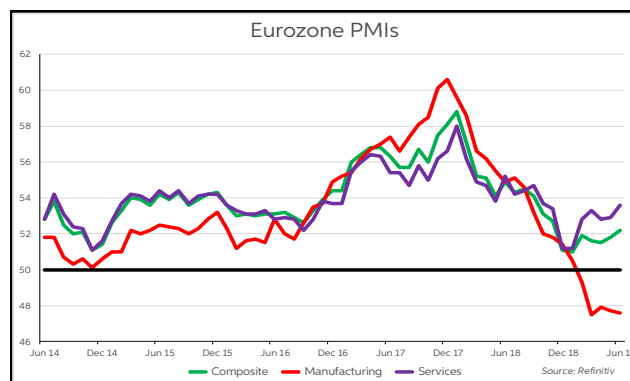


## More High Noon than Halloween Horror

- Most of the major currencies have remained quite range bound in the past few months.** In particular, the EUR/USD rate has been confined to a narrow €1.11-1.14 corridor since February. **The exception to this trend has been sterling.** The currency made good ground in the opening quarter of this year on rising hopes for a soft Brexit. **However, it has come under renewed pressure since early May** because of the growing risk of a no deal Hard Brexit, with Parliament log jammed on the issue and a more Eurosceptic Prime Minister set to take over the reins in Downing St. next week.
- Cable has fallen back from a high of \$1.32, to as low as \$1.24. Meanwhile, sterling has given up all the gains it made against the euro earlier in the year. The euro is back trading around the 90p level versus sterling, up from 85p at the start of May. Not much may happen on the Brexit front in August, when both the UK and EU politicians and public servants will be on their summer breaks. **The September-October period, though, will certainly see the focus on Brexit ramped up, as we approach the latest cliff-edge date of October 31st for the UK's departure from the EU.** With no clarity on the issue, the post-Brexit referendum lows for sterling of 93p against the euro and €1.20 versus the dollar could be tested.
- There is much speculation about what the new Prime Minister will do on Brexit, but it could be the UK Parliament and the EU that emerge as the key players.** The new Prime Minister does not need to do anything if he wants the UK to leave the EU at end October. This is the default position. The only way to prevent this occurring is for either Parliament to ratify the Withdrawal Agreement (WA), or the EU to grant a further extension to the Article 50 process or renegotiate the WA, in particular the Northern Ireland backstop.
- With both Parliament and the EU keen to avoid a hard Brexit, it may be more High Noon than Halloween Horror in terms of who blinks first to avoid the UK crashing out without a deal at end October.** This can't go on indefinitely, though, as the EU won't continuously grant the UK extensions to Article 50. Thus at some stage, the UK Parliament will have to decide what it wants on Brexit, even if this means sending the issue back to the people for a final decision in another referendum. Otherwise, the UK will face leaving the EU without a deal in the not too distant future.
- Turning to the week ahead, the highlight is the ECB's July Governing Council meeting.** While no changes to policy are expected, it is shaping up to be a very important meeting. In recent weeks, a host of Governing Council members, including ECB President Mario Draghi, have indicated that continuing very low inflation may warrant a near-term easing of policy. In that regard, a key focus for markets this week will be whether the ECB moves to lay the groundwork for a potential rate cut, which could possibly come as soon as September. The market also expects the ECB to restart its QE bond buying programme and will be looking for signals in this regard.
- Data-wise, the Eurozone schedule contains a plethora of key survey data for July, including the important flash Markit PMIs.** The composite index is forecast to have edged slightly lower for the first time since April. The breakdown is expected to show that service activity slowed in the month and while there was a slight pick-up in manufacturing, the sector remains firmly in contractionary territory. At a national level, the consensus is that the German Ifo, French INSEE and Italian ISTAT business confidence indices will also point to weak growth in July. Finally, on the demand side of the economy, it is anticipated that the EC consumer confidence index will be unchanged in the month.
- In the US, the first estimate of GDP for Q2 is set to feature.** The forecast is for a 1.8% rise in annualised terms, a significant moderation on Q1's 3.1% rate, reflecting the unwinding of temporary boosts to growth in the opening quarter of 2019 (i.e. trade balance and changes in inventories). In a timelier update, the flash Markit PMIs for July are due. It is envisaged that the manufacturing index improved to 51.5, from 50.6, while the service sector PMI is anticipated to have edged up to 51.7, from 51.5. Overall, such readings would indicate that the US economy had a subdued start to Q3.
- Elsewhere, the UK macro-data calendar is very sparse this week.** Although, on the political front, the new leader of the Conservative Party will be announced on Tuesday, and will likely take over as Prime Minister on Wednesday. Boris Johnson, a leading Brexiteer, is the overwhelming favourite to become the new PM.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2019	2019	2020
Fed Funds	2.375	2.125	2.125	2.125
ECB Deposit	-0.40	-0.50	-0.50	-0.50
BoE Repo	0.75	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
		2019	2019	2020
EUR/USD	1.1233	1.14	1.16	1.17
EUR/GBP	0.8964	0.90	0.88	0.87
EUR/JPY	120.89	122	122	123
GBP/USD	1.2527	1.27	1.32	1.36
USD/JPY	107.61	106	105	105
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Haldane (Tuesday)		
<b>Mon 22nd</b>	<b>US:</b> 13.30	National Activity Index (June)	-0.05	
<b>Tue 23rd</b>	<b>UK:</b> 11.00	CBI Industrial Orders (July)	-15	-15
	<b>US:</b> 15.00	Existing Home Sales (June)	+2.5% / 5.34m	-0.2% / 5.33m
	<b>EU-19:</b> 15.00	Flash Consumer Confidence (July)	-7.2	-7.2
<b>Wed 24th</b>	<b>JPN:</b> 01.30	Jinun Bank Flash M'Facturing PMI (July)	49.3	
	<b>FRA:</b> 07.45	INSEE Business Confidence (July)	102	102
	<b>FRA:</b> 08.15	Flash Markit Composite PMI (July)	52.7	52.4
	<b>GER:</b> 08.30	Flash Markit Composite PMI (July)	52.6	52.3
	<b>EU-19:</b> 09.00	M3 Money Supply (June)	(+4.8%)	(+4.7%)
	<b>EU-19:</b> 09.00	Flash Markit Composite PMI (July)	52.2	52.1
		- Manufacturing / Services	47.6 / 53.6	47.7 / 53.3
	<b>US:</b> 14.45	Flash Markit Composite PMI (July)	51.5	
		- Manufacturing / Services	50.6 / 51.5	51.5 / 51.7
	<b>US:</b> 15.00	New Home Sales (June)	-7.8% / 0.63m	+4.8% / 0.66m
<b>Thurs 25th</b>	<b>GER:</b> 09.00	Ifo Business Climate (July)	97.4	97.0
	<b>UK:</b> 11.00	CBI Distributive Trades (July)	-42	-15
	<b>EU-19:</b> 12.45	ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	<b>EU-19:</b> 13.30	ECB Press Conference		
	<b>US:</b> 13.30	Durable Goods (June)	-1.3%	+0.8%
	<b>US:</b> 13.30	Advance Goods Trade Balance (June)	-\$75.1bn	
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 15th July)	216,000	215,000
<b>Fri 26th</b>	<b>FRA:</b> 07.45	Consumer Confidence (July)	101	102
	<b>ITA:</b> 09.00	ISTAT Business Confidence (July)	100.8	100.5
	<b>ITA:</b> 09.00	Consumer Confidence (July)	109.6	109.8
	<b>IRL:</b> <b>11.00</b>	<b>Retail Sales (June)</b>	<b>-2.4% (+1.1%)</b>	<b>+1.0% (+0.5%)</b>
	<b>US:</b> 13.30	GDP (Q2: 1st Reading)	+3.1% s.a.a.r.	+1.8%
	<b>US:</b> 13.30	Advance Core PCE Prices (Q2)	+1.2% s.a.a.r.	+2.0%

◆ 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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