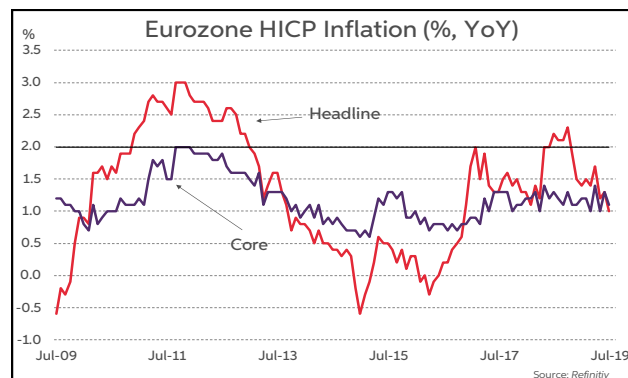


## Sterling's Summer Slide

- The risk of a no-deal Brexit has risen considerably over the summer.** This has seen the euro rise to 93p against sterling in early August from a low of 85p at the start of May. Meanwhile, sterling has fallen from above \$1.30 against the dollar to close on \$1.20. Sterling has regained a bit of ground recently, with the euro dropping back to around the 90.5p level. However, this is likely to be a temporary reprieve. With the new Prime Minister determined to take the UK out of the EU, we look to be heading for another cliff-edge Brexit date at end October. A very fraught two months lies in store in terms of UK-EU relations as efforts continue to try and avoid a hard Brexit.
- Overall, we expect sterling to remain on the back foot for the next couple of months in the run-up to the end October Brexit deadline.** There is strong support for the currency at the 93p level, so EUR/GBP may trade in a 91-93p range in the coming weeks. If the 93p level gives way, there may be some support for the currency at around 94-95p, where it traded in late 2008/early 2009. Indeed, the euro briefly rose to as high as 97.5p at end 2008 during the financial crisis at that time.
- Sterling would most likely come under even greater pressure this time around if a no-deal hard Brexit becomes an increasingly likely prospect, given that it would have very negative consequences for the UK economy.** The currency could fall by 10 per cent from current levels, hitting parity against the euro. Parliament could yet be able to prevent a no-deal Brexit at end October or the UK government and EU may be able to do a deal. Obviously, if a no deal Brexit is avoided, there would be scope for sterling to bounce, especially as market positioning is very short the currency. The euro could fall back towards the 85-86p level in these circumstances. Thus, there is a broad range for sterling forecasts, but the risks remain tilted to the downside in the near term from current levels.
- Turning to the week ahead, there is a raft of August survey data due out in the Eurozone, including the EC Economic Sentiment indices.** In contrast to the composite PMI, which edged slightly higher in August, the consensus is that the headline index declined, leaving it at a 3-year low. At a national level, business confidence indices in Germany (Ifo), France (INSEE) and Italy (ISTAT) are expected to show that sentiment remains on a weak footing in the Eurozone's three largest economies.
- This week also sees the release of the flash reading of Eurozone HICP for August.** Headline inflation has eased over the course of the year as energy prices have fallen. Most recently it decelerated to 1% in July, where it is expected to have remained in August. At the same time, the core measure is forecast to have remained close to July's 1.1% rate. Meanwhile, the unemployment rate is projected to have held at 7.5% in July.
- In the US, the July print of the Fed's preferred measure of inflation, core-PCE, is due.** In contrast to CPI, this measure of inflation held well below the Fed's 2% target rate in H1 2019, partly reflecting the impact of a number of technicalities (incl. a change in how clothing prices are recorded). It is anticipated that inflation was broadly unchanged in July, edging up to 1.7%, from 1.6%. Meanwhile, buoyed by the strong labour market, consumer spending looks to have increased by an impressive 0.5% in July. In a timelier update, the expectation is that similar to the University of Michigan measure of consumer sentiment, the Conference Board confidence index dipped in August, while remaining consistent with a robust level of consumption.
- Meantime, the only release out of any note in the UK this week is the GfK consumer confidence index for August.** It is envisaged that sentiment, which improved in July, declined as Brexit uncertainty intensified in the month. On the political front, PM Boris Johnson's participation at the G-7 Summit in Biarritz this weekend will attract some attention from sterling watchers. He is due to meet with EU Council President Donald Tusk on Sunday.
- In Ireland, the Labour Force Survey for Q2 is due.** Survey indicators in the quarter have suggested that the jobs market has continued to expand, but at a slower pace than in Q1. We anticipate that the year-on-year growth rate of employment may have slowed to a still robust 3.3%, from 3.7% in the opening quarter of the year.



	Interest Rate Forecasts			
	Current	End Q3 2019	End Q4 2019	End Q1 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 2019	End Q4 2019	End Q1 2020
EUR/USD	1.1069	1.11	1.12	1.13
EUR/GBP	0.9043	0.92	0.88	0.87
EUR/JPY	117.83	118	119	119
GBP/USD	1.2241	1.21	1.27	1.30
USD/JPY	106.43	106	106	105

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Tenreiro (Tuesday)		
	<b>ECB Speakers:</b>	de Guindos (Tuesday)		
	<b>Fed Speakers:</b>	Barkin (Wednesday)		
	<b>International:</b>	G-7 Summit (24th-26th August)		
	<b>US:</b>	Jackson Hole Economic Policy Symposium (22nd-24th August)		
<b>Mon 26th</b>	<b>UK:</b>	Market Holiday		
	<b>GER:</b> 09.00	Ifo Business Climate (August)	95.7	95.1
	<b>US:</b> 13.30	Durable Goods (July)	+1.9%	+1.1%
<b>Tue 27th</b>	<b>GER:</b> 07.00	GDP (Q2: Second Reading)	-0.1% (+0.4%)	-0.1% (+0.4%)
	<b>FRA:</b> 07.45	INSEE Business Climate (August)	101	101
	<b>FRA:</b> 07.45	Consumer Confidence (August)	102	
	<b>IRL:</b> 11.00	<b>LFS—Employment (Q2)</b>	<b>(+3.7%)</b>	<b>(+3.3%)</b>
	<b>US:</b> 14.00	Case-Shiller House Prices (June)	(+2.4%)	
	<b>US:</b> 15.00	Consumer Confidence (August)	135.7	130.0
<b>Wed 28th</b>	<b>GER:</b> 07.00	GfK Consumer Sentiment (September)	9.7	9.6
	<b>ITA:</b> 09.00	ISTAT Business Climate (August)	100.1	
	<b>ITA:</b> 09.00	Consumer Confidence (August)	113.4	
	<b>EU-19:</b> 09.00	M3 Money Supply (July)	(+4.5%)	(+4.7%)
	<b>IRL:</b> 11.00	<b>Retail Sales (July)</b>	<b>+1.2% (+0.1%)</b>	<b>+1.0% (+1.4%)</b>
<b>Thurs 29th</b>	<b>FRA:</b> 07.45	Consumer Spending (July)	-0.1%	
	<b>FRA:</b> 07.45	GDP (Q2: Second Reading)	+0.3%	+0.2%
	<b>GER:</b> 08.55	Unemployment (August)	5.0%	5.0%
	<b>EU-19:</b> 10.00	Business Climate (August)	-0.12	
	<b>EU-19:</b> 10.00	EC Economic Sentiment Index (August)	102.7	102.3
		- Industrial / Services / Consumer	-7.4 / 10.6 / -6.6	-7.4 / 10.5 / -7.1
	<b>GER:</b> 13.00	Flash HICP (August)	(+1.1%)	(+1.2%)
	<b>US:</b> 13.30	GDP (Q2: Second Reading)	+2.1% s.a.a.r.	+2.0%
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 19th August)	209,000	215,000
	<b>US:</b> 15.00	Pending Home Sales (July)	+2.8% / 108.3	+0.1% / 108.4
<b>Fri 30th</b>	<b>UK:</b> 00.01	GfK Consumer Confidence (August)	-11	-12
	<b>JPN:</b> 00.30	Unemployment / Jobs: Applicants (July)	2.3% / 1.61	2.4% / 1.61
	<b>JPN:</b> 00.50	Preliminary Industrial Output (July)	-3.3%	+0.3%
	<b>GER:</b> 07.00	Retail Sales (July)	+3.5%	-1.0%
	<b>FRA:</b> 07.45	Flash HICP (August)	(+1.3%)	(+1.3%)
	<b>ITA:</b> 09.00	Unemployment (July)	9.7%	
	<b>UK:</b> 09.30	BoE Mortgage Approvals (July)	66,440	66,367
	<b>ITA:</b> 10.00	Flash HICP (August)	(+0.3%)	
	<b>EU-19:</b> 10.00	Flash HICP (August)	(+1.0%)	(+1.0%)
		-Ex-Food & Energy	(+1.1%)	
	<b>EU-19:</b> 10.00	Unemployment (July)	7.5%	7.5%
	<b>ITA:</b> 11.00	GDP (Q2: Second Reading)	+0.0% (+0.0%)	+0.0% (+0.0%)
	<b>US:</b> 13.30	Personal Income / Consumption (July)	+0.4% / +0.3%	+0.3% / +0.5%
		- Core PCE Prices	(+1.6%)	(+1.7%)
	<b>US:</b> 15.00	Final Michigan Consumer Sentiment (August)	92.1	92.1

◆ 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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