Economic Research

24 February 2020

IHS Markit

Week Ahead Economic Preview

Global overview

- **Coronavirus impact assessment from China PMI, plus Hong Kong SAR and India GDP updates**
- **US economy health insights from regional Fed surveys and durable goods orders**
- **Eurozone inflation estimate plus European sentiment surveys**

The coming week sees the first major data release out of China since the coronavirus outbreak, with the February update of the government sponsored NBS manufacturing PMI. As with all manufacturing PMIs at times of supply shocks, we urge analysts to look at sub-indices relating to purchasing, output and new orders rather than the headline composite PMI index, as the latter is likely to be buoyed by longer delivery delays, giving a false reading of health.

Other key data releases out of Asia-Pacific include GDP data for Hong Kong SAR and India, plus a number of Asian trade and industrial output updates, notably for Japan. However, all will cover periods prior to the virus outbreak. Policy action will meanwhile come from the Bank of Korea while speeches by BoJ policy board members will be watched for clues of future policy moves (see page 5).

The health of the US economy will be assessed from official data in durable goods orders as well as a clutch of regional Fed surveys, albeit with the focus somewhat limited to manufacturing. A fresh estimate of fourth quarter 2019 GDP will also be available, with expectations that the annualised growth will have remained unchanged at 2.1%. Inflation trends will also be eagerly assessed via the Fed's preferred gauge of PCE prices and Case-Shiller house prices are accompanied by home sales numbers to give an update on the housing market (see page 3).

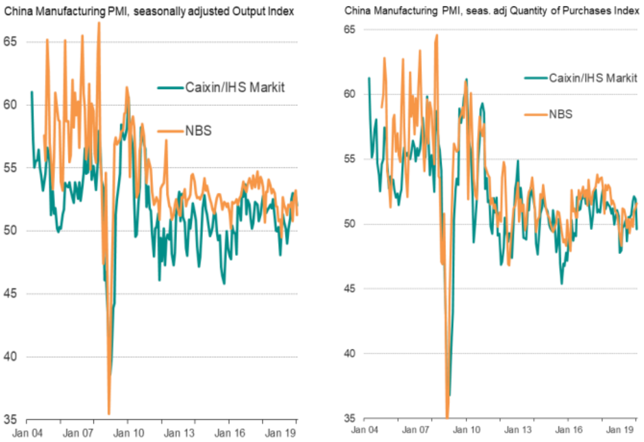
In Europe, the EC Commission sentiment surveys will give further insight into the Eurozone – and in particular Germany's – economic performance (the latter covered by Ifo) in February. German GDP data for the fourth quarter are also updated and will be eyed for signs of any potential (though unexpected) downward revision into contraction territory, though the detail will also be eagerly awaited for investment and consumption trends. ECB watchers will meanwhile be keen to see the flash official consumer price inflation numbers (see page 4).

Special reports

Coronavirus, assessing the impact on commodities: Industrial prices have fallen sharply due to the impact of the novel coronavirus epidemic on Chinese demand and industrial production. (page 6).

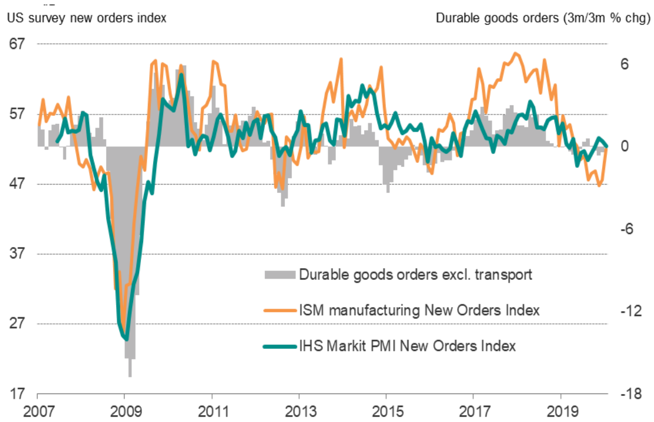
Bank of England: The Bank of England faces awkward choices regarding its policy rate over the coming months, which coincides with Andrew Bailey taking charge as its new governor from March 2020 (page 8).

Manufacturing PMI data for China will give insight into the virus impact, with NBS data followed by Caixin surveys on 2nd March. We urge analysts to watch the sub-indices rather than headline PMIs



Sources: IHS Markit, Caixin, NBS.

US PMI surveys have converged regarding the health of manufacturing. Durable goods data will give fresh clues



Source: IHS Markit, ISM.

Key diary events (UTC)

Monday 24 February

Thailand trade (Jan)

Singapore inflation (Jan)

Taiwan industrial output, retail sales (Jan)

Germany Ifo surveys (Feb)

UK finance mortgage approvals (Jan)

US Chicago Fed national activity index (Jan), Dallas Fed manufacturing index (Feb)

South Korea consumer confidence (Feb)

China NPC standing committee meeting

Tuesday 25 February

Singapore current account (Q4)

Germany GDP (Final, Q4)

Hong Kong SAR trade (Jan)

US Case-Shiller home price (Dec)

South Korea business confidence (Feb)

Wednesday 26 February

Australia construction work done (Q4)

Thailand industrial output, jobless rate (Jan)

Singapore industrial production (Jan)

Hong Kong SAR GDP (Final, Q4)

US new home sales (Jan)

Thursday 27 February

South Korea interest rate decision

South Korea industrial output, retail sales (Jan)

UK nationwide housing prices (Feb)

Spain inflation (Prelim, Feb)

Italy business and consumer confidence (Feb)

Euro area business confidence (Feb)

US GDP (2nd Est, Q4)

US durable goods orders, pending home sales (Jan)

Japan unemployment rate, retail sales (Jan), industrial output (Prelim, Jan)

Speeches by BoJ policy board member Kataoka Goushi and deputy governor Masayoshi Amamiya

Friday 28 February

UK consumer confidence (Feb)

Japan housing starts, construction orders (Jan)

Thailand private consumption and investment (Jan)

Germany jobless rate, unemployment change (Feb)

France GDP (Final, Q4), inflation (prelim, Feb)

Euro area, Germany and Italy inflation (flash, Feb)

India GDP (Q3, FY2019-20)

US PCE price index, personal spending and income, wholesale inventories (Jan)

US Chicago PMI, Michigan surveys (Feb)

Sat-Sun 29 Feb – 1 Mar

29/2: China NBS manufacturing PMI (Feb)

29/2: Vietnam industrial output, inflation (Feb)

29/2: US South Carolina primary

1/3: South Korea trade (Feb)

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United States Week Ahead

Second GDP estimate, PCE prices and durable goods orders

By Siân Jones

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Upcoming data releases largely focus on the consumer, with income and PCE prices data published. There will also be a glimpse of US consumer expectations regarding purchasing and personal finances for the coming year. Meanwhile, manufacturing sector data in the form of durable goods orders will be dissected for any signs of a pick-up in demand.

PCE Prices

The upcoming release of PCE prices data will be the last iteration published before the next FOMC meeting in mid-March, and rates of inflation will be keenly assessed for any implications for Fed policy. That said, any policy shift is unlikely unless demand and labour market conditions change notably. Our US economists foresee no change to the policy rate in 2020.

The PCE Prices Index is expected to remain below the 2% target rate, with January PMI data having signalled a softer increase in core prices (excluding food and energy) during the opening month of 2020. Moderate inflationary pressures extend the trend seen in the final months of 2019 but are expected to gradually pick up through the year, heading towards the target rate.

Second GDP estimate

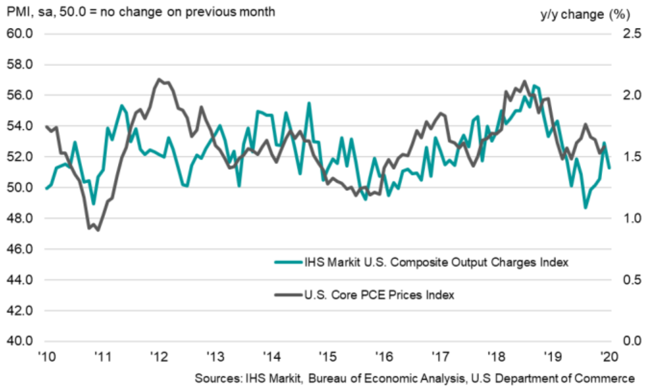
The second estimate of GDP in the final quarter of 2019 is expected to be unchanged from that published in the initial figures at the end of January. The expansion of 2.1% in the final three months of the year was largely attributed to stronger personal and government spending, with a reduction in imports also aiding economic growth.

Durable goods, manufacturing updates

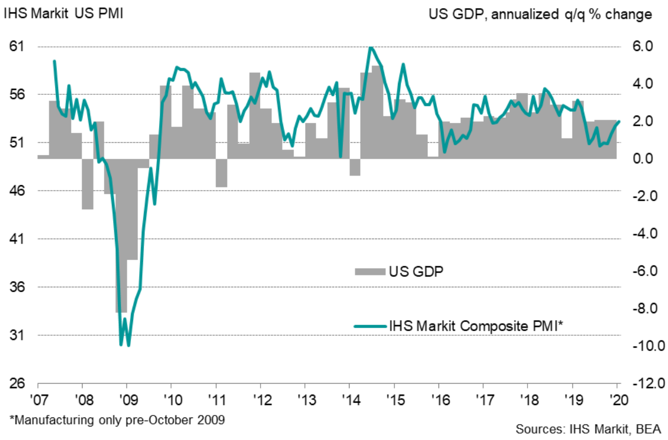
Durable goods orders will give an insight into how manufacturing started the year. Recent data have shown a great degree of volatility month to month, but PMI data have been more stable and corresponded with a softer trend – and broad stagnation – in new durable goods orders in January.

Also released are updates to personal spending, income, pending and new home sales, house prices, wholesale inventories data, and the release of regional surveys including the Chicago, Dallas, Richmond and Kansas Feds plus the Chicago PMI.

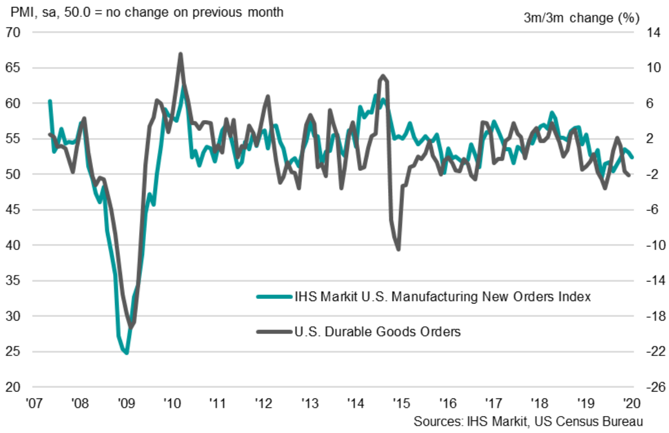
Softer rise in PCE prices expected in January



Estimate for Q4 GDP forecast to be unchanged from solid rise published in January



Durable goods orders set to broadly stagnate at the start of 2020



Europe Week Ahead

Eurozone inflation, German GDP details, employment and retail sales

By Joe Hayes

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We eagerly anticipate a number of releases from Germany in the week ahead, which include the breakdown of fourth quarter GDP plus retail sales and employment data. The preliminary estimate of the inflation rate for the euro area in February is also due, while consumer and business surveys from the European Commission and Ifo will add insight into the opening quarter of 2020 from a sentiment-based perspective.

Eurozone inflation

The energy-fuelled pick-up in eurozone prices carried through to the start of 2020, with the annual rate of HICP inflation rising to a nine-month high. That said, we expect headline inflation to level out in the coming months as pressures from energy prices pass out of the equation. Based on composite input prices PMI data, underlying inflation is up from recent lows but still running at around just 1% year-on-year. Regarding the immediate policy outlook, while inflation remains stubbornly low and prospects for growth still uncertain, the European Central Bank's appetite for further stimulus appears to have abated.

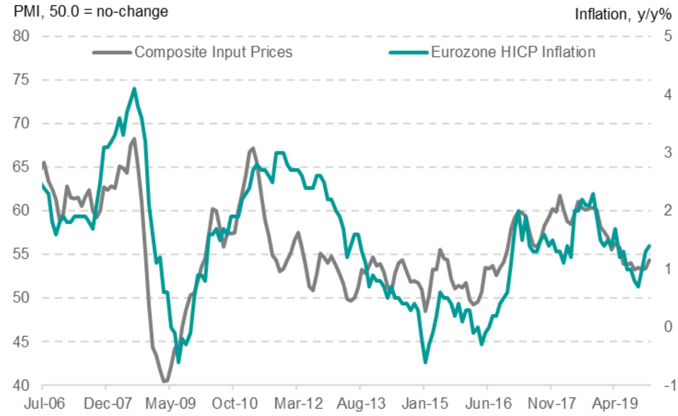
Germany GDP breakdown and more

Germany features heavily in the European economic data calendar in the coming week, with the component breakdown of fourth quarter GDP adding a more detailed insight as to why the euro area's largest economy stagnated at the end of last year. The press release accompanying the preliminary estimate provided some detail, suggesting that consumption trends slowed, and net trade contributed negatively. The impact of Covid-19 has meanwhile added downside risks to the first quarter.

January retail sales data are also due for Germany, as are labour market statistics. While employment is still rising, growth remains underwhelming. Elsewhere, retail sales will be eyed for a bounce-back after falling at the steepest rate since 2007 in December on the previous month.

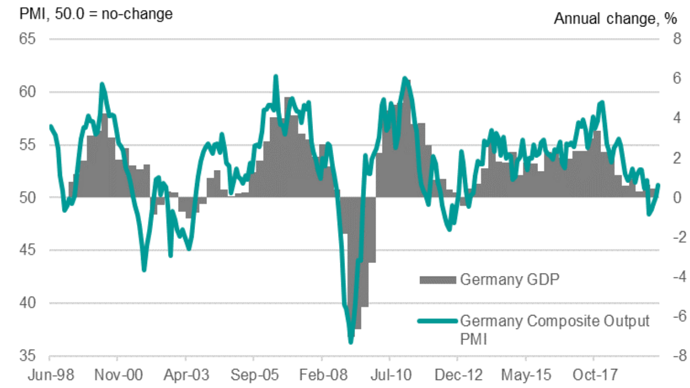
Sentiment data, such as the European Commission and Ifo surveys, will be closely watched for signs of the coronavirus outbreak dampening confidence.

Survey data point to subdued inflationary pressures across the eurozone



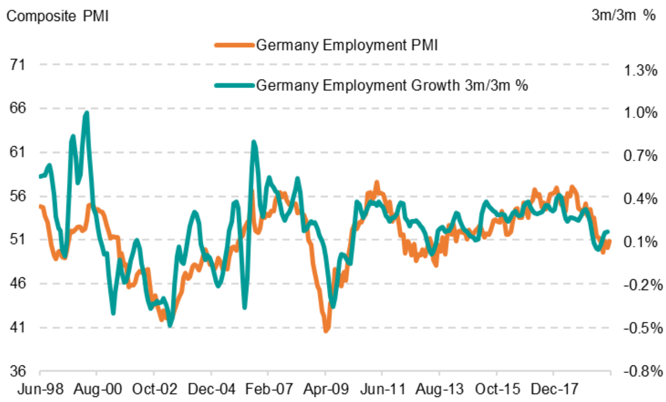
Source: IHS Markit, Eurostat

Survey data pickup for Germany in January, but coronavirus casts doubt over first quarter GDP



Source: FSO, IHS Markit

German employment still growing at sluggish pace



Sources: IHS Markit, Bundesagentur fur Arbeit

Asia Pacific Week Ahead

Bank of Korea, Thai data, Indian GDP, Asia trade and industrial output

By Bernard Aw

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The coming week sees the release of a number of Asian trade and industrial output updates. As the extent of economic impact by the Covid-19 outbreak on regional economies is likely to be minimally reflected in these January figures, analysts will likely put greater focus on the February data of China's government-sponsored NBS manufacturing PMI, as well as South Korea's trade and Vietnam's factory output. Investors will meanwhile monitor Thailand's data dump amid a growth slowdown. India's latest GDP numbers and final estimates to Hong Kong SAR fourth quarter GDP will also gather interest.

Policy action will come from the Bank of Korea while speeches by BoJ policy board members will be watched for clues of future policy moves. Meanwhile, markets will scrutinise the meeting of the Standing Committee of China's NPC, where they may consider a delay of the annual March NPC/CPPCC meetings amid the coronavirus outbreak.

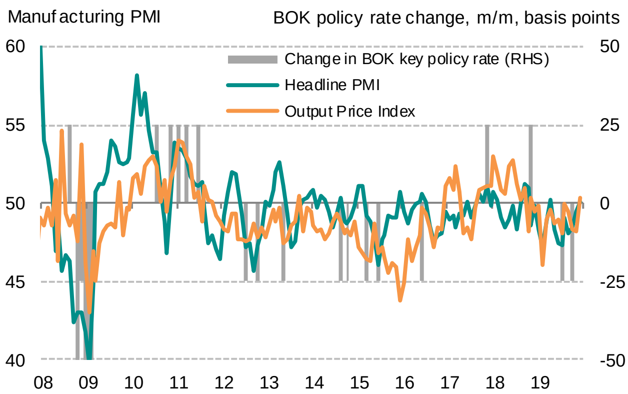
South Korea trade and monetary policy

Bank of Korea policymakers meet amid rising concerns that the coronavirus outbreak will further dampen South Korean growth, adding pressure on monetary policymakers to act. While Bank of Korea governor Lee Ju-yeol recently commented that any rate cuts have to be carefully considered, signs of economic stress from incoming data are expected to pave the way for future rate reductions. As such, analysts will scrutinise Korean export data for February.

Industrial output

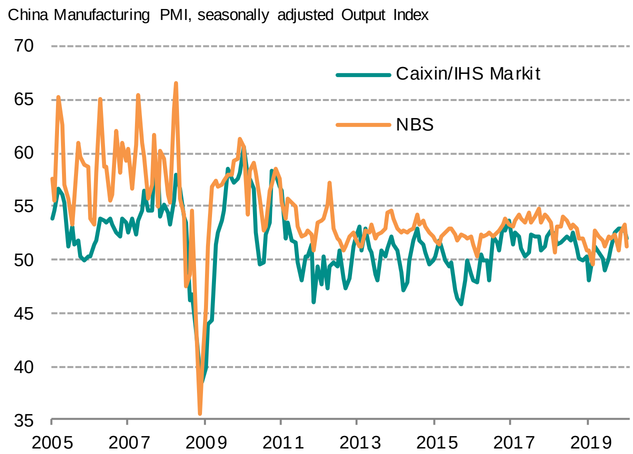
Industrial production figures for a number of economies, including Taiwan, Singapore, Thailand, South Korea, Japan and Vietnam will be eyed for economic performance at the start of the year. In particular, Japan's data, alongside data for retail sales, jobs and housing, will be closely assessed for the likelihood of a technical recession. That said, the expectation that January data may not fully reflect the economic impact of the coronavirus outbreak will see investors eagerly await the release of February manufacturing PMI data in the following week (2nd March).

South Korea PMI and monetary policy



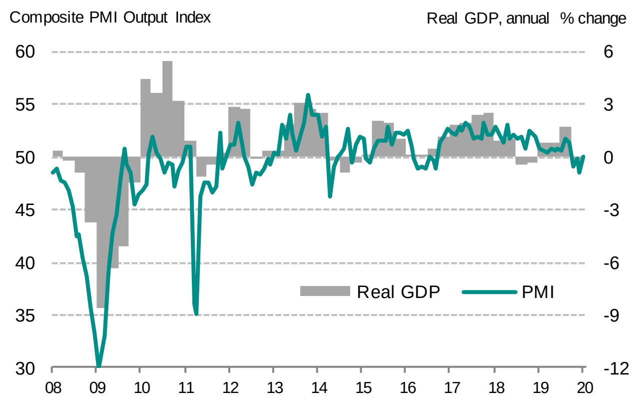
Sources: IHS Markit, Bank of Korea

China manufacturing PMI surveys



Sources: IHS Markit, Caixin, NBS

Japan PMI and GDP



Sources: IHS Markit, Jibun Bank, Cabinet Office

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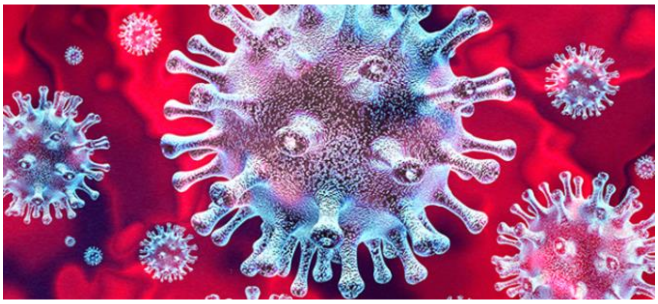
Asia Pacific Special Focus

Coronavirus: assessing the impact on commodities



By William May

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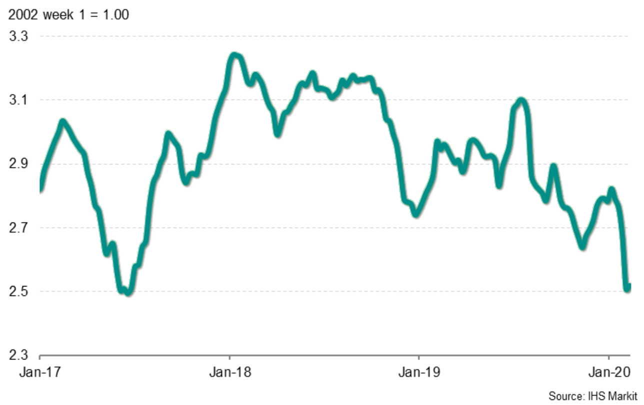
The IHS Markit Materials Price Index has fallen sharply in recent weeks due to the impact of the novel coronavirus epidemic on Chinese demand and industrial production.

Impact on global commodities

The IHS Markit Materials Price Index (MPI) dropped a sharp 6.2% in the week to 7th February 2020, declining broadly in a move that saw nine of the index's ten sub-components fall. The MPI's decline in the first week of February was also noteworthy for its size in that it was the MPI's fifth largest in its 25-year history. The MPI has retreated roughly 10% in the past three weeks, as markets have become more bearish on the impact of the coronavirus on the Chinese economy.

IHS Markit Materials Prices Index (US dollar based)



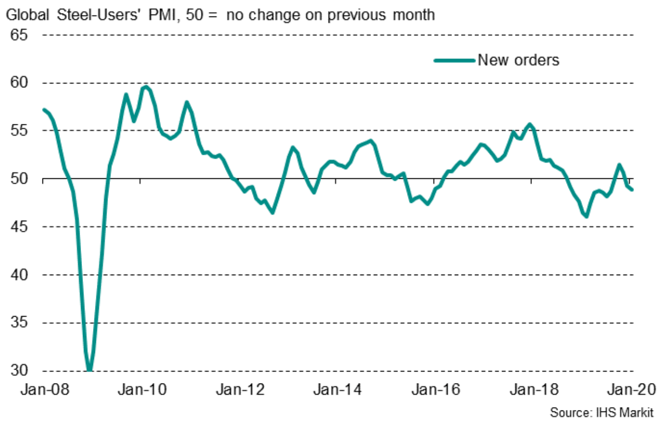
Impact on iron ore and steel markets

Within the MPI, the ferrous index saw the largest decline, plunging 10.3% as iron ore prices fell to around $81 /Mt CFR China, down from over $94/Mt as recently as January 27. Steel mills in China are trimming production because of inventory builds tied to logistics bottlenecks, and have already indicated their intention to reduce production by up to 30% in the near-term, in response to transportation difficulties and reduced staff.

Given worst affected regions in China only constitute 11% of Chinese steel capacity we estimate that total national steel production lost in Q1 2020 will be around 12% or, based on 2020 steel production growth of 3.5% in FY2020, 31MMt of crude steel in Q1 2020. Crude steel production has been slower to react in China and already inventories are up 47%, with only a 4.1% contraction in output, illustrating the sharp slow-down in end-use demand.

Translated roughly into iron ore demand, this means a reduction in iron ore demand of 52 Mt, equivalent to around 55% of Chinese monthly iron ore imports. To analyse the supply shock during the Brazilian dam disaster in January 2019, we used the rule of thumb derived from the iron ore mine cost curve that for every 10 million metric tonnes of supply removed from the market, prices rise USD 3.3/metric ton higher. On this basis we estimate benchmark iron ore prices to fall USD 17 from pre-coronavirus levels of around USD 95/metric ton. However, the impact of disruption to Chinese steel demand on iron ore prices has been mitigated by temporary supply disruptions as a result of storm damage from Cyclone Damien to mining infrastructure in the Pilbara in Western Australia and very strong seasonal rainfall in Brazil through January and February. Both Vale and Rio Tinto have revised guidance for the first quarter which drove the rally in iron ore prices in mid-February.

IHS Markit Global Steel PMI



Impact on oil and gas markets

The MPI's energy index fell 6.9% in the first week of February, due to a large 15.0% fall in gas prices and a 7.5% drop in oil prices. Chinese oil executives estimate a 25% drop in China's oil demand in February, with OPEC now mulling a March production cut to help stabilize the market. Two of China's largest energy groups have declared "force majeure" on 14 LNG import cargoes, with more such notices expected in the days ahead. Unsurprisingly, Asian gas prices fell 20.8% for the week.

IHS Markit Energy estimate that in Q1 2020, China's oil (total liquids) demand is expected to contract by 1.2 MMb/d year on year (to 12.4 MMb/d) as a result of the coronavirus economic shock, driving contraction of global oil demand by 1.7 MMb/d (to 98.4 MMb/d).

IHS Markit Energy estimate that outside of mainland China, Asian oil (total liquids) demand is expected to fall 200,000 b/d in Q1 2020 compared to a year ago. Including mainland China, a sharp year-on-year decline of 1.4 MMb/d is projected for Q1 2020 Asian oil demand. Before the outbreak of the coronavirus, IHS Markit Energy projected Asian demand growth of 650,000 b/d in Q1 2020.

Starting in Q2 2020, oil demand is expected to pick up globally, resulting in annual average oil demand growth of 0.6 MMb/d in 2020.

Impact on other industrial materials prices

Force majeure declarations have been issued by a number of copper traders in China who are attempting to cancel or delay orders. Non-ferrous prices fell 1.4% in the first week of February, on top of a much larger 5.6% drop in the previous week's trading.

The disruption to China's economy because of the coronavirus outbreak has altered copper's outlook for 2020 from one of deficit with rising prices to a potential surplus, with weak pricing, especially in the first half of the year. Market sentiment has soured with heavy selling sending the LME price below $5,700 per metric ton in early February, some 9% lower than its mid-January level of $6,300.

Chemicals prices fell 4.6% in the first week of February, again showing weakness in Asia, broadly in line with falling oil prices. The lagged effect of weaker oil costs on chemical feedstocks means the market may see more, and possibly larger, declines in coming weeks. Latest IHS Markit estimate points to a potential loss of 4 million metric tons of base chemical demand in mainland China, driven by economic disruptions from the coronavirus.

DRAM was the only component of the MPI to shake off demand fears, rising 2.3% on the prompt resumption of Chinese chip manufacturing, thus averting any major disruption to the supply chain.

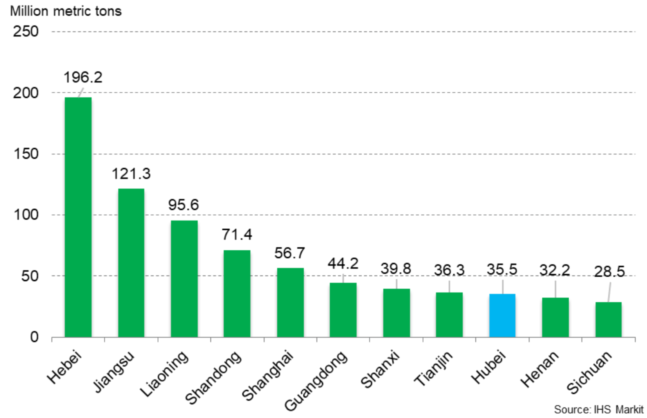
Outlook

The key question for commodity demand is how long will Chinese factories continue to operate well below capacity. Estimates range widely, but for regions less impacted by the coronavirus in the north and west, the outlook for something close to normal production resuming by the end of February seems increasingly likely.

Indeed, closer to the epicenter of the outbreak, the Shanghai government claims that up to 70% of manufacturing enterprises have resumed operations in the greater metropolitan area. Better news is that the number of newly confirmed cases outside Hubei province has declined for six consecutive days to 9 February, providing hope that the government's clampdown is containing the virus. If this indeed proves to be the case, markets will calm, with prices potentially recovering some of their recent losses, perhaps as early as by the end of February.

Nevertheless, even if production is restored to almost full capacity, a key risk to the near-term outlook is whether Chinese consumer demand will remain subdued in the coming months due to continuing fears about the highly contagious coronavirus. Weak underlying consumer demand could dampen the rebound in demand for some commodities, until the epidemic is largely contained across most provinces of China.

China (mainland) installed production capacity by province



Europe
Special Focus

Tough challenges await new Bank of England governor

By Raj Badiani
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The Bank of England faces awkward choices regarding its policy rate over the coming months, which coincides with Andrew Bailey taking charge as its new governor from March 2020. He will face an economy misfiring on several fronts, which alongside below-target inflation have increased the noise for an immediate interest rate cut. But the Bank is unwilling to act until it has better sense of the sustainability of any growth bounce arising from Boris Johnson's comfortable general election win and the UK's orderly exit from the European Union.

Policy on hold

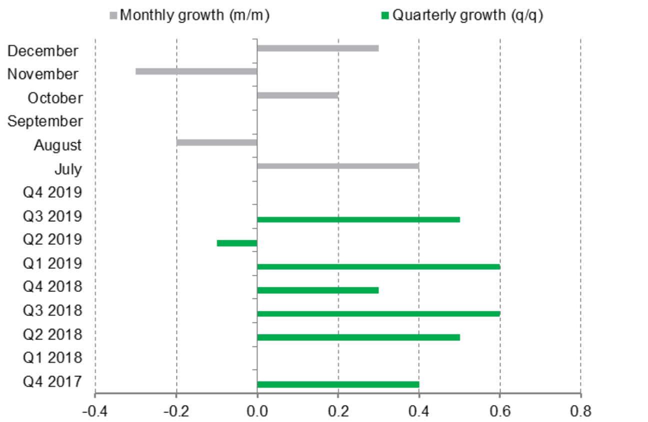
The Monetary Policy Committee (MPC) of the Bank of England (BOE) voted again by 7–2 to keep its policy rate at 0.75% during its 29th–30th January meeting after chances of a rate cut appeared to be balanced on a knife edge.

The most recent change was a 25-basis-point rise to 0.75% in August 2018, which was the first increase since November 2017 and only the second during the past decade.

The latest decision replicated the voting in the previous two meetings, with Michael Saunders and Jonathan Haskel again calling for an immediate interest rate cut to 0.5% to boost growth. The two dissenters stressed that further monetary stimulus was appropriate due "to weak GDP growth and slowing core inflation", and that "the economy has a modest but rising margin of spare capacity".

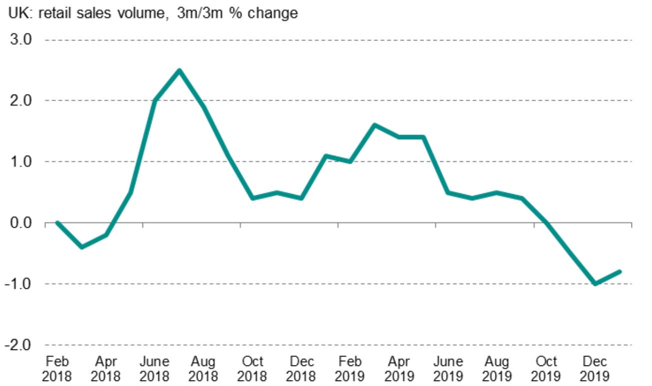
Saunders has been vociferous in his support for a cut, noting "even if the economy improves slightly from the recent pace, risks for the next year or two are on the side of a more protracted period of sluggish growth than the Monetary Policy Report forecast." Also, MPC members Gertjan Vlieghe and Silvana Tenreyro all indicated that they were prepared to vote for a cut on 30th January.

UK GDP



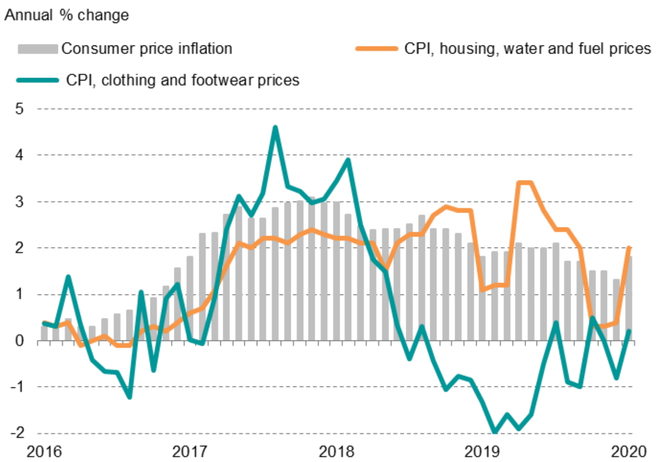
Source: Office for National Statistics

UK retail sales



Source: Office for National Statistics

UK inflation



Source: Office for National Statistics

The case for a cut was elevated by the following developments.

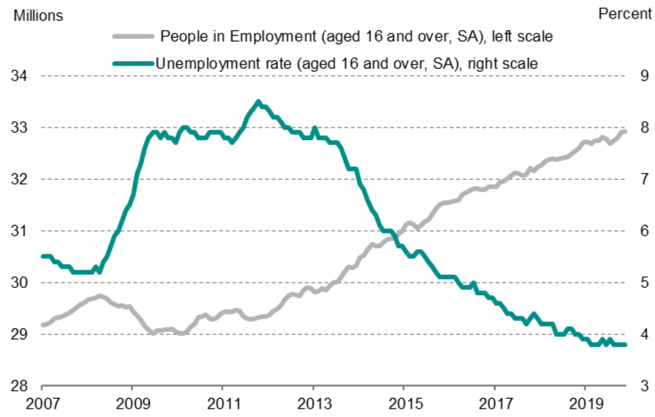
- Consumer price inflation sits below its 2.0% target, having fallen back again to 1.3% in December (but higher energy prices lifted the rate to 1.8% in January).

- Retail sales volumes fell for the fourth time in five months during December, down 0.6% month-on-month. On a three-month basis, sales fell for a second time, retreating by 1.0% from the three months to September.
- Real GDP failed to grow in the fourth quarter, confirming earlier PMI survey signals of an economy that was flatlining.

But some encouraging data just prior to the meeting probably convinced the undecided on the MPC to keep interest rates on hold.

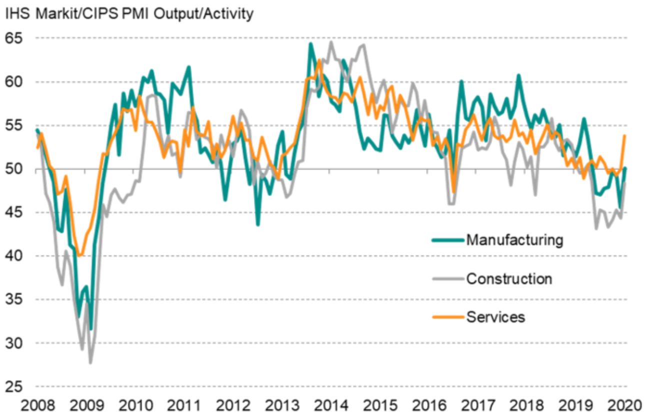
The markets had priced in a cut in early January but better than expected jobs data and January PMI for private sector activity cooled their ardor. Indeed, January's PMI surveys reported improved services activity, with the headline index rising to a 17-month high of 53.9 (with a 50-score signifying unchanged activity), while manufacturing activity moved out of contraction territory to stand at a 9-month high of 50.

UK labour market remains tight



Source: Office for National Statistics

UK PMI surveys (output)



Sources: IHS Markit, CIPS.

The MPC argued the need to wait for new information to gauge the sustainability of any growth bounce arising from Boris Johnson's comfortable general election win, and the UK's orderly exit from the European Union (EU). The departing governor Mark Carney noted that much uncertainty prevails, arguing "it's less of the case, 'so far so good', than 'so far, good enough'."

The MPC also said that if the economy performed as expected, "some modest tightening of policy may be needed to maintain inflation sustainably at target".

Delayed Interest rate cut?

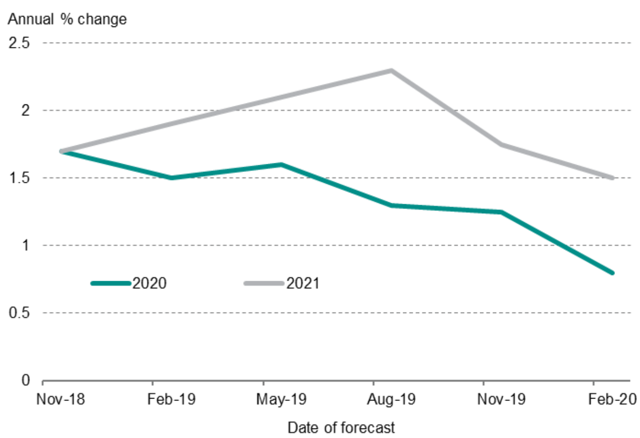
The Bank warns that the future direction of UK interest rates is far from clear. It indicates that an interest rate cut could occur "to reinforce the expected recovery in UK GDP growth, should the more positive signals from recent indicator of global and domestic activity not be sustained." Andrew Bailey, the new BOE governor, could act if firms and households fail to respond positively to a less daunting Brexit pathway.

Indeed, Saunders and Haskell warn that healthier survey results based on improved companies' expectations have failed to predict precisely economic growth in recent years. They also point out that survey readings on output growth had remained subdued. They also note a softer global economy while persistent Brexit uncertainties continue to weigh on UK consumer and corporate spending.

The situation is fragile after the Bank cut its short-term growth forecasts for the UK, suggesting a more rapid reaction function to any weaker-than-expected data in the next few months.

The BOE estimated correctly that the UK economy stagnated in the final quarter of 2019, which also revealed yet another damaging fall in business investment. It now expects GDP growth to accelerate to just 0.2% quarter-on-quarter (q/q) in the first quarter of 2020 then to 0.3% q/q in the second.

The BOE's changing growth forecasts



Source: Bank of England

Not surprisingly, the BOE cut its near-term growth forecasts again in its January Monetary Policy Report. The economy is now projected to expand by 0.75% (down from 1.25% in the November Monetary Policy Report) in 2020, 1.5% (from 1.75%) in 2021, and 1.75% (from 2.0%) in 2022.

The BOE and IHS Markit's growth forecast for 2020 are now aligned but we are more downbeat for 2021–22. According to our February forecast, we expect the economy to expand by 0.7% in 2020, 0.8% in 2021, and 1.1% in 2022. Our assessment is that any "post-election bounce" could peter out in the second half of 2020 with new Brexit risks restraining a recovery in corporate investment during 2020–21.

The far-from-clear outcome of the UK-EU trade talks and its impact on the economy will remain a constant source of irritation to the Bank. Ultimately, it fears that the UK government's trade negotiations goals lean towards a post-transition trading arrangement that includes new customs checks and regulatory barriers. This represents a risk to the UK economy because of higher administrative costs for UK firms seeking to trade with the EU, and a notable departure from the frictionless trade that the United Kingdom currently enjoys with the trading bloc.

Therefore, forward interest rates suggest that monetary policy conditions will remain accommodative. In the BOE's January Monetary Policy Report, the conditioning path for the Bank Rate implied by forward market interest rates is as follows: 0.6% in 2020 Q1, 0.5% in 2021 Q1, 0.5% in 2022 Q1, and 0.6% in 2023 Q1.

But don't forget the tight labour market

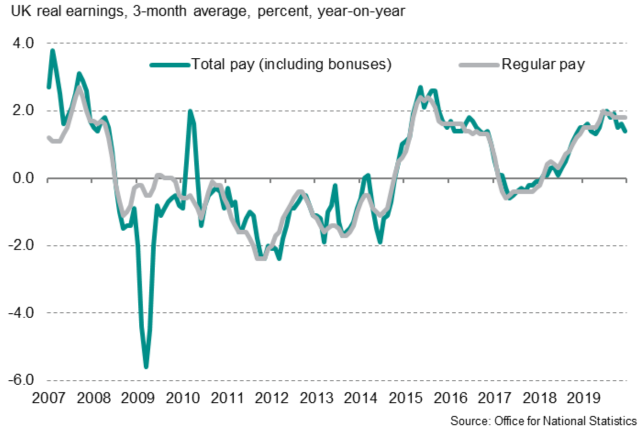
The case to keep interest rates unchanged is underpinned by surprisingly resilient labour market conditions, with the unemployment rate close to its equilibrium rate, historically high vacancies and higher nominal and real wage growth. In addition, there is a limited pool of available unemployed workers, with the UK economic inactivity rate estimated at a record low of 20.5% in October–December 2019.

Also, the employment rate stands at a new record high of 76.5% at end-2019.

Furthermore, the BOE expects wage growth to accelerate steadily, from an estimated 3.0% in 2019 to 3.75% by 2023.

Should economic growth surprise positively, the Bank is wary of the perils of an overheating labour market, which would trigger a steady rise in interest rates to keep inflation around target on a sustainable basis.

UK pay growth



Less of an inflation story

Consumer price inflation is expected to remain below the Bank's 2% target during 2020 because of falling utility prices. According to the January Monetary Policy Report, the rate is projected to be 1.8% in the first quarter of 2020 and is forecast to slip back to 1.5% by the first quarter of 2021 before moving up to 2.0% and 2.1% in the equivalent quarters of 2022 and 2023 respectively.

The inflation pick-up in the second half of the Bank's forecast horizon is likely to result from the end of the drag from energy and utility prices. In addition, the BOE estimates diminishing spare capacity to trigger emerging excess demand, alongside rising labour costs.

On balance, we now expect an interest rate cut in August 2020

Underlying growth pressures, below-target inflation, and entrenched uncertainty about the nature of the final UK-EU trade relationship are now expected to deliver an interest-rate cut in the coming months, which replaces our previous forecast of no change during 2020.

The change in our interest rate path results from our assessment that any growth spike is likely to be limited to just over 0.2% or 0.3% q/q in the first half of 2020 before sliding back to just 0.1% q/q. A major fear is that gulf between the UK and EU negotiating positions regarding their future trade relationship will weigh down on business sentiment. Many firms will wait for greater clarity about the final UK-EU relationship before they give the green light to big-ticket investment plans.

In addition, the 11-month transition period provides a limited window for the UK and the European Union to reach a free trade agreement (FTA).

The UK is also facing a challenging global economic environment, which is further complicated by the spread of the coronavirus.

The timing of any interest rate cut is challenging to predict, but we argue that the BOE is likely to wait for several months to gauge whether the economy is still being strangled by Brexit uncertainties. In addition, it would want to undertake a proper assessment of the impact of the new government's first national budget on 11 March, which is set to lift spending on infrastructure and public services while pledging to cut employee social security contributions.

In addition, Andrew Bailey takes over as the new governor in March 2020, and he will need time to crystallize his views of the prevailing Brexit risks, namely the threat of a possible cliff-edge exit after the transition period, or a “bare bones” trade deal, and both of which would weigh on business investment, further damage the misfiring economy.

This probably rules out an interest rate cut in the May meeting when the BOE is scheduled to publish its Monetary Policy Report (MPR), laying out its new growth and inflation projections. Therefore, IHS Markit expects the BoE to cut its policy rate by 25 basis points to 0.5% in its August 2020 meeting to coincide with its next MPR. In addition, we no longer expect a hike in May 2021, which is now expected to be delayed until May 2022.

Importantly, our broad narrative remains unaltered, which assumes the BoE stays very cautious about the pace of interest-rate normalisation, with the policy rate expected to peak at 2.0% by May 2027.