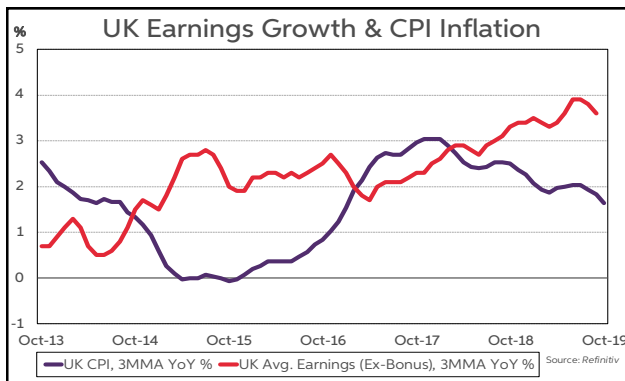


A Very Brexit Christmas & New Year

- **The strong majority outcome for the Conservative Party in the UK general election should result in the revised Withdrawal Agreement getting approved in the UK parliament over the next few weeks.** This means that the UK is on course to leave the EU in an orderly manner on January 31st 2020. The reduction in near term Brexit related uncertainty as a result of the decisive Tory victory has seen sterling trading down below the 84p level, with cable rising up toward \$1.35, before moving back down to near \$1.33. Overall, sterling has strengthened by 6.5% since October and is up by near 10% since late summer.
- **However, the focus for markets is likely to soon shift to the trade talks next year, between the EU and UK.** The outcome of these negotiations will determine the long term impact of Brexit on the UK economy. These talks could become very contentious. As we discussed last week, a lot will depend on how much so-called 'control' the UK wants on regulatory/customs procedures. The more 'control' it wants, the more difficult it will be to negotiate a comprehensive Free Trade Agreement. Therefore the risk of a hard Brexit, albeit at the end of 2020, based on WTO rules remains. This outcome would be a negative for the UK economy and for sterling. Indeed, it was noticeable on Friday morning that the overnight rally in sterling reversed, as the market started to contemplate what happens next.
- **Of course, Prime Minister Johnson is now in a very strong position, with plenty of political capital, given he has led his party to its best performance since 1987.** He is no longer relying on hardline Brexiteers within his party (ERG) or the DUP. Therefore, he could decide on a much closer trading relationship with the EU, resulting in a softer type of Brexit. This in turn would lessen the negative impact on the UK economy of its exit from the EU. Which course of action PM Johnson will take is unclear. This, combined with the fact that having a free trade type deal completed by end 2020 seems ambitious, means that sterling will remain sensitive to Brexit newsflow next year.
- **Against this backdrop, the final BoE policy meeting of the year will take place this week.** The central bank is likely to remain on hold as it waits to see what impact the aforementioned election result has on the economy. It will, though, be interesting to see if there any dissenters, as in November two members of the MPC voted for an immediate rate cut in response to a softening of the labour market and economic growth. We believe that muted growth and the likely continuation of Brexit related uncertainty may result in a 25bp rate cut next year. Markets think that the BoE may lower rates in 2020 too, but they have some way to go to fully price in a 25bp cut.

■ **Data-wise, there is also a packed schedule in the UK.** Labour market figures are projected to have remained weak, with numbers in employment forecast to have increased by only 5,000 in the 3 months to October. The consensus is that muted jobs growth will see the unemployment rate edge back up to 3.9%, while it is envisaged that underlying wage inflation may have moderated further to 3.4%, from 3.6%. Despite goods earnings growth, though, inflationary pressures remain subdued. Headline CPI is forecast to have slowed to just 1.4% in November. Decent real wage gains are expected to help retail sales increase by a solid 0.3% in November. The important flash December PMIs are also due and will likely continue to point to weak activity in the UK.



■ **In the US, it is envisaged that the Fed's preferred measure of inflation, core-PCE, will continue to point to subdued price pressures.** It is estimated to have held at 1.6%. Meantime, consumer spending, is forecast to have increased by a reasonably strong 0.4% in the same month, though the data could disappoint. On the output side of the economy, industrial production may have risen by 0.8% in November, as output rebounded following last month's GM strike. In terms of timelier indicators, the preliminary December PMIs are projected to continue to point to good US growth.

■ **Flash PMIs for December are the main releases in the Eurozone and are likely to continue to provide a downbeat assessment on the outlook for growth in the region.** Little change is anticipated in the composite index, with the expectation being that it may have edged slightly higher to 50.7, from 50.6. The projected breakdown suggests that the move in the composite will be due to a very minor improvement in the manufacturing survey. Nationally, December readings of the German Ifo, the French INSEE and the Italian ISTAT business confidence indices are all due. **Elsewhere, the Bank of Japan will meet this week.** However, in the face of subdued inflation, policy will likely be kept unchanged.

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2019	2020	2020
Fed Funds	1.625	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.50	0.50
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	End Q1	End Q2
		2019	2020	2020
EUR/USD	1.1130	1.11	1.11	1.12
EUR/GBP	0.8355	0.84	0.86	0.88
EUR/JPY	121.93	121	122	123
GBP/USD	1.3322	1.32	1.29	1.27
USD/JPY	109.53	110	110	110
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Haskel (Friday)		
	ECB Speakers:	de Guindos, Lane (Monday); Kazimir, Lane, Rehn (Tuesday); Coeure, Lagarde (Wednesday) Lane (Thursday)		
	Fed Speakers:	Kaplan, Rosengren, Williams (Tuesday); Brainard, Evans (Wednesday)		
Mon 16th	CHINA:	02.00 Industrial Output (November)	(+4.7%)	(+5.0%)
	FRA:	08.15 Flash Markit Composite PMI (December)	52.1	52.0
	GER:	08.30 Flash Markit Composite PMI (December)	49.4	49.9
	ITA:	09.00 Final HICP (November)	(+0.4%)	(+0.4%)
	EU-19:	09.00 Flash Markit Composite PMI (December) - Manufacturing / Services	50.6 46.9 / 51.9	50.7 47.3 / 52.0
	UK:	09.30 Flash CIPS / Markit Composite PMI (December) - Manufacturing / Services	49.3 48.9 / 49.3	49.6 49.3 / 49.5
	EU-19:	10.00 Wage Growth (Q3)	(+2.7%)	
	UK:	11.00 CBI Industrial Orders (December)	-26	
	US:	13.30 NY Fed / Empire State Index (December)	2.90	3.50
	US:	14.45 Flash Markit Composite PMI (December) - Manufacturing / Services	52.0 52.6 / 51.6	52.5 / 51.8
	US:	15.00 NAHB Homebuilder Sentiment (December)	70	70
Tue 17th	UK:	09.30 ILO Employment (3 Months to October) - Unemployment	-58,000 3.8%	+5,000 3.9%
	UK:	09.30 Average Weekly Earnings (3 Months to Oct.) - Ex-Bonus	(+3.6%) (+3.6%)	(+3.4%) (+3.4%)
	US:	13.30 Housing Starts (November) - Building Permits	+3.8% / 1.31m +5.0% / 1.46m	+2.3% / 1.34m -4.1% / 1.40m
	US:	14.15 Industrial Production (November) - Capacity Utilisation - Manufacturing	-0.8% 76.7% -0.6%	+0.8% 77.2% +0.7%
Wed 18th	GER:	09.00 Ifo Business Climate (December)	95.0	95.5
	UK:	09.30 CPI (November) - Ex-Food & Energy	(+1.5%) (+1.7%)	(+1.4%) (+1.7%)
	UK:	09.30 PPI Output (November) - Input	(+0.8%) (-5.1%)	(+0.8%) (-2.2%)
	EU-19:	10.00 Final HICP (November) - Ex-Food & Energy	(+1.0%) (+1.5%)	(+1.0%) (+1.5%)
Thurs 19th	JPN:	02.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	FRA:	07.45 INSEE Business Climate (December)	100	100
	UK:	09.30 Retail Sales (November)	-0.1% (+3.1%)	+0.3% (+2.1%)
	UK:	12.00 BoE Interest Rate Announcement - Meeting Minutes	0.75%	0.75%
	US:	13.30 Initial Jobless Claims (w/e 9th December)	252,000	
	US:	13.30 Philly Fed Business Index (December)	10.4	8.5
	US:	15.00 Existing Home Sales (November)	-1.9% / 5.46m	-0.2% / 5.45m
Fri 20th	UK:	00.01 GfK Consumer Confidence (December)	-14	-14
	FRA:	07.45 Consumer Spending (November)	+0.2%	+0.3%
	ITA:	09.00 ISTAT Business Confidence (December)	98.9	99.2
	UK:	09.30 GDP (Q3: Final Reading)	+0.3% (+1.0%)	+0.3% (+1.0%)
	UK:	09.30 PSNB Ex-Interventions (November)	Nov '18: £7.2bn	£6.1bn
	US:	13.30 GDP (Q3: Final Reading)	+2.1% s.a.a.r.	+2.1%
	US:	15.00 Personal Income / Consumption (November) - Core PCE Prices	+0.0% / +0.3% (+1.6%)	+0.3% / +0.4% (+1.6%)
	EU-19:	15.00 Flash Consumer Confidence (December)	-7.2	-7.0
	US:	15.00 Final Michigan Consumer Sentiment (December)	99.2	99.2

◆ 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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