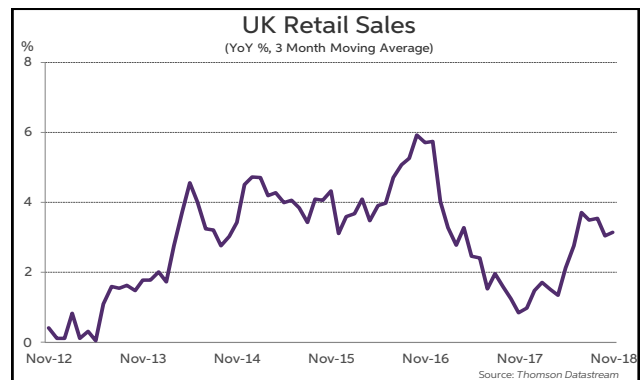


## The Real Brexit Backstop

- Brexit has returned to the headlines with a vengeance in the past week, after a lull over the Christmas period. A key development is that the UK's pro-EU Parliament has begun to assert itself, signalling its opposition to a no deal hard Brexit.** However, Parliament seems no closer to reaching agreement on what type of deal it wants to prevent a hard Brexit. There is no clear majority support for other alternatives, from the Withdrawal Agreement, to a Norway plus style close economic relationship with the EU, or a second referendum which would require an extension to the Article 50 deadline.
- The markets remain unperturbed, with sterling still range bound against the euro, despite the mounting uncertainty as we head towards the UK's scheduled EU exit date in March.** Markets are relying on the fact that the UK has a range of options that can be exercised to avoid a hard Brexit, from seeking an extension from the EU to the Article 50 period, to revoking Article 50 altogether and stopping the Brexit process, or agreeing on some form of soft Brexit deal that would also be acceptable to the EU.
- Parliament has voted that the Government must present an alternative Plan B for Brexit to it within three sitting days, if as expected, the EU Withdrawal Bill is voted down on Tuesday.** However, it is unclear what this plan will be, or how things will progress in the coming weeks. The UK Government will probably continue to press the EU for further assurances on the Northern Ireland backstop that would help assuage MPs concerns on the matter. **However, the real backstop for markets is that the pro-EU UK Parliament can prevent a no-deal hard Brexit occurring, with the most likely outcome being an extension to Article 50, if no other solution is found by March.**
- Politics aside, the UK data calendar this week includes the December reading of CPI.** The recent fall in oil prices is expected to have resulted in the headline rate of inflation edging down slightly to 2.2%, from 2.3%, while the core measure is forecast to have held at 1.8%. Meantime, the release of retail sales figures for December will also provide an update on the key consumer side of the economy. Mirroring last week's BRC survey for December, which suggested that retailers had a very difficult month, it is envisaged that sales fell sharply, with a 0.7% drop being forecast. This may in part reflect an unwinding of the 'Black Friday' boost to sales in November.
- The continued partial Federal government shutdown in the US may have implications for the data-release schedule this week.** Retail sales for December are due. Given that the data are compiled by the US Census Bureau, one of the agencies impacted by the shutdown, the release could be delayed. Should the figures be published, it is anticipated that the fall in oil prices will result in the headline measure rising by just 0.2% in the month. However, the forecast is for growth of 0.5% in underlying sales (ex-gas, autos and building materials), as a strong labour market continues to act as a support for consumer spending. Meanwhile, the flash January reading of the University of Michigan consumer sentiment index is also due. The expectation is that recent volatility on financial markets, as well as the aforementioned shutdown, will result in confidence levels dipping, albeit from a high level.
- Meantime, US industrial production figures for December will be looked to for an update on the supply side of the economy.** Output growth of 0.3% is pencilled in for the month. The Fed Beige book will be published this week and will provide a timely assessment of current economic conditions in the US ahead of the FOMC meeting at the end of this month. The Philly Fed index for January, as well as a number of house market releases (starts for December and the January printing of the NAHB index) are also due.
- In the Eurozone, the macro-data itinerary is very sparse this week.** Indeed, the only release of any note is the industrial production reading for November. Following last week's very disappointing French and German data, output is projected to have declined by 1.3%. Meanwhile, ECB President Draghi's speech to the European Parliament on Tuesday may also attract some attract, ahead of the following week's policy meeting.



	Interest Rate Forecasts			
	Current	End Q1 2019	End Q2 2019	End Q3 2019
Fed Funds	2.375	2.375	2.625	2.625
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 Q1 2019	End Q2 2019	End Q3 2019
EUR/USD	1.1481	1.16	1.17	1.18
EUR/GBP	0.8972	0.88	0.87	0.86
EUR/JPY	124.66	126	128	129
GBP/USD	1.2796	1.32	1.34	1.37
USD/JPY	108.55	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Draghi</b> (Tuesday); <b>Villeroi de Galhau</b> (Wednesday); <b>Coeure, Lautenschlager</b> (Thursday); <b>Coeure</b> (Friday)		
	<b>Fed Speakers:</b>	<b>George, Kashkari, Kaplan</b> (Tuesday); <b>Kashkari</b> (Wednesday); <b>Harker, Williams</b> (Friday)		
<b>Mon 14th</b>	<b>GER:</b> 07.00	PPI (December)	(+3.5%)	
	<b>EU-19:</b> 10.00	Industrial Output (November)	+0.2% (+1.2%)	-1.3% (-2.1%)
<b>Tue 15th</b>	<b>UK:</b>	Parliamentary Vote on the Withdrawal Agreement		
	<b>FRA:</b> 07.45	Final HICP (December)	(+1.9%)	(+1.9%)
	<b>IRL:</b> 11.00	<b>CPI (December)</b>	<b>-0.5% (0.6%)</b>	<b>+0.2% (+0.5%)</b>
	<b>IRL:</b> 11.00	<b>Goods Trade Balance (November)</b>	<b>€4.8bn</b>	<b>€3.5bn</b>
	<b>US:</b> 13.30	NY Fed / Empire State Index (January)	10.9	12.0
	<b>US:</b> 13.30	PPI (December)	(+2.5%)	(+2.5%)
	<b>JPN:</b> 23.50	Domestic Wholesale Prices (December)	(+2.3%)	(+1.8%)
	<b>JPN:</b> 23.50	Core Machinery Orders (November)	(+4.5%)	(+0.4%)
<b>Wed 16th</b>	<b>GER:</b> 07.00	Final HICP (December)	(+1.7%)	(+1.7%)
	<b>UK:</b> 09.30	CPI (December)	(+2.3%)	(+2.2%)
		- Ex-Food & Energy	(+1.8%)	(+1.8%)
	<b>UK:</b> 09.30	PPI Output (December)	(+3.1%)	(+2.4%)
		- Input	(+5.6%)	(+3.5%)
	<b>ITA:</b> 10.00	Final HICP (December)	(+1.1%)	(+1.2%)
	<b>IE:</b> 11.00	<b>Residential Property Prices (November)</b>	<b>+0.3% (+8.4%)</b>	<b>+0.4% (+8.0%)</b>
	<b>US:</b> 13.30	Import / Export Prices (December)	-1.6% / -0.9%	-1.2% / -0.6%
	<b>US:</b> 13.30	Retail Sales (December)*	+0.2%	+0.2%
		- Ex-Autos	+0.2%	+0.1%
		- Ex-Gas, Autos & Building Materials	+0.9%	+0.5%
	<b>US:</b> 15.00	NAHB Homebuilders Sentiment (January)	56	56
	<b>US:</b> 19.00	Fed Beige Book Published		
<b>Thurs 17th</b>	<b>UK:</b> 00.01	RICS House Price Survey (December)	-11	
	<b>EU-19:</b> 10.00	Final HICP (December)	(+1.6%)	(+1.6%)
		- Ex-Food & Energy	(+1.1%)	(+1.1%)
	<b>US:</b> 13.30	Housing Starts (December)*	+3.2% / 1.256m s.a.a.r.	+0.4% / 1.261m
		- Building Permits	+5.0% / 1.328m	-2.9% / 1.290m
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 7th January)	216,000	220,000
	<b>US:</b> 13.30	Philly Fed Index (January)	9.1	11.0
	<b>JPN:</b> 23.30	CPI (December)	(+0.8%)	
<b>Fri 18th</b>	<b>EU-19</b> 09.00	Current Account (November)	€26.6bn	
	<b>UK:</b> 09.30	Retail Sales (December)	+1.4% (+3.6%)	-0.7% (+3.5%)
	<b>US:</b> 14.15	Industrial Production (December)	+0.6%	+0.3%
		- Capacity Utilisation	78.5%	78.6%
	<b>US:</b> 15.00	Prelim' Michigan Consumer Sent' (January)	98.3	97.0

\* Will not be released if the partial government shutdown continues and the US Census Bureau fails to reopen

◆ 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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