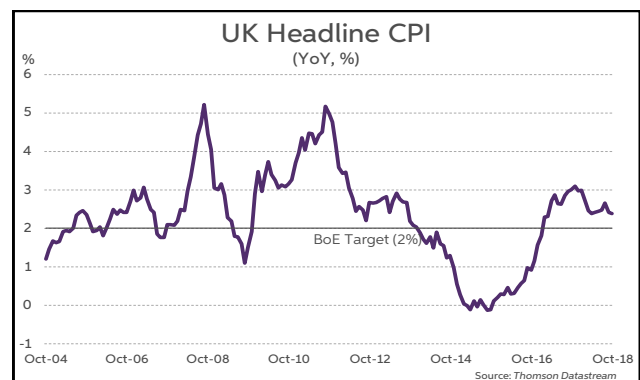


The Tempest

- Not even William Shakespeare could have written the script for the events surrounding Brexit that are unfolding these days in the UK.** However, it has all the elements of his great plays – drama, intrigue, treachery, rivalry, farce, comedy and, quite possibly, tragedy. Those involved would be well advised to listen to the words of one of Shakespeare’s great tragic characters, Lady Macbeth, who bemoaned: *“Naught’s had, all’s spent, Where our desire is got without content. ’Tis safer to be that which we destroy, Than by destruction dwell in doubtful joy”*. Lady Macbeth achieved her desire, but the price paid was too high and in the end, she felt it was in no way worth it.
- Prime Minister May has secured her leadership of the Tory Party but still faces an uphill task to get her Withdrawal Bill through Parliament.** Even if she musters the support in the “meaningful vote” to approve the deal, it will still be difficult to pass the various pieces of legislation that are required to give legal effect to elements of the Withdrawal Bill, such as future budgetary contributions and the Northern Ireland backstop. **If these elements of the Withdrawal Bill are not legislated for, the exit deal will collapse, leaving the UK on course for a no-deal hard Brexit.**
- UK markets remain relatively calm as they believe that, with a large majority of MPs strongly opposed to a no-deal Hard Brexit, Parliament will not allow it to happen.** The options include a general election, seeking a short extension to Article 50 or another referendum. With the House of Commons in a logjam where no Brexit option – Withdrawal Agreement, No-Deal or Remain- can command majority support, it may be that the matter has to eventually go back to the people for a final decision in a second referendum. This would require an extension to Article 50, probably until end 2019, as it would take at least six months to go through the full referendum process.
- The Brexiteers need to proceed carefully, as should they continue to impede the passage of the Withdrawal Bill and drive the UK towards a hard Brexit, the greater is the likelihood of a second referendum.** Worse still for them, the ECJ ruling this week means that the UK Parliament can unilaterally revoke Article 50 and allow the UK to remain in the EU. This is the ultimate backstop. It all means that sterling could be in for a very volatile ride in the early part of next year.
- In terms of the week ahead, there is a busy central bank calendar with the BoE, BoJ and the Fed all due to meet.** No changes to policy are anticipated in either the UK or Japan. The BoE is seen on hold until after the Brexit uncertainty clears, while low inflation figures in Japan are expected to result in the BoJ maintaining its very accommodative monetary stance. In contrast, the consensus is that the Fed will raise rates by another 25 bps. **However, given that this move is widely anticipated, of more interest will be the FOMC’s updated interest rate projections.** Signs of weakening global growth and volatile trading conditions have led to the market’s view of the likely path for rates diverging significantly from the Fed’s own projections. Indeed, in spite of continued strong US macro data, futures contracts are pricing in just one hike next year, compared to the three that the FOMC have been guiding. Therefore, investors will be looking to see if the Fed scales back its projections on likely rate hikes.
- Data-wise, there are a number of key releases out in the UK this week, the highlight of which is the November reading of CPI.** It is envisaged that headline inflation edged down in the month to 2.3%, from 2.4%, while the core measure is anticipated to have slowed marginally to 1.8%. Meantime, retail sales are forecast to have expanded by 0.3% in month-on-month terms in November.
- November inflation data are also set to feature in the US with the Fed’s preferred measure, core PCE, due for release.** It is expected to have moved up slightly to 1.9%, from 1.8% in October. At the same time, personal consumption growth looks to have slowed in November, while remaining solid. The schedule also contains November durable goods figures as well as some updates from the housing market, including existing home sales and starts (both November), as well as the NAHB sentiment index for December.
- There is a raft of December survey due in the Eurozone, including the flash reading of the EC consumer confidence measure.** The index is projected to have declined for a second month. On a national level, the German Ifo, French INSEE and Italian ISTAT measures of business confidence are all due. It is anticipated that all three indices will dip in the month, although, given domestic turmoil in France, the fall is projected to be steeper there.



	Interest Rate Forecasts			
	Current	End Q4 2018	End Q1 2019	End Q2 2019
Fed Funds	2.125	2.375	2.625	2.875
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	1.00
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 Q4 2018	End Q1 2019	End Q2 2019
EUR/USD	1.1285	1.14	1.15	1.17
EUR/GBP	0.8993	0.89	0.87	0.86
EUR/JPY	128.21	129	129	130
GBP/USD	1.2547	1.28	1.32	1.36
USD/JPY	113.61	113	112	111

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Smets (Monday); de Guindos, Makuch, Rehn (Tuesday)		
Mon 17th	EU-19:	10.00	Final HICP (November) - Ex-Food & Energy	(+2.0%) (+1.1%) (+2.0%) (+1.1%)
	US:	13.30	NY Fed / Empire State Index (December)	23.3 20.2
	US:	15.00	NAHB Homebuilders Sentiment (December)	60 60
Tue 18th	GER:	09.00	Ifo Business Climate (December)	102.0 101.7
	US:	13.30	Housing Starts (November) - Building Permits	+1.5% / 1.228m s.a.a.r. +0.2% / 1.230m -0.4% / 1.265m +0.3% / 1.269m
	JPN:	23.50	Trade Balance (November) - Exports	-¥449.3bn (+8.2%) -¥600.3bn (+1.8%)
Wed 19th	GER:	07.00	PPI (November)	(+3.3%) (+3.2%)
	UK:	09.30	CPI (November) - Ex-Food & Energy	(+2.4%) (+1.9%) (+2.3%) (+1.8%)
	UK:	09.30	PPI Output (November) - Input	(+3.3%) (+10.0%) (+3.0%) (+4.8%)
	UK:	11.00	CBI Industrial Orders Index (December)	10 6
	US:	15.00	Existing Home Sales (November)	+1.4% / 5.22m -0.1% / 5.20m
	US:	19.00	Fed Interest Rate Announcement	2.00%-2.25% 2.25%-2.50%
	US:	19.30	Fed Press Conference	
Thurs 20th	JPN:	02.00	BoJ Interest Rate Announcement	-0.10% -0.10%
	EU-19:	09.00	Current Account (October)	€16.9bn
	UK:	09.30	Retail Sales (November)	-0.5% (+2.2%) +0.3% (+1.9%)
	UK:	11.00	CBI Distributive Trades (December)	19 17
	UK:	12.00	BoE Interest Rate Announcement - Meeting Minutes	0.75% 0.75%
	US:	13.30	Initial Jobless Claims (w/e 10th December)	206,000 222,000
	US:	13.30	Philly Fed Index (December)	12.9 15.0
	US:	15.00	Leading Indicators Index (November)	+0.1% +0.1%
	JPN:	23.30	CPI (November)	(+1.4%)
Fri 21st	UK:	00.01	GfK Consumer Confidence (December)	-13 -13
	GER:	07.00	GfK Consumer Sentiment (January)	10.4 10.3
	FRA:	07.45	INSEE Business Climate (December)	105 103
	FRA:	07.45	Consumer Spending (November)	+0.8% -0.1%
	ITA:	09.00	ISTAT Business Confidence (December)	104.4 103.6
	ITA:	09.00	Consumer Confidence (December)	114.8 114
	UK:	09.30	GDP (Q3: Final Reading)	+0.6% (+1.5%) (p) +0.6% (+1.5)
	UK:	09.30	PSNB Ex-Interventions (November)	Nov'17: £8.26bn £7.70bn
	US:	13.30	Durable Goods Orders (November)	-4.3% +1.8%
	US:	13.30	GDP (Q3: Final Reading)	+3.5% s.a.a.r. +3.5% s.a.a.r.
	US:	15.00	Personal Income / Consumption (November) - Core PCE Prices (November)	+0.5% / +0.6% (+1.8%) +0.3% / +0.3% (+1.9%)
	US:	15.00	Final Michigan Consumer Sentiment (December)	97.5 (p) 97.5
	EU-19:	15.00	Flash EC Consumer Confidence (December)	-3.9 -4.3

◆ 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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