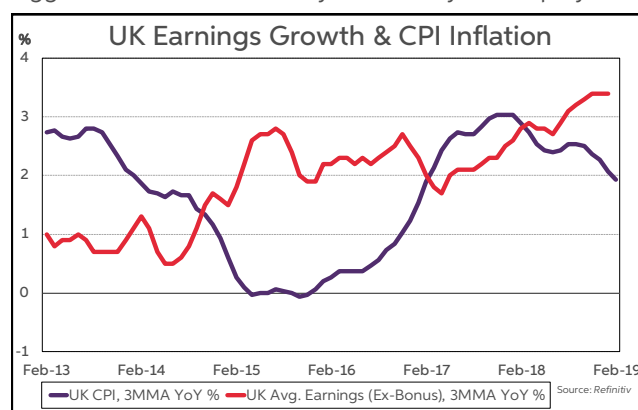


Brexit's Black Hole

- The past week saw a major breakthrough in science, with the first picture of the infamous black hole in space.** We now have a clear picture of what a black hole looks like, even though it is 53 million light years away. **By contrast, we still have no idea what Brexit will look like, even though it will come back into orbit once again in six months' time, or possibly even sooner.** Indeed, given the ongoing delays to Brexit, it is in danger of disappearing into its own black hole, never to be seen again. There are only so many times that the EU will be prepared to grant the UK extensions to Article 50, before forcing it to decide between remaining in the EU or leaving, with or without a deal.
- We would not be that confident that the UK Parliament will be able to ratify the Withdrawal Agreement (WA) before the new Brexit deadline of end October, or agree on an alternative way forward.** In these circumstances, it may well be that the UK Parliament decides later this year that there is no alternative but to go back to the people with a new referendum to resolve the Brexit impasse. Thus, we think that the latest Brexit delay, amidst a continuing political logjam in Parliament, increases the prospects that the UK will remain in the EU. In any event, we don't see much progress being made on Brexit in the near term, as UK politicians' attention turns to upcoming elections.
- Sterling has taken the chaotic events of the past month in its stride, with the EUR/GBP rate largely confined to a narrow 85-87p trading range since mid-February.** It could continue to mark time in the next couple of months, amid ongoing efforts to get the WA ratified. We only see sterling making further ground from present levels if a new referendum becomes a growing probability, although upcoming UK elections do present some political risk for the currency. Otherwise, the currency could start to edge lower as the new Brexit deadline approaches on concerns that if the UK does not ratify the WA, it may leave the EU without a deal in some form of managed exit.
- Turning to the week ahead, a busy data calendar in the UK includes a batch of labour market statistics.** Employment growth picked up over the winter, which looks odd, given the sluggishness of the economy. Year-on-year employment growth is expected to have remained close to 1.5% in the 3-months to February. At the same time, the unemployment rate is forecast to have edged up slightly to 4.0%. Overall, tight labour market conditions are projected to have resulted in underlying wage inflation holding at 3.4% in the period.
- This week's release of March UK CPI data is expected to show that strong earnings growth has not yet manifested itself in increased price pressures.** The consensus is for the headline and core rates of inflation to have edged up to 2.0% and 1.9% respectively, from 1.9% and 1.8%. Meanwhile, despite the gains to real wages, retail sales are anticipated to have fallen back by 0.3% in March.
- In the US, retail sales for March are also set to feature.** The headline index is expected to have increased by a strong 0.8% in the month, rebounding from a decline in February and also boosted by higher oil prices. Growth in the control measure (ex-gas, autos and building materials) is being pencilled in at 0.5%. On the output side of the economy, it is envisaged that industrial production rose by 0.3% in March. In a more timely update, the flash composite PMI for April is forecast to have improved marginally, with both the manufacturing and service sector sub-indices edging up slightly in the month. In terms of other macro updates, the Fed's Beige Book is due and will offer an assessment of economic conditions in the US ahead of the upcoming FOMC meeting on May 1st.
- In contrast to the UK and US, the Eurozone schedule has a relatively barren look to it this week.** However, we do get the important flash PMIs for April. The expectation is for the composite PMI to have been broadly unchanged in the month. It is anticipated that the breakdown will show that the manufacturing index improved. However, the index is still expected to remain well below the 50.0 level separating expansion from contraction. Meanwhile, the services PMI is forecast to have moved down slightly in the month.
- Elsewhere, the release of Q1 Chinese GDP will be of some interest, though the usual caveat applies when viewing Chinese figures.** The authorities took some steps during the quarter to stimulate growth, including easing credit conditions. The year-on-year growth rate is projected to have slowed to 6.3%, from 6.5% in the previous quarter.



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q2 2019 | End Q3 2019 | End Q4 2019 |
| Fed Funds | 2.375 | 2.375 | 2.375 | 2.625 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| BoE Repo | 0.75 | 0.75 | 0.75 | 0.75 |
| 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 Q2 2019 | End Q3 2019 | End Q4 2019 |
| EUR/USD | 1.1314 | 1.13 | 1.14 | 1.15 |
| EUR/GBP | 0.8625 | 0.86 | 0.86 | 0.86 |
| EUR/JPY | 126.65 | 125 | 125 | 125 |
| GBP/USD | 1.3116 | 1.31 | 1.33 | 1.34 |
| USD/JPY | 111.93 | 111 | 110 | 109 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT) | Release | Previous | Forecast |
|-------------------|---------------------------|---|---------------|---------------|
| This Week: | BoE Speakers: | Haskel (Monday) | | |
| | ECB Speakers: | Lane (Tuesday); Lautenschlager (Wednesday) | | |
| | Fed Speakers: | Evans, Rosengren (Monday); Bullard (Wednesday); Bostic (Thursday) | | |
| Mon 15th | US: | 13.30 NY Fed / Empire State Index (April) | 3.7 | 7.0 |
| Tue 16th | UK: | 09.30 ILO Employment (3 months to February) | +222k | +180k |
| | | - Unemployment | 3.9% | 4.0% |
| | UK: | 09.30 Average Weekly Earnings (3 months to February) | (+3.4%) | (+3.5%) |
| | | - Ex-Bonus | (+3.4%) | (+3.4%) |
| | GER: | 10.00 ZEW Economic Sentiment Index (April) | -3.6 | 1.0 |
| | IRL: | 11.00 Goods Trade Balance (February) | €7.2bn | €4.0bn |
| | US: | 14.15 Industrial Production (March) | +0.1% | +0.3% |
| | | - Capacity Utilisation | 78.2% | 79.2% |
| | US: | 15.00 NAHB Homebuilders' Sentiment (April) | 62 | 63 |
| | IRL: | Dept. of Finance Stability Programme Update 2019 | | |
| Wed 17th | JPN: | 00.50 Trade Balance (March) | ¥334.9bn | |
| | | - Exports | (-1.2%) | |
| | CHINA: | 03.00 GDP (Q1) | (+6.4%) | (+6.3%) |
| | CHINA: | 03.00 Industrial Output (March) | (+5.3%) | (+5.9%) |
| | ITA: | 09.00 Final HICP (March) | (+2.3%) | (+2.3%) |
| | UK: | 09.30 CPI (March) | (+1.9%) | (+2.0%) |
| | | -Ex-Food & Energy | (+1.8%) | (+1.9%) |
| | UK: | 09.30 PPI Output (March) | (+2.2%) | (+2.1%) |
| | | - Input | (+3.7%) | (+3.9%) |
| | EU-19: | 10.00 International Trade Balance (February) | €1.5bn | |
| | EU-19: | 10.00 Final HICP (March) | (+1.4%) | (+1.4%) |
| | | - Ex-Food & Energy | (+1.0%) | (+1.0%) |
| | US: | 13.30 International Trade Balance (February) | -\$51.1bn | -\$53.5bn |
| | US: | 19.00 Fed Beige Book Published | | |
| Thurs 18th | GER: | 07.00 PPI (March) | (+2.6%) | (+2.7%) |
| | FRA: | 08.15 Flash Markit Composite PMI (April) | 48.9 | 49.6 |
| | GER: | 08.30 Flash Markit Composite PMI (April) | 51.4 | 52.0 |
| | EU-19: | 09.00 Flash Markit Composite PMI (April) | 51.6 | 51.7 |
| | | - Manufacturing / Services | 47.5 / 53.3 | 48.0 / 53.1 |
| | UK: | 09.30 Retail Sales (March) | +0.4% (+4.0%) | -0.3% (+4.6%) |
| | US: | 13.30 Initial Jobless Claims (w/e 8th April) | 196,000 | 204,000 |
| | US: | 13.30 Philly Fed Index (April) | 13.7 | 10.3 |
| | US: | 13.30 Retail Sales (March) | -0.2% | +0.8% |
| | | - Ex-Autos | -0.4% | +0.7% |
| | | - Ex-Gas, Autos & Building Materials | -0.2% | +0.5% |
| | US: | 13.45 Flash Markit Composite PMI (April) | 54.6 | 54.7 |
| | | - Manufacturing / Services | 52.4 / 55.3 | 52.5 / 55.4 |
| Fri 19th | IRL/UK/US/Most EU: | Good Friday (Market Holiday) | | |
| | JPN: | 00.30 CPI (March) | +0.2% | |
| | ITA: | 09.00 ISTAT Business Confidence (April) | 100.8 | 101.0 |
| | ITA: | 09.00 Consumer Confidence (April) | 111.2 | 111.2 |
| | US: | 13.30 Housing Starts (March) | -8.7% / 1.16m | +6.9% / 1.24m |
| | | - Building Permits | -2.0% / 1.29m | +0.8% / 1.30m |

◆ 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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