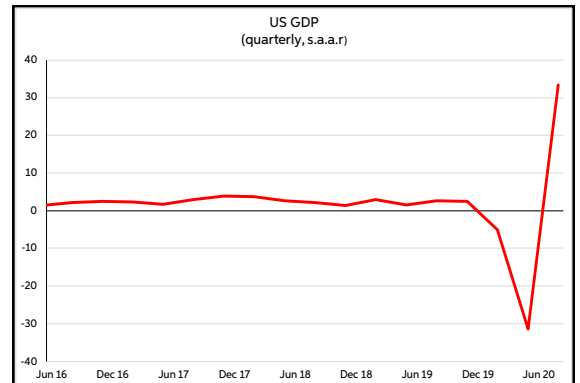


The Waiting is the Hardest Part

- Markets have very much been in consolidation mode in recent weeks despite the sharp rise in the number of new coronavirus cases and related deaths.** These have resulted in new lockdowns and other restrictions being imposed in many countries. The roll out of vaccines is very welcome news, but it is now expected to be the second half of the year before they become widely available. Thus, while lockdowns may end by Easter, it could be mid-year before there is a broad-based lifting of restrictions. Growth is now likely to be weak in the first half of 2021, especially during Q1. The expectation is that this will be followed by a strong rebound in activity in the second half of the year and into 2022. This is helping to keep markets becalmed.
- As noted by the ECB, and as reflected in Q4 and January PMI data, containment measures are mainly hitting the services sector of economies.** However, activity held up better than expected in the fourth quarter of last year, despite the re-imposition of restrictions on activity, especially in Europe. It now seems probable that GDP rose modestly in the US and UK in Q4, and there was just a moderate fall in output in the Eurozone. GDP declines, though, are likely in many economies in the opening quarter of this year, with lockdowns lasting for most if not all of the period. However, the output falls are likely to be modest compared to Q2 2020, with construction and manufacturing remaining opening. Some services are now better able to cope with containment measures via remote working and online sales also.
- The ECB, Bank of Japan and Bank of Canada all kept policy on hold this week despite weakening activity, amid expectations that brighter days lie ahead for their economies as vaccines become more widely available.** The ECB said its forecasts of circa 4% growth in both 2021 and 2022 remained broadly valid. The latest Irish Central Bank forecasts, published today, are for growth of 3.8% in 2021 and 4.6% in 2022. Thus, after a weak first half to the year, central banks see growth picking up considerable momentum in H2 2021 and into 2022. In this regard, Bank of England Governor Bailey noted the darkest hour is before the dawn, acknowledging that the UK economy is currently in a very dark spot, but a recovery was on the horizon.
- Central bankers probably also believe that they are at the outer bound in terms of monetary policy. It seems unlikely that additional monetary easing would impact activity that much.** Fiscal stimulus can still boost growth, but the real key to economic recovery is a successful roll out of effective vaccines. The waiting is the hardest part in this regard, and there are also risks in terms of the sheer logistical challenges, possible resistance to new virus strains, the extent of the reluctance to take a vaccine and uncertainty about how long immunity will last. Policymakers and markets, though, are putting their trust in the belief that the vaccines will triumph over the virus as the year progresses.
- This week, the main highlight will be the first FOMC meeting of 2021.** Although, the Fed is expected to remain on hold, having updated its forward guidance in December, to further align it with its newly introduced policy framework. At the press conference, Chair Powell is expected to reiterate the Fed's commitment to its current loose monetary policy stance as long as inflation remains under control. He will also likely face questions on the potential for QE tapering, although, he is expected to state that it is too soon to even consider discussing tapering at the present time.
- Data-wise, the highlight will be the first estimate of US GDP for Q4.** Output fell by a record 31.4% in annualised terms in Q2, before rebounding strongly by 33.4% in Q3. Most survey and hard data for Q4 have been solid, and the forecast is for GDP to increase by 3.9% in annualised terms. The Q4 print of the Fed's preferred measure of wage inflation, the wages subcomponent of the Employment Cost Index is also due. December's measure of core-PCE inflation is expected to edge lower to 1.3%. Meanwhile, the December reading of personal consumption is forecast to have fallen by 0.4%. Consumer confidence for January is expected to edge higher.
- In the Eurozone, preliminary estimates of Q4 GDP for Germany, France, Italy and Spain are due.** In Q3, the countries worst affected by the pandemic in the Eurozone (France, Italy and Spain) rebounded the strongest. Nonetheless, they have continued to be severely impacted by the pandemic, with renewed restrictions having a more adverse effect on key sectors such as travel, leisure and hospitality. Indeed, GDP is forecast to fall again in Q4 in France, Italy and Spain, although, nowhere near as sharp as in Q2. In Germany, the countries large manufacturing sector has performed strongly in the fourth quarter. Thus GDP is forecast to remain unchanged in Q4. In terms of survey data, the EC sentiment index is projected to edge lower to 89.5 from 90.4 in January. On a national level, the German Ifo is also expected to remain broadly unchanged in January. German inflation is forecast to have risen from -0.7% to +0.5% YoY in January, as a temporary VAT cut expired at the end of 2020.
- In the UK, the unemployment rate is forecast to rise to 5.1% from 4.9% in November.** Elsewhere, Nationwide house prices for January are due. Finally, the IMF will publish its latest update to its World Economic Outlook on Tuesday.



	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	1.2178	1.24	1.25	1.26
EUR/GBP	0.8906	0.90	0.90	0.90
EUR/JPY	126.33	128	128	127
GBP/USD	1.3670	1.38	1.39	1.40
USD/JPY	103.74	103	102	101
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde, Panetta, Lane (Mon); Panetta (Tue); Lane (Wed); Schnabel (Thu)		
	BoE Speakers:				
	Fed Speakers:				
	IMF:		January 2021 Update to the World Economic Outlook (Tuesday)		
	WEF:		Virtual World Economic Forum, Monday 25th—Friday 29th		
Mon 25th	GER:	09:00	Ifo Business Climate (January)	92.1	92
	EU-19:	10:00	EC Sentiment Index (January)	90.4	89.7
			- Industrial / Services	-7.2 / -17.4	-7.2 / -17.7
Tue 26th	UK:	07:00	ILO Employment (November)	4.9%	5.1%
			- Unemployment	-144,000	
	UK:	07:00	Average Weekly Earnings (3 Months to Nov.)	(+2.7%)	(+2.8%)
			- Ex-Bonus	(+2.8%)	(+3.0%)
	UK:	07:00	Claimant Count (December)	+64,300	
	UK:	11:00	CBI Distributive Trades (January)	-3	
	US:	14:00	Case-Shiller House Prices (November)	+1.6% (+7.9%)	
	US:	15:00	Consumer Confidence (January)	88.6	89.1
Wed 27th	GER:	07:00	GfK Consumer Sentiment (February)	-7.3	-7.8
	FRA:	07:45	Consumer Confidence (January)	95	94
	US:	13:30	Durable Goods (December)	+1.0%	+1.0%
	US:	19:00	Fed Interest Rate Announcement	0.00-0.25%	0.00-0.25%
	US:	19:30	Fed Press Conference		
	JPN:	23:50	Retail Sales (Dec.)	(+0.7%)	(-0.4%)
Thurs 28th	ITA:	09:00	Consumer Confidence (January)	102.4	100.5
	IRE:	11:00	Retail Sales (December)	-12.8% (-4.7%)	+10.0% (+4.0%)
	US:	13:00	Building Permits (December)	1.71m / -4.5%	1.72m / +0.7%
	GER:	13:00	Flash HICP (January)	-0.6% (-0.7%)	+0.3% (+0.5%)
	US:	13:30	GDP (Q4: Advance Reading)	+33.4% s.a.a.r.	+3.9% s.a.a.r.
	US:	13:30	Advance Core PCE Prices (Q4)	+3.4%	+1.5%
	US:	13:30	Initial Jobless Claims (w/e 11th January)	+900,000	
	JPN:	23:30	CPI Inflation (January)	(-1.3%)	(-1.4%)
			- Core	(-0.5%)	(-0.6%)
	JPN:	23:30	Job Applicants Ratio (December)	1.06	1.06
	JPN:	23:50	Unemployment Rate (December)	2.9%	3.0%
	JPN:	23:50	Industrial Output (December)	-0.5%	-1.5%
Fri 29th	FRA:	06:30	Consumer Spending (December)	-18.9%	+15.5%
	FRA:	06:30	GDP (Q4: Flash Estimate)	+18.7% (-3.9%)	-4.1% (-7.5%)
	UK:	07:00	Nationwide House Prices (January)	+0.8% (+7.3%)	
	SPA:	08:00	GDP (Q4: Flash Estimate)	+16.4% (-9.0%)	-1.5% (-10.7%)
	GER:	08:55	German Unemployment Rate (January)	6.1%	6.1%
	GER:	09:00	GDP (Q4: Flash Estimate)	+8.5% (-4.0%)	+0.0% (-4.0%)
	EU-19:	10:00	M3 Money Supply (December)	(+11.0%)	(+11.2%)
	US:	12:30	Employment Cost Index—Wages (Q4)	+0.4%	+0.5%
	US:	13:30	Personal Income / Consumption (December)	-1.1% / -0.4%	+0.1% / -0.4%
			- Core PCE Prices	0% (+1.4%)	+0.1% (+1.3%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Jan.)	79.2	79.2
	US:	15:00	Pending Home Sales (December)	(-2.6%)	(-2%)

♦ 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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