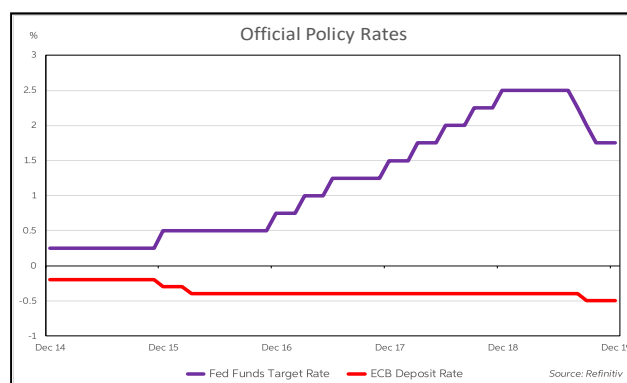


They Think It's All Over

- With less than a week to go to polling day in the UK, the markets are increasingly confident that the Conservative Party remains on course for a clear election victory.** The opinion polls have hardly moved in the past week, with the drift of support from the Liberal Democrats to Labour coming to a halt. This has left the Labour party stuck at around 33% in the polls, some 10 percentage points behind the Conservatives. This suggests a comfortable overall majority for the Tories, especially with their vote holding up in Scotland. **Sterling has gained further ground in recent days**, moving above the \$1.31 level, while the euro has fallen to around 84.5p, its lowest level against the UK currency since Q2 2017.
- Further gains by sterling seem likely in the event that the election outcome is in line with the opinion polls.** It would bring an end to a period of deep political turmoil and uncertainty in Westminster and pave the way for an orderly departure of the UK from the EU at the end of January. **However, the gains may well prove limited and short lived.** There is strong technical support for the euro at around the 83-84p level. Indeed, EUR/GBP has not traded below this level since the Brexit referendum result in June 2016. A Conservative election win is also only likely to bring short-term relief for markets on Brexit. Attention will soon shift to the tight timetable to reach a trade deal with the EU next year. The Conservative Party has ruled out any extension to the Brexit transition period beyond end 2020, pointing to the risk of another cliff-edge date for markets.
- Thus, the UK's departure from the EU at end January will not mean that Brexit is done.** The trade talks that follow are likely to prove very difficult. The more a Conservative government wants to "take back control" so that the UK can have its own regulatory and customs regime, the more limited will be any trade deal it secures. It has also indicated it wants to be able to provide state aid for British industries. **The EU has been very clear that it will insist on a level playing field in any trade deal**, so that "regulatory divergence does not turn into regulatory dumping". It has emphasised that guaranteeing and enforcing "common rules" will be a crucial part of any deal in order to protect the Single Market.
- This may be a bridge too far for a Brexit orientated Conservative government.** Such a government could even be prepared to fall back on WTO rules at the end of the transition period, rather than sign up for a trade deal that requires the UK to closely follow the rules of the Single Market. This would be very much a hard Brexit and be very negative for the UK economy and sterling. Amidst all this uncertainty, significant downward pressure could re-emerge on the UK currency next year.
- Aside from the election, this week's schedule includes some important updates on the monetary policy front. In the Eurozone, Christine Lagarde will preside over her first meeting as Head of the ECB.** No changes to policy are expected, with the Governing Council on hold as it continues to assess the impact of its policy easing. Markets are currently envisaging no more than a small 5bps final rate cut in 2020. The central bank will publish updated macro forecasts.
- The US Fed is also holding its final policy meeting of 2019.** Similarly, no policy changes are anticipated. Chair Powell is likely to continue to emphasise that the central bank is in pause mode following three successive 25bps rate cuts in its previous three meetings. Therefore, the focus will on the Fed's updated rate projections. In its most recent so-called 'dot plot' there was no member of the FOMC anticipating the fed funds rate moving below its current level of 1.625%. Interestingly, amid some risk aversion on markets last week, related to concerns over an apparent escalation in global trade tensions and some weak data, futures contracts are now pricing in nearly 40bps of further easing by the Fed.
- Given the aforementioned events, the macro data is likely to take somewhat of a backseat over the coming days.** Indeed, the release schedule is somewhat thin in terms of 'tier one' releases. **In the US, the main highlight is retail sales figures for November.** This will provide some useful insight into how the key consumer side of the economy is performing in this increasingly important month (Black Friday) for retail spending. The consensus expectation is for the headline number to register a solid 0.4% monthly increase. CPI data for November also feature in the US. **For the UK, the main release of note is GDP for the three months to end October, with a flat growth rate forecast in the period.** Meanwhile, in the Eurozone, industrial production for October is one of the only noteworthy releases.
- Closer to home, the Q3 reading of Irish GDP is due.** The data remain volatile and heavily distorted by multi-national activity. Leading indicators for the period suggest growth may have slowed, but remained at a solid pace.



	Interest Rate Forecasts			
	Current	End Q4 2019	End Q1 2020	End Q2 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 2019	End Q1 2020	End Q2 2020
EUR/USD	1.1099	1.10	1.11	1.12
EUR/GBP	0.8450	0.84	0.86	0.88
EUR/JPY	120.53	121	122	123
GBP/USD	1.3133	1.31	1.29	1.27
USD/JPY	108.59	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	Fed Speakers:	Williams (Friday)		
Mon 9th	JPN: 05.00	Economy Watchers' Poll (November)	36.7	
	GER: 07.00	Trade Balance (October)	€19.2bn	€19.0bn
		- Exports	+1.5%	-0.3%
	EU-19: 09.30	Sentix Index (December)	-4.5	-4.9
Tue 10th	FRA: 07.45	Industrial Output (October)	+0.3%	+0.2%
	ITA: 09.00	Industrial Output (October)	-0.4%	-0.3%
	UK: 09.30	GDP (3 Months to October)	+0.3% (+0.9%)	0.0% (+0.7%)
	UK: 09.30	Industrial Output (October)	-0.3% (-1.4%)	+0.2% (-1.2%)
		- Manufacturing	-0.4% (-1.8%)	0.0% (-1.5%)
	UK: 09.30	Goods Trade Balance (October)	-£12.54bn	-£11.6bn
		- Non-EU	-£4.03bn	-£3.6bn
	GER: 10.00	ZEW Economic Sentiment Index (December)	-2.1	0.0
	US: 11.00	NFIB Business Optimism (November)	102.4	101.0
Wed 11th	US: 13.30	CPI (November)	(+1.8%)	(+2.0%)
		- Core (Ex-Food & Energy)	(+2.3%)	(+2.3%)
	US: 19.00	Fed Interest Rate Announcement	1.50-1.75%	1.50-1.75%
	US: 19.30	Fed Press Conference		
	US: 19.00	Federal Budget (November)	Nov '18: -\$205bn	
	JPN: 23.50	Core Machinery Orders (October)	(+5.1%)	(-1.8%)
Thurs 12th	UK:	Voting in UK General Election		
	UK: 00.01	RICS House Price Survey (November)	-5	-5
	GER: 07.00	Final HICP (November)	(+0.9%)/(+1.2%) (p)	(+1.2%)
	FRA: 07.45	Final HICP (November)	(+0.9%)/(+1.2%) (p)	(+1.2%)
	EU-19: 10.00	Industrial Production (October)	+0.1% / (-1.7%)	-0.3% / (-2.4%)
	IRL: 11.00	CPI (November)	-0.3% (+0.7%)	-0.2% (+1.0%)
	IRL: 11.00	Residential Property Prices (October)	+0.1% (+1.1%)	0.0% (+0.9%)
	EU-19: 12.45	ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.50%	-0.50%
	US: 13.30	Initial Jobless Claims (w/e 2nd December)	203,000	211,000
	US: 13.30	PPI (November)	(+1.1%)	(+1.2%)
	JPN: 23.50	Tankan Big Manufacturing Index (Q4)	5	2
		- Non-Manufacturing	21	16
Fri 13th	IRL: 11.00	GDP (Q3)	(+5.8%)	(+3.5%)
	US: 13.30	Retail Sales (November)	+0.3%	+0.4%
		- Ex-Autos	+0.2%	+0.4%
		- Ex-Gas, Autos & Building Materials	+0.3%	+0.4%

◆ 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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