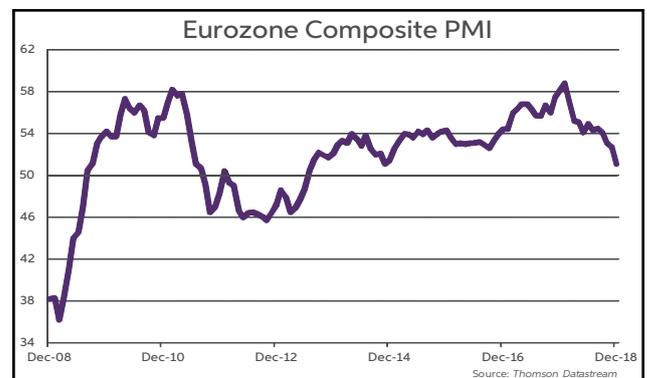


## Much to Mull

- Sterling has made good gains in the past week amidst all the political turmoil in the UK over Brexit, rising to close to \$1.30 against the dollar, with the euro dropping back below 88p.** This is despite the fact that we are no nearer to finding a way out of the Brexit maze, with UK politicians on all sides digging in their heels and showing no signs of making the compromises needed to secure an orderly exit from the EU. It is unlikely that the next Brexit vote in Parliament, scheduled for January 29th, will see much progress.
- The markets are comforted by the fact that if the stalemate persists, the UK is likely to seek and be granted an extension to Article 50 to delay Brexit.** However, this may be for only a short period of time. A no-deal hard Brexit represents the default option if UK politicians cannot agree on an alternative. The shenanigans of the past week hardly inspire confidence, but the markets obviously think that the politicians will find a path out of the Brexit mess in the coming months. **This is likely to be a fraught process and it would be no surprise if sterling surrendered some of its recent gains in the meantime.**
- The ECB Governing Council has also plenty to mull about when it meets this week.** The economic data out of the Eurozone continue to disappoint, with particularly weak industrial output and PMI figures for November and December, respectively. The economy lost momentum over the course of 2018, with GDP increasing by just 0.2% in the third quarter. Good retail figures for October and November suggest the economy continued to expand in the fourth quarter, but at a very weak rate.
- The ECB forecasts published in December were for the Eurozone economy to grow by 1.7% in 2019, but this is very unlikely to be met.** Even if growth re-accelerates, GDP is unlikely to increase by more than 1.3% this year and it could be lower. The Governing Council has been guiding that interest rates are on hold “at least through the summer of 2019”. **It is hard to see interest rates being increased at all this year given the weaker than expected economic backdrop.** Thus, markets will be looking to the post-meeting statement and press conference on Thursday to see if there is any change from the ECB on its guidance for the future path of interest rates.
- Meantime, a plethora of Eurozone survey data are due for release this week.** In terms of updates on the output side of the economy, the flash January PMIs are expected to show that growth may have regained some momentum at the start of Q1 2019. The consensus is for the composite index to have moved up to 51.5, from 51.1, largely due to an improvement in the French data. On a national level, we get the January printings of the German Ifo and French INSEE measures of business confidence. Both are anticipated to have dipped slightly in the month. The flash January reading of the EC’s measure of consumer confidence is also set to feature, with sentiment projected to have edged down for a fourth consecutive month.
- Turning to the UK, the macro schedule includes a raft of labour market data for the three month period to November.** The YoY employment growth picked up somewhat to 1.2% in the three month period to October, but it is expected to have moderated to 0.9% in November. Meantime, the unemployment rate is expected to have held at 4.1%. The lack of slack in the labour market will also likely see underlying earnings maintaining their over 3.0% growth rate.
- In the US, the partial federal government shutdown means a number of planned data releases will not be published, including durable goods and new home sales (both December).** However, we will still get the flash PMIs for January. It is envisaged that the continuing trade tensions between the US and China, as well as the aforementioned shutdown, will result in both the manufacturing and service sector indices dipping in the month.
- Elsewhere this week, the BoJ will hold a policy meeting.** The market consensus is that there are unlikely to be any changes to policy announced. **Meanwhile, Chinese GDP data for Q4 will be of some interest.** While the usual caveat applies when viewing Chinese figures, the release will be looked for any evidence of the impact of the US-Sino trade war on activity. The consensus is for the year-on-year growth rate to have slowed to 6.4%, from 6.5% in Q3.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2019	2019	2019	2019
Fed Funds	2.375	2.375	2.625	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	1.00
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	End Q2	End Q3
	2019	2019	2019	2019
EUR/USD	1.1382	1.16	1.17	1.18
EUR/GBP	0.8819	0.88	0.87	0.86
EUR/JPY	124.63	126	128	129
GBP/USD	1.2905	1.32	1.34	1.37
USD/JPY	109.48	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Coeure (Friday)		
<b>Mon 21st</b>	<b>US:</b>	Martin Luther King Day (Market Holiday)		
	<b>CHINA:</b> 02.00	GDP (Q4)	(+6.5%)	(+6.4%)
	<b>CHINA:</b> 02.00	Industrial Output (December)	(+5.4%)	(+5.3%)
	<b>GER:</b> 07.00	PPI (December)	(+3.3%)	(+2.9%)
<b>Tue 22nd</b>	<b>UK:</b> 09.30	ILO Employment (3 months to November) - Unemployment	+79,000 4.1%	+90,000 4.1%
	<b>UK:</b> 09.30	Average Weekly Earnings (3 months to Nov) - Ex-Bonus	(+3.3%) (+3.3%)	(+3.3%) (+3.3%)
	<b>UK:</b> 09.30	PSNB Ex-Interventions (December)	Dec'17: £1.89bn	£1.9bn
	<b>GER:</b> 10.00	ZEW Economic Sentiment (January)	-17.5	-18.3
	<b>US:</b> 15.00	Existing Home Sales (December)	+1.9% / 5.32m	-1.3% / 5.25m
	<b>JPN:</b> 23.50	Trade Balance (December) - Exports	-¥737.7bn (+0.1%)	-¥29.5bn (-1.9%)
<b>Wed 23rd</b>	<b>JPN:</b> 02.00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>FRA:</b> 07.45	INSEE Business Climate (January)	104	103
	<b>UK:</b> 11.00	CBI Industrial Orders Index (January)	8	5
	<b>EU-19</b> 15.00	Flash EC Consumer Confidence (January)	-6.2	-6.5
<b>Thurs 24th</b>	<b>FRA:</b> 08.15	Flash Markit Composite PMI (January)	48.7	50.9
	<b>GER:</b> 08.30	Flash Markit Composite PMI (January)	51.6	51.9
	<b>EU-19:</b> 09.00	Flash Markit Composite PMI (January) - Manufacturing / Services	51.1 51.4 / 51.2	51.4 51.4 / 51.5
	<b>EU-19:</b> 12.45	ECB Refi Rate Announcement - Deposit Rate	0.00% -0.40%	0.00% -0.40%
	<b>EU-19:</b> 13.00	ECB Press Conference		
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 14th January)	213,000	220,000
	<b>US:</b> 14.45	Flash Markit Composite PMI (January) - Manufacturing / Services	54.4 53.8 / 54.4	53.5 / 54.2
	<b>US:</b> 15.00	Leading Indicators Index (December)	+0.2%	+0.0%
<b>Fri 25th</b>	<b>GER:</b> 09.00	Ifo Business Climate (January)	101.0	100.6
	<b>UK:</b> 11.00	CBI Distributive Trades (January)	-13	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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