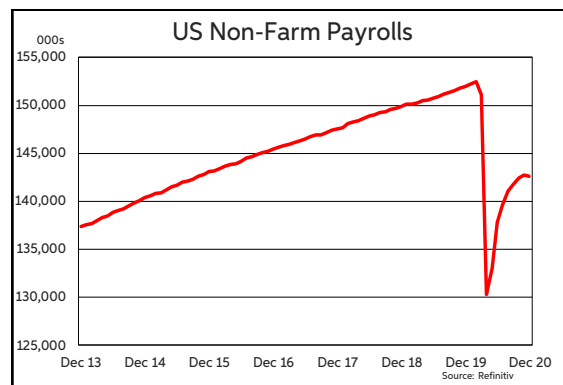


Trials and Triumph

- **The IMF earlier this week published a relatively positive assessment of the economic outlook over the next two years, but a lot rests on non-economic variables, especially the roll out of vaccines.** Approvals of vaccines and the launch of vaccination programmes in many countries recently have raised hopes of an eventual end to the pandemic. Moreover, recent economic data point to a stronger-than-expected rebound in activity across the world in the second half of 2020. The IMF notes that despite the rising human toll of the pandemic, economies appear to be adapting to subdued contact-intensive activity.
- These developments indicate a stronger starting point for the global economy in 2021 than was anticipated even up to quite recently, notwithstanding the upsurge in Covid cases and new restrictions on activity seen over the winter. Furthermore, macroeconomic policies continue to be geared towards supporting activity, with recently announced additional policy measures, most notably in the United States, set to provide further support to the global economy. Thus, the IMF has upped its growth forecast for the world economy in 2021 from 5.2% to 5.5% and is forecasting further strong growth of 4.2% in 2022.
- **Although, there are important counterpoints to the more favourable outlook.** The IMF acknowledges that the surging infections in the past couple of months, including from new variants of the virus, renewed lockdowns, vaccine production constraints, and logistical problems with their distribution as well as uncertainty about take-up, may constrain economic capacity for longer than they envisage. A key question in regard to the outlook for growth is for how long will restrictions be needed to curb transmission before vaccines begin delivering effective society-wide protection and allow a broad based and permanent re-opening of economies. It is certainly clear that high levels of infections and greater restrictions on activity will soften momentum in the early part 2021. GDP seems likely to contract in many economies in the first quarter of the year.
- **However, the IMF believes that this softening in activity will give way to accelerated growth in Q2 as vaccines and therapies become more readily available.** The sharp decline in the number of new cases of Covid-19 in many countries over the past couple of weeks suggests that activity should pick up in late spring as restrictions are eased. We saw in Q3 of last year that economies can rebound rapidly when this happens. Beyond this though, the key remains the roll-out of vaccines. In this regard, the news this week that a fourth company has had very positive clinical vaccine trial results is a very positive development. Another large pharma company is expected to report vaccine trial results shortly. A growing list of approved manufacturers should lead to what the IMF calls “a vaccine-powered strengthening of activity” later in 2021 and form the basis for a robust and sustained recovery by the global economy over the next number of years.
- **This week, the Bank of England will hold its first policy meeting of 2021.** However, the MPC is expected to keep policy on hold, despite the recently extended national lockdown in the UK. The BoE’s Monetary Policy Report will also be released, which will include the bank’s latest growth and inflation forecasts. While the profile of economic growth may be altered in the forecast (downward revision to output in Q1, offset by a larger expansion later in 2021), a major revision to the November GDP forecast is not expected. The results from the BoE’s consultation with financial institutions regarding the implementation of negative rates may be included in the report as well. Although, the MPC is not expected to introduce negative rates in the near term.
- **Data-wise, the highlight this week will be the US labour market report for January.** In December, payrolls fell by 140k, despite there being around 9m people fewer employed than before the pandemic struck in February. The consensus is for payrolls to rise by just 20k, making it clear that the labour market recovery still has a long way to run. The jobless rate is forecast to edge higher to 6.8% from 6.7%, almost twice what it was before the pandemic (3.5%). Elsewhere in the US, the manufacturing and non-manufacturing ISM for January are due. Both indices are expected to edge lower, but to remain in expansion mode, well above the key 50 threshold.
- **Meanwhile, in the Eurozone the first reading of Q4 GDP is due.** The consensus is that output fell by 1.8% q/q in the last three months of the year, meaning GDP contracted by 6% in 2020. It is worth noting though, the German economy did not contract in Q4, and although, the French and Spanish economies did, they shrunk by much less than was expected, suggesting the risks to the release are to the upside. With regard to the labour market, the unemployment rate is expected to remain unchanged at 8.3% in December. Retail sales are projected to rise in December by 1.3%. In terms of more timely data, the January print of HICP inflation is forecast to turn positive, rising from -0.3% to 0.4% as the VAT cut in heavily weighted Germany ended in December. However, national inflation data for January suggest that the risks are for HICP to print higher than expected, owing to technical factors around the annual rebasing of the index. **There is a quiet look to the UK data schedule this week.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2021	2021	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2021	2021	2021
EUR/USD	1.2149	1.24	1.25	1.26
EUR/GBP	0.8848	0.90	0.90	0.90
EUR/JPY	127.17	128	128	127
GBP/USD	1.3731	1.38	1.39	1.40
USD/JPY	104.66	103	102	101
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos (Friday)		
	BoE Speakers:		Bailey (Friday)		
	Fed Speakers:				
Mon 1st	JPN:	00:30	Final Jibun Manufacturing PMI (January)	49.7	49.7
	IRL:	01:01	AIB Manufacturing PMI (January)	57.2	
	CHINA:	01:45	Final Caixin Manufacturing PMI (January)	53.0	53.0
	GER:	07:00	Retail Sales (December)	+1.9% (+5.6%)	-2.3%
	ITA:	08:45	Manufacturing PMI (January)	52.8	52.4
	FRA:	08:50	Final Manufacturing PMI (January)	51.5	51.5
	GER:	08:55	Final Manufacturing PMI (January)	57.0	57.0
	ITA:	09:00	Unemployment Rate (December)	8.9%	9%
	EU-19:	10:00	Unemployment Rate (December)	8.3%	8.3%
	US:	14:45	Final Manufacturing PMI (January)	59.1	59.1
	US:	15:00	Construction spending (December)	+0.9%	+0.8%
	US:	15:00	Manufacturing ISM (January)	60.7	59.5
Tue 2nd	UK:	07:00	Nationwide House Prices (January)	+0.2% (7.3%)	+0.2% (+6.9%)
	FRA:	07:45	Flash HICP (January)	+0.0% (+0.2%)	-0.3% (+0.2%)
	ITA:	09:00	Preliminary GDP (Q4)	+15.9% (-5.0%)	-2.3% (-6.9%)
	EU-19:	10:00	Preliminary GDP (Q4)	+12.5% (-4.3%)	-1.8% (-6.0%)
	IRL:	16:30	Exchequer Returns (January)	Jan'20: +€1.7bn	-€0.5bn
Wed 3rd	IRL:	01:01	AIB Services PMI (January)	50.1	
	CHINA:	01:45	Final Caixin Services PMI (January)	56.3	56.3
	FRA:	08:50	Final Composite PMI (January)	46.5	46.8
			- Services	47	47
	GER:	08:55	Final Composite PMI (January)	50.8	50.8
			- Services	46.8	46.8
	EU-19:	09:00	Final Composite PMI (January)	47.5	47.5
			- Services	45.0	45.0
	UK:	09:30	Final Composite PMI (January)	47.5	47.5
			- Services	38.8	38.8
	ITA:	10:00	Flash HICP (January)	+0.2% (-0.3%)	(-0.1%)
	EU-19:	10:00	Flash HICP (January)	(-0.3%)	(+0.4%)
			- ex-Food & energy	(+0.2%)	(+0.5%)
	IRL:	11:00	Unemployment Rate (January)	7.2%	7.4%
			- Covid-19 Adjusted Rate	20.4%	
	US:	14:45	Composite PMI (January)	58	58
			- Services	57.5	57.5
	US:	15:00	Non-Manufacturing ISM (January)	57.2	56.5
Thurs 4th	EU-19:	10:00	Retail Sales (December)	-6.1% (-2.9%)	+1.3% (+0.4%)
	UK:	12:00	BoE Interest Rate Announcement	0.10%	0.10%
	US:	13:30	Initial Jobless claims (w/e 25th January)	847,000	
	US:	15:00	Factory Orders (December)	+1.0%	+0.6%
Fri 5th	GER:	07:00	Industrial Orders (December)	+2.3%	-1.5%
	UK:	08:30	Halifax house prices (January)	+0.2% (+6.0%)	
	US:	13:30	Non-Farms Payrolls (January)	-135K	+20k
			- Unemployment Rate	6.7%	6.8%
			- Average Earnings	(+5.1%)	(+5.1%)

♦ Month-on-month changes (year-on-year shown in brackets)

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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