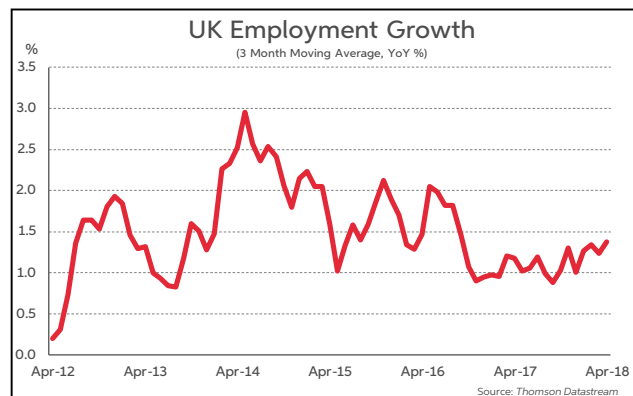


Waiting for Brexit

- Brexit dominated much of the headlines over the past week.** However, it was noticeable that the EUR/GBP rate was underwhelmed by the flurry of news. The pair spent the period in a very tight 88-89p range. It may be the case that despite the uncertainty that surrounds the UK's post-Brexit trade relations with the EU, as well as the heightened worries over the stability of Theresa May's government, the market took comfort from the fact that the proposals represent a move towards a 'soft' Brexit.
- 'Uncertainty' remains very much the buzzword to describe the whole Brexit process.** The UK's current proposals will not be acceptable to the EU, although they do at least provide a starting point for negotiations. The UK will need to make further concessions in order to make progress on getting an agreement. Time is in short supply to get this sorted before the end of the year. However, it is not clear if the current proposals will be able to withstand the divisions within the Conservative Party, never mind accepting concessions demanded by the EU. Even then, **if the UK and EU can finally agree on a final Withdrawal Agreement, the Prime Minister could face huge difficulty in getting it through parliament.**
- Overall, it seems likely then that EUR/GBP will continue to trade in the 87-89p range that it has mostly occupied since last September, until markets get a clear picture on the outcome of the Brexit talks.** If it becomes increasingly probable that a soft Brexit is on the cards, then sterling should make gains, with EUR/GBP moving down to 85p. On the other hand, if the talks run into real difficulties and a 'hard' Brexit is in prospect, the EUR/GBP could move up towards 95p or above.
- Politics aside, there will be plenty of focus on the UK this week, with a raft of important labour market updates for the three months to May due.** Employment rose by a strong 146k in April, corresponding to 1.4% yearly growth, its best rate since Q3 2016. A similar 150k result for the period to May is forecast. **The unemployment rate is expected to have held at 4.2%, its lowest level since 1975.**
- Thus, the indications are that there is limited slack in the jobs market. However, wage growth has remained relatively muted. **Weekly earnings growth is forecast at 2.5%.** Meantime, CPI inflation is anticipated to edge up to 2.6% in June, meaning real wage growth remains broadly flat. Retail sales are expected to increase again in June, indicating household spending may have picked-up in Q2.
- Retail sales for June also feature in the US, with another solid monthly increase anticipated.** Thus, we could see sales grow by around 1.5% in Q2, up from 0.4% in Q1. This augers well for consumer spending growth in Q2. Meanwhile, industrial production is forecast to improve in June, after declining slightly in May. The NY and Philly Fed indices for July offers a timelier look at the output sector. **In terms of monetary policy, the semi-annual testimony of Fed Chair Powell to congress will provide a insight into the Central Bank's current thinking.**
- There is a very sparse schedule in the Eurozone, with no releases of note due.** Elsewhere, Chinese GDP data for Q2 will be of some interest. Year-on-year growth in the world's second largest economy is forecast to remain very strong at 6.7%. **In Ireland, Q1 GDP is finally due for release.** Data in the quarter were largely encouraging, though severe weather conditions in March did have a negative impact on activity. Overall though, **we think that GDP growth remained strong, perhaps around 4-5% in year-on-year terms.**



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|--------|--------|--------|
| | Current | End Q3 | End Q4 | End Q1 |
| | | 2018 | 2018 | 2019 |
| Fed Funds | 1.875 | 2.125 | 2.375 | 2.375 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| BoE Repo | 0.50 | 0.75 | 0.75 | 0.75 |
| 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 Q3 | End Q4 | End Q1 |
| | | 2018 | 2018 | 2019 |
| EUR/USD | 1.1641 | 1.17 | 1.19 | 1.21 |
| EUR/GBP | 0.8842 | 0.88 | 0.87 | 0.86 |
| EUR/JPY | 130.99 | 129 | 129 | 129 |
| GBP/USD | 1.3163 | 1.33 | 1.37 | 1.41 |
| USD/JPY | 112.51 | 110 | 108 | 107 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|--------------------------|---|------------------------|-----------------------|
| This Week: | ECB Speakers: | Cœuré (Thursday) | | |
| | Fed Speakers: | Powell (Tuesday); Powell (Wednesday); Bullard (Friday) | | |
| | BoE Speakers: | Carney (Tuesday) | | |
| Mon 16th | JPN: | Marine Day (Market Holiday) | | |
| | CHINA: 03.00 | GDP (Q2) | (+6.8%) | (+6.7%) |
| | CHINA: 03.00 | Industrial Output (June) | (+6.8%) | (+6.5%) |
| | EU-19: 10.00 | International Trade Balance (May) | €16.7bn | |
| | IRL: 11.00 | Goods Trade Balance (May) | €4.5bn | €4.0bn |
| | US: 13.30 | NY Fed/Empire State Index (July) | 25.0 | 22.0 |
| | US: 13.30 | Retail Sales (June) | +0.8% | +0.5% |
| | | - Ex-Autos | +0.9% | +0.4% |
| | | - Ex-Gas, Autos & Building Materials | +0.5% | +0.4% |
| Tue 17th | UK: 09.30 | ILO Unemployment (3 Months to May) | 4.2% | 4.2% |
| | | - Employment | +146,000 | +150,000 |
| | UK: 09.30 | Average Weekly Earnings (3 Months to May) | (+2.5%) | (+2.5%) |
| | | - Ex-Bonus | (+2.8%) | (+2.7%) |
| | ITA: 10.00 | Final HICP (June) | (+1.5%) (p) | (+1.5%) |
| | US: 14.15 | Industrial Production (June) | -0.1% | +0.5% |
| | | - Capacity Utilisation | 77.9% | 78.2% |
| | US: 15.00 | NAHB Homebuilders Sentiment (July) | 68 | 69 |
| | US: 15.00 | Fed Chair Powell Delivers Semi-Annual Testimony to Senate Banking Committee | | |
| Wed 18th | UK: 09.30 | CPI (June) | (+2.4%) | (+2.6%) |
| | | - Ex-Food & Energy | (+2.1%) | (+2.2%) |
| | UK: 09.30 | PPI Output (June) | (+2.9%) | (+3.1%) |
| | | - Input | (+9.2%) | (+10.1%) |
| | EU-19: 10.00 | Final HICP (June) | (+2.0%) (p) | (+2.0%) |
| | | - Ex-Food & Energy | (+1.2%) (p) | (+1.2%) |
| | US: 13.30 | Housing Starts (June) | +5.0% / 1.35m s.a.a.r. | -2.2% / 1.32m |
| | | - Building Permits | -4.6% / 1.30m s.a.a.r. | +3.1% / 1.34m |
| | US: 15.00 | Fed Chair Powell Delivers Semi-Annual Testimony to House Financial Services Committee | | |
| | US: 19.00 | Fed Beige Book Published | | |
| Thurs 19th | JPN: 00.50 | Trade Balance (June) | -¥578.3bn | ¥534.2bn |
| | | - Exports | (+8.1%) | (+7.0%) |
| | UK: 09.30 | Retail Sales (June) | +1.3% (+3.9%) | +0.4% (+3.9%) |
| | IRL: 11.00 | GDP (Q1) | (+8.4%) | (+4.5%) |
| | US: 13.30 | Initial Jobless Claims (w/e 14th July) | 214,000 | 222,000 |
| | US: 13.30 | Philly Fed Index (July) | 19.9 | 22.0 |
| | US: 15.00 | Leading Indicators Index (June) | +0.2% / 109.5 | +0.4% / 109.9 |
| Fri 20th | JPN: 00.30 | CPI (June) | (+0.7%) | |
| | GER: 07.00 | PPI (June) | (+2.7%) | (+2.9%) |
| | EU-19: 09.00 | Current Account (May) | €28.4bn | |
| | UK: 09.30 | PSNB Ex-Interventions (June) | June'17: £6.25bn | £5.00bn |
| | IRL: 11.00 | Residential Property Prices (May) | +0.7% (+13.0%) | +0.5% (+11.9%) |

◆ 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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