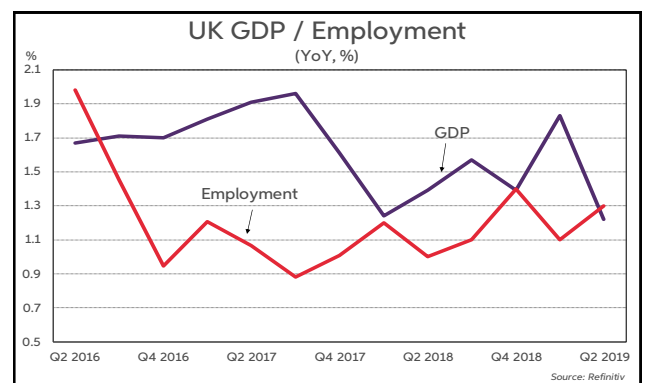


Temporary Reprieve

- Sterling regained more ground over the past week as UK lawmakers moved to close off the prospect of a no-deal Brexit at end-October** by passing legislation that would require the Prime Minister to seek a further extension to Article 50 if a deal on Brexit has not been put in place by October 19th. This is seen as greatly reducing the risk of a no-deal exit at end October, although it could still occur if the Prime Minister won a general election before then. However, it would seem that Parliament will not acquiesce to the PM's desire to have an election by mid-October.
- A UK election, though, is on the cards, if not in October, then in November.** It is hard to see an outcome to the election that would be positive for sterling. A win for the Conservative Party would greatly increase the prospect of an early, no-deal, hard Brexit. A win for the Labour Party would take a no-deal Brexit off the table, but see markets fret about the high spend, high tax, government interventionist policies of the new administration. A hung Parliament would leave a no-deal Brexit on the table as the default position if the UK can't come to a decision on the matter. Short covering in the face of a receding risk of a no-deal Brexit at end October may be providing a bounce for sterling, but downside risks remain for the currency.
- The outcome of the UK election is very hard to predict. Opinion polls have been unreliable in recent elections.** The mood of the electorate can change, as during the 2017 election. The campaign is going to be fought around Brexit and may become a rerun of the 2016 referendum. Thus, there may be a lot of tactical voting in many constituencies. Traditional political allegiances are also changing in the UK. The performance of the Brexit party is likely to be pivotal, as a strong showing would greatly damage the prospects of a win for the Conservative party. Overall, one can expect continuing uncertainty in the next couple of months as we wait to see whether a general election can break the impasse in the UK over Brexit.
- Turning to the week ahead, the highlight of the schedule is the ECB's September monetary policy meeting.** In July, the central bank provided a clear signal that given persistently subdued inflation, they intend to ease policy this week. Therefore, it is expected that a significant stimulus package will be announced in what is Mario Draghi's last meeting as ECB President. A 10bps cut in the depo rate is expected, as is a signal that the ECB could cut again. At the same time, a tiering facility may be introduced to negate the impact of negative rates on bank profitability. With regard to QE, while a number of hawkish Governing Council members have questioned the need to restart net asset purchases, it is anticipated the ECB will announce that it will resume QE before the end of the year. Updated economic forecasts will also be published.
- Data-wise, the highlight of what is a light Eurozone schedule are industrial production figures for July.** Following the release of weak German data for the month, the consensus is that output growth was flat. **Closer to home, the Q2 reading of Irish GDP is due,** though the data remain volatile and are heavily distorted by multi-national activity. Leading indicators suggest growth slowed, but remained solid.
- In the UK, the estimate of GDP for the three months to July will feature.** It is anticipated that the pace of contraction eased slightly to 0.1%, as the impact of the factory closures linked to Brexit in April washed out. Meantime, industrial production is forecast to have dipped by 0.1% in July, reflecting both Brexit related uncertainty and the weaker outlook for global growth. **The UK schedule also includes the labour market bulletin for the three months to July.** Jobs growth, which is forecast at 1.2% in year-on-year terms, looks to have continued to slightly outstrip GDP growth in the period. At the same time, the unemployment rate is projected to have held at 3.9%. Overall, it is envisaged that tight labour market conditions will see underlying wage inflation remain robust at 3.8%.
- Across the Atlantic, the US retail sales report for August is set to feature.** Retail spending was boosted by the impact of the Amazon Prime sale in July. Some pullback is therefore to be expected in August. It is anticipated that the growth rate of the headline and 'control' measures of retail sales eased to 0.2% and 0.3%, respectively. Meanwhile, the consensus is that lower energy prices will see CPI inflation hold below the 2% in August. In contrast, rising rents and medical costs look to have helped the core rate increase for a third consecutive month, pushing it to 2.3%.



| | Interest Rate Forecasts | | | |
|--|-------------------------|--------|--------|--------|
| | Current | End Q3 | End Q4 | End Q1 |
| | | 2019 | 2019 | 2020 |
| Fed Funds | 2.125 | 1.875 | 1.625 | 1.625 |
| ECB Deposit | -0.40 | -0.50 | -0.60 | -0.60 |
| 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 Q3 | End Q4 | End Q1 |
| | | 2019 | 2019 | 2020 |
| EUR/USD | 1.1048 | 1.11 | 1.12 | 1.13 |
| EUR/GBP | 0.8964 | 0.90 | 0.90 | 0.90 |
| EUR/JPY | 117.83 | 118 | 119 | 119 |
| GBP/USD | 1.2322 | 1.23 | 1.24 | 1.26 |
| USD/JPY | 106.64 | 106 | 106 | 105 |
| Current Rates Reuters, Forecasts AIB's ERU | | | | |

| Date | UK & Irish Time (GMT) | Release | Previous | Forecast |
|-------------------|-----------------------|---|------------------------|----------------------|
| This Week: | BoE Speakers: | Vlieghe (Monday); Carney (Tuesday) | | |
| Mon 9th | JPN: | 00.50 GDP (Q2: Second Reading) | +0.4% / +1.8% s.a.a.r. | +0.3% / +1.3% |
| | JPN: | 06.00 Economy Watchers' Poll (August) | 41.2 | |
| | GER: | 07.00 Trade Balance (July) | €18.1bn | €17.5bn |
| | | - Exports | -0.1% | |
| | UK: | 09.30 GDP (3 Months to July) | -0.2% (+1.0%) | -0.1% (+0.8%) |
| | UK: | 09.30 Industrial Output (July) | -0.1% (-0.6%) | -0.1% (-1.1%) |
| | | - Manufacturing | -0.2% (-1.4%) | -0.1% (-1.0%) |
| | UK: | 09.30 Goods Trade Balance (July) | -£7.01bn | -£9.55bn |
| | | - Non-EU | -£0.19bn | |
| | EU-19: | 09.30 Sentix Index (September) | -13.7 | -13.5 |
| | US: | 20.00 Consumer Credit (July) | \$14.6bn | \$16.0bn |
| Tue 10th | FRA: | 07.45 Industrial Output (July) | -2.3% | +0.5% |
| | ITA: | 09.00 Industrial Output (July) | -1.2% | -0.1% |
| | UK: | 09.30 ILO Employment (3 months to July) | +115,000 | +30,000 |
| | | - Unemployment | 3.9% | 3.9% |
| | UK: | 09.30 Average Weekly Earnings (3 months to July) | (+3.7%) | (+3.7%) |
| | | - Ex-Bonus | (+3.9%) | (+3.8%) |
| | US: | 11.00 NFIB Business Optimism (August) | 104.7 | |
| Wed 11th | US: | 13.30 PPI (August) | (+1.7%) | (+1.7%) |
| Thurs 12th | UK: | 00.01 RICS House Price Survey (August) | -9 | |
| | JPN: | 00.50 Domestic Wholesale Prices (August) | (-0.6%) | (-0.8%) |
| | JPN: | 00.50 Core Machinery Orders (July) | (+12.5%) | (-4.5%) |
| | GER: | 07.00 Final HICP (August) | (+1.0%) | (+1.0%) |
| | FRA: | 07.45 Final HICP (August) | (+1.2%) | (+1.2%) |
| | EU-19: | 10.00 Industrial Output (July) | -1.6% (-2.6%) | +0.0% (-1.3%) |
| | IRL: | 11.00 CPI (August) | -0.2% (+0.5%) | +0.4% (+0.6%) |
| | IRL: | 11.00 Residential Property Prices (July) | +0.4% (+2.0%) | +0.3% (+1.6%) |
| | EU-19: | 12.45 ECB Refi Rate Announcement | 0.00% | 0.00% |
| | | - Deposit Rate | -0.40% | -0.50% |
| | EU-19: | 13.30 ECB Press Conference | | |
| | US: | 13.30 CPI (August) | (+1.8%) | (+1.8%) |
| | | - Core | (+2.2%) | (+2.3%) |
| | US: | 13.30 Initial Jobless Claims (w/e 2nd September) | 217,000 | 219,000 |
| | US: | 19.00 Federal Budget (August) | Aug '18: -\$214bn | |
| Fri 13th | EU-19: | 10.00 Wage Growth (Q2) | (+2.5%) | |
| | IRL: | 11.00 GDP (Q2) | (+6.3%) | (+3.5%) |
| | US: | 13.30 Retail Sales (August) | +0.7% | +0.2% |
| | | - Ex-Autos | +1.0% | +0.1% |
| | | - Ex-Gas, Autos & Building Materials | +1.0% | +0.3% |
| | US: | 15.00 Prelim' Michigan Consumer Sentiment (Sept.) | 89.8 | 90.5 |

◆ 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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