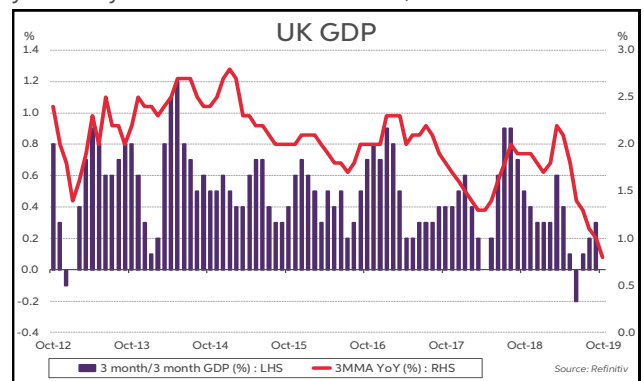


Dead Calm

- Investors seem very complacent entering 2020 after a stellar year across all markets in 2019, as evidenced by low volatility levels, the strength of stock markets, tightness of credit spreads and range trading in bond and currency markets.** Thus, they are ill-prepared for shocks, meaning markets are vulnerable to unexpected bad news, especially on the economic front. In this regard, the easing of monetary policy by central banks in 2019 would seem to have significantly reduced investors' fears of a continuing slowdown in economic activity and possible recession in 2020.
- The growing optimism about the global economy, though, may be misplaced, especially given the continuing softness of international trade and manufacturing activity.** The latest survey data show that the manufacturing sector remained weak at the end of 2019. It is welcome news that the headline Global Composite PMI picked up for the second month in a row in December. However, the new export orders component continued to contract, reflecting ongoing weakness in international trade, a major headwind for economies last year. In this regard, we could see growing trade disagreements and tensions between the US and EU in 2020, while tensions between the US and China may persist, despite the agreement reached on 'Phase One' of a trade deal.
- Another issue that markets have become becalmed on is Brexit. Investors currently seem quite relaxed about Brexit, with the UK set for an orderly departure from the EU at end January.** Thus, sterling has recovered significant ground. However, the EU-UK trade talks this year are likely to prove fractious and difficult, with the risk of just a limited trade deal or even no deal by end 2020, in effect a delayed hard Brexit. We see further Brexit uncertainty and difficult trade talks weighing on sterling and the UK economy this year, with another cliff-edge date possible at end 2020. A further political risk in 2020 is the US presidential election. This may see increased uncertainty in markets as the year progresses given the election result, which is likely to be close, could have a big bearing on regulation, tax policy and environmental issues. Overall then, while markets are becalmed at present, they are likely to encounter some choppy waters before too long.
- This week, a number of key UK releases are due, including the latest monthly estimate of GDP.** The economy has lost considerable momentum recently, with growth flat in the three months to October. The available data suggest that there was no improvement in November, with the composite PMI in recessionary territory in the month. As a result, the forecast is for a 0.1% contraction in GDP in the three months to November, leaving the year-on-year rate at just 0.6%. Industrial production is projected to have declined by 0.2% in November. **UK inflation figures for December are also out this week.** Headline CPI is expected to have held at 1.5%, while the core measure is put at 1.6%, down from 1.7%. Meanwhile, with both the Black Friday and Cyber Monday sales events falling within the survey period, retail sales are forecast to have increased by a robust 0.7% in December.
- In the US, the December print of CPI is also due this week.** The core rate is anticipated to have held at 2.3% in December. Base effects, which will see the drag from lower energy prices continue to abate, may help headline inflation pick up to 2.3%, from 2.1%. Meantime, it is envisaged that 'Cyber Monday' could provide a small boost to retail sales, with the headline and control measures expected to have risen by a robust 0.5% and 0.4%, respectively. Industrial production is forecast to have been flat in December, having rebounded strongly in November as the GM strike came to an end. It is worth noting that Boeing's decision to halt production of the 737 Max will have a negative impact on output in the coming months. The latest batch of housing market data are also due for release, including December building permits and housing starts. In terms of survey data, we get the January readings of the Philly Fed, Michigan Consumer Sentiment and the NAHB Homebuilder Sentiment indices. The publication of the Fed's Beige Book will also attract attention ahead of this month's FOMC meeting.
- The Eurozone calendar has a sparse look to it.** The main data highlight will be November industrial production figures. The national data published to-date suggest output may have increased by 0.3%, though this would still leave the year-on-year growth rate down at -1.2%. Full year German GDP data for 2019 are also due. Meanwhile, the ECB will publish its account of the December Governing Council meeting on Thursday, while President Lagarde is down to speak on the same day. However, we do not anticipate there being any fresh policy insights. **Elsewhere, the Q4 print of Chinese GDP will warrant some attention.** Growth is forecast to have held at 6% in year-on-year terms, though the usual caveat applies when viewing these data.



	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	0.50	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 Q1 2020	End Q2 2020	End Q3 2020
EUR/USD	1.1109	1.11	1.12	1.13
EUR/GBP	0.8497	0.86	0.88	0.89
EUR/JPY	121.77	122	123	124
GBP/USD	1.3073	1.29	1.27	1.27
USD/JPY	109.58	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Cunliffe (Wednesday)		
	ECB Speakers:	Mersch (Tuesday); Lagarde (Thursday)		
	Fed Speakers:	Bostic, Rosengren (Monday); George, Williams (Tuesday) Harker, Kaplan (Wednesday); Bowman (Thursday); Harker, Quarles (Friday)		
Mon 13th	UK:	09.30 GDP (3 Months to November)	+0.0% (+0.7%)	-0.1% (+0.6%)
	UK:	09.30 Industrial Output (November)	+0.1% (-1.3%)	-0.2% (-1.4%)
		- Manufacturing	+0.2% (-1.3%)	-0.3% (-1.7%)
	UK:	09.30 Goods Trade Balance (November)	£14.48bn	£11.70bn
		- Non-EU	£5.73bn	£3.50bn
Tue 14th	JPN:	05.00 Economy Watchers' Poll (December)	39.4	
	US:	11.00 NFIB Business Optimism (December)	104.7	
	US:	13.30 CPI (December)	(+2.1%)	(+2.3%)
		- Core (Ex-Food & Energy)	(+2.3%)	(+2.3%)
Wed 15th	FRA:	07.45 Final HICP (December)	(+1.6%)	(+1.6%)
	GER:	07.00 Full Year GDP Estimate (2019)	(+1.5%)	(+0.6%)
	UK:	09.30 CPI (December)	(+1.5%)	(+1.5%)
		- Core (Ex-Food & Energy)	(+1.7%)	(+1.6%)
	UK:	09.30 PPI Output (December)	(+0.5%)	(+1.0%)
		- Input	(-2.7%)	(-0.7%)
	EU-19:	10.00 Trade Balance (November)	€24.5bn	
	EU-19:	10.00 Industrial Production (November)	-0.5% (-2.2%)	+0.3% (-1.2%)
	IRL:	11.00 Residential Property Prices (November)	+0.1% (+0.9%)	+0.0% (+1.2%)
	US:	13.30 NY Fed / Empire State Index (January)	3.50	3.50
	US:	13.30 PPI (December)	(+1.1%)	(+1.3%)
	US:	19.00 Fed's Beige Book Published		
	JPN:	23.50 Domestic Wholesale Prices (December)	(+0.1%)	(+0.9%)
	JPN:	23.50 Core Machinery Orders (November)	(-6.1%)	(-5.4%)
Thurs 16th	GER:	07.00 Final HICP (December)	(+1.5%)	(+1.5%)
	IRL:	11.00 CPI (December)	-0.1% (+1.1%)	+0.0% (+1.1%)
	EU-19:	12.30 ECB's Account from December Meeting Published		
	US:	13.30 Initial Jobless Claims (w/e 6th January)	214,000	220,000
	US:	13.30 Philly Fed Index (January)	0.3	3.9
	US:	13.30 Retail Sales (December)	+0.2%	+0.5%
		- Ex-Autos	+0.1%	+0.3%
		- Ex-Gas, Autos & Building Materials	+0.1%	+0.4%
	US:	15.00 NAHB Homebuilder Sentiment (January)	76	75
Fri 17th	CHINA:	02.00 Industrial Output (December)	(+6.2%)	(+5.8%)
	CHINA:	02.00 GDP (Q4)	(+6.0%)	(+6.0%)
	GER:	07.00 PPI (December)	(-2.5%)	
	UK:	09.30 Retail Sales (December)	-0.6% (+1.0%)	+0.7% (+2.7%)
	ITA:	10.00 Final HICP (December)	(+0.5%)	(+0.5%)
	EU-19:	10.00 Final HICP (December)	(+1.3%)	(+1.3%)
		- Ex-Food & Energy	(+1.3%)	(+1.3%)
	US:	13.30 Housing Starts (December)	+3.2% / 1.365m	+0.5% / 1.372m
		- Building Permits	+0.9% / 1.474m	-0.3% / 1.469m
	US:	14.15 Industrial Production (December)	+1.1%	+0.0%
		- Capacity Utilisation	77.3%	77.2%
		- Manufacturing	+1.1%	-0.2%
	US:	15.00 Prelim' Michigan Consumer Sentiment (Jan.)	99.3	99.3

◆ 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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