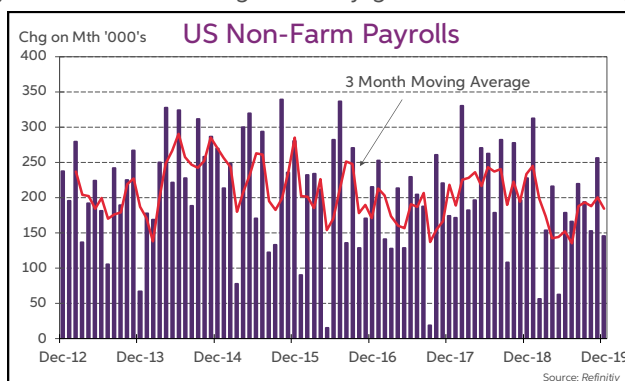


The Final Countdown

- The UK's departure from the EU has turned into a tame enough affair in the end.** The eleven month transition period to end 2020 that now follows means that the impact of what is a momentous decision will not be felt until next year and beyond. For now, nothing really changes. It is still very unclear what Brexit will mean for the UK and by association economies like Ireland with which it has a close economic and trading relationship. The negotiations on the future relationship between the UK and EU that take place this year will determine the true nature and impact of Brexit, especially in regard to trade. Markets seems relaxed about the outcome of these talks. The recent strength and stability of sterling, as well as the gains made by UK stocks in the past few months, point to expectations of a benign outcome to the negotiations, with little damage to the economy from Brexit.
- The EU Trade Commissioner Phil Hogan, on the other hand, is not so relaxed, warning this week that a "crash-out" Brexit was still a possibility at the end of December and that people need to wake up to that reality.** He warned against complacency, saying it does not seem to be widely appreciated that we are starting the most difficult part of the negotiations. The view of the EU is that it will be virtually impossible to negotiate a full comprehensive trade deal with the UK in less than a year. The UK government, though, wants accelerated talks and has ruled out an extension to the transition period beyond end 2020, saying a deal can be done within this time frame.
- The EU and UK have very different views on what a trade deal will look like.** The EU is insistent on a level playing field for trade, close regulatory alignment and no regulatory dumping. The UK is clear that it will no longer be an EU rule taker and there will not be regulatory alignment, with the Chancellor telling businesses to adjust to a future where Britain no longer adheres to EU rules and regulations. There is a real risk that what replaces the Single Market for the UK when the transition period ends, is a much inferior EU-UK trade deal or, indeed, no trade deal at all, given the UK government's focus on 'taking back control' and moving away from the EU's regulatory regime. This could pave the way for what would effectively be a hard Brexit at end 2020, when the transition period expires. The UK would be out of the Customs Union and Single Market, with just limited access to EU markets, in effect a hard Brexit. Thus, there is plenty of scope for volatility in UK markets this year if the talks with the EU start to run into serious difficulties, with sterling likely to come under pressure once again.
- Turning to the week ahead, the highlight of a quiet macro schedule is the release of the US employment report for January.** It is envisaged that non-farm payrolls expanded by a solid 165k, slightly below 2019's average monthly gain of 176k. However, given the late stage of the US economic cycle, with the current expansion now the longest on record, it still represents a very healthy rate of employment growth. Indeed, if payroll growth remains at close to that level this year, the jobless rate will most likely continue to edge lower. Although, this month it is forecast to have held at its 50-year low of 3.5%. Despite tight labour market conditions, earnings growth has yet to accelerate. In January, wage inflation is projected to have moved back up to the 3% level it has hovered around since the summer of 2018.
- The January ISMs are also due for release in the US this week.** In contrast to the PMIs, the manufacturing index has been consistent with contraction since July. It is not clear what is behind the divergence, but the ISM has understated growth in the sector over this period. In January, the index is projected to have improved, but to have remained below the key 50 level at 48.5. The shutdown of production of the Boeing 737 Max may also pose some downside risk to this forecast. Meantime, the services ISM is anticipated to have been broadly unchanged at 55.2, remaining consistent with good growth in the sector.
- In the Eurozone, the focus will be on national data.** German industrial production figures for December feature and will be looked to for any sign of a bottoming out of the downturn in the sector. Output rose by 1.1% in November, but the consensus is that it returned to its downward trend with a decline of 0.2% pencilled in. French industrial production is anticipated to have contracted by 0.3% in December. Meanwhile, the Eurozone retail sales report for December is the only other release of any note. Sales are forecast to have fallen by 0.4%, having risen by 1% in November. On the monetary policy front, Christine Lagarde is due to speak a number of times this week but we do not expect any fresh policy insights.
- Meanwhile, there is a very sparse look to the UK macro diary.** Indeed, the only data due of any significance are the final readings of the PMIs for January and the Halifax house price index for the same month.



	Interest Rate Forecasts			
	Current	End Q1 2020	End Q2 2020	End Q3 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	0.75	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 Q1 2020	End Q2 2020	End Q3 2020
EUR/USD	1.1048	1.12	1.13	1.14
EUR/GBP	0.8402	0.86	0.87	0.89
EUR/JPY	120.25	123	124	125
GBP/USD	1.3148	1.30	1.30	1.28
USD/JPY	108.82	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos, Lagarde (Monday); de Guindos, Lane, Lagarde (Wednesday); de Guindos Lagarde (Thursday)		
	Fed Speakers:	Bostic (Monday); Brainard (Wednesday); Kaplan, Quarles (Thursday)		
	Ireland:	General Election 2020 (Saturday - February 8th)		
Mon 3rd	IRL:	01.01	AIB Manufacturing PMI (January)	49.5
	CHINA:	01.45	Caixin Manufacturing PMI (January)	51.5
	EU-19:	09.00	Final Markit Manufacturing PMI (January)	46.3 / 47.8 (p)
	UK:	09.30	Final CIPS / Markit Manufacturing PMI (January)	47.5 / 49.8 (p)
	US:	14.45	Final Markit Manufacturing PMI (January)	52.4 / 51.7 (p)
	US:	15.00	Construction Spending (December)	+0.6%
	US:	14.00	Manufacturing ISM (January)	47.2
Tue 4th	UK:	09.30	CIPS / Markit Construction PMI (January)	44.4
	ITA:	10.00	Preliminary HICP (January)	(+0.5%)
	EU-19:	10.00	PPI (December)	(-1.4%)
	IRL:	11.00	Unemployment (January)	4.8%
	US:	15.00	Factory Orders (December)	-0.7%
	IRL:	16.30	Exchequer Returns (January)	Jan '19: €1.6bn
Wed 5th	IRL:	01.01	AIB Services PMI (January)	55.9
	CHINA:	01.45	Caixin Services PMI (January)	52.5
	ITA:	08.45	Markit Composite PMI (January)	49.3
	FRA:	08.50	Final Markit Composite PMI (January)	52.0 / 51.5 (p)
	GER:	08.55	Final Markit Composite PMI (January)	50.2 / 51.1 (p)
	EU-19:	09.00	Final Markit Composite PMI (January)	50.9 / 50.9 (p)
			- Services	52.8 / 52.2 (p)
	UK:	09.30	Final CIPS / Markit Composite PMI (January)	49.3 / 52.4 (p)
			- Services	50.0 / 52.9 (p)
	EU-19:	10.00	Retail Sales (December)	+1.0% (+2.2%)
	US:	13.30	International Trade (December)	-\$43.1bn
	US:	14.45	Final Markit Composite PMI (January)	52.7 / 53.1 (p)
			- Services	52.8 / 53.2 (p)
	US:	15.00	Non-Manufacturing ISM (January)	55.0
			- Business Activity	57.2
Thurs 6th	GER:	07.00	Industrial Orders (December)	-1.3%
	IRL:	11.00	Live Register (January)	-1,100/185,300
	US:	13.30	Initial Jobless Claims (w/e 27th January)	216,000
Fri 7th	GER:	07.00	Industrial Output (December)	+1.1%
	GER:	07.00	Trade Balance (December)	€18.3bn
			- Exports	-2.3%
	FRA:	07.45	Industrial Output (December)	+0.3%
	FRA:	07.45	Trade Balance (December)	-€5.6bn
	UK:	08.30	Halifax House Price Index (January)	(+4.0%)
	US:	13.30	Non-Farm Payrolls (January)	+145,000
			- Unemployment	3.5%
			- Average Earnings	(+2.9%)

◆ 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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