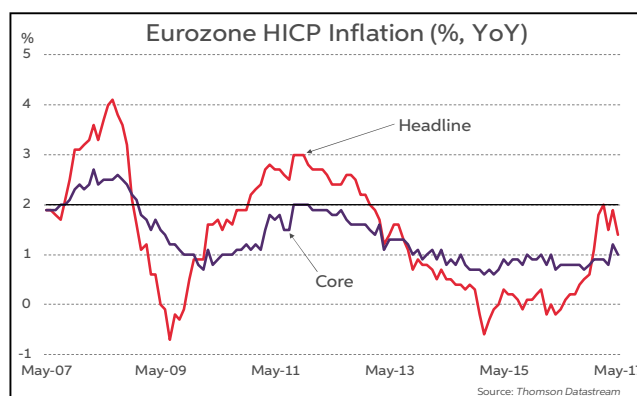


Checking out, but not leaving

- **The formal Brexit negotiations between the UK and EU kicked off last Monday, a year after the referendum vote. While the EU has set out a clear position on the talks, the UK's stance remains very muddled, with conflicting signals on the approach being adopted.** It seems clear that the UK is still set to leave the EU in March 2019, but the line adopted by Prime Minister May that “no deal is better than a bad deal” seems to have been discarded, having been seen to be judged by the electorate as nonsensical.
- **The UK wants to leave the Single Market and Customs Union, but continue to enjoy free trade with the EU post Brexit.** The Chancellor, Philip Hammond, tried to square this circle in his Mansion House speech this week, by saying that while the UK would leave the Customs Union, it would remain an “associate” member, with the current customs border arrangements remaining in place until an EU-UK free-trade deal is up and running. He acknowledged this meant that while the UK could hold negotiations with third countries on free trade deals, it would not be able to enter any new deals during the transition period after it leaves the EU.
- The discussions about the transition phase between when the UK leaves the EU and concludes a new trade deal with it, are likely to prove the crucial part of the Brexit negotiations. As the Chancellor hinted, **the UK will have to abide by EU rules in this transition phase if it wants to maintain free access to the Single Market and avoid a hard Brexit.** It is unclear if this is now the view of the British Government. It will be a bitter pill for many Brexit supporters to swallow, but their hand has been weakened by the outcome of the UK general election.

■ In terms of the week ahead, most of the main releases continue to come from the Eurozone. This includes **the flash estimate of June HICP inflation, which is forecast to edge lower again, to 1.2%, far below the ECB target of “close to, but below, 2%”.** The softening price pressures largely reflect a weaker boost from energy (due to lower oil prices and unwinding base effects). The ECB has continuously emphasised in recent times that weak ‘core’ inflation means that a highly accommodative policy stance remains necessary. Core inflation (ex-food & energy) is expected to have edged down to just 1% in June.



- **The Eurozone schedule also includes a further raft of leading indicators for June.** The EC economic sentiment index looks set to edge higher, from an already solid level. Encouraging results are also expected from the German Ifo and Italian ISTAT indices. Along with last week's PMI data, **the surveys suggest that the Eurozone economy continued to grow strongly in Q2, and GDP could well exceed the 0.6% quarterly rise recorded in Q1.**
- **There is a consumer theme in the US. Personal consumption is expected to have shown a further improvement in May,** pointing to a healthy rebound in the sector following the weak performance in Q1. The timelier Conference Board measure of consumer confidence is anticipated to remain at a very strong level in June. Meantime, despite the Fed's efforts to ‘play down’ the recent slowing trend in US inflation, this week's May core -PCE price data will still garner attention. Inflation is forecast to slow further to 1.4%.
- **There is a sparse calendar in the UK.** CBI trades data, Nationwide house prices (both June) and BoE mortgage approvals (May) are the main releases. **In Ireland, we get the Q1 National Accounts.** Data in the quarter pointed to continuing strong growth, with domestic production, retail sales, construction activity and the jobs market all performing well. Thus, **we expect year-on-year growth to have remained strong in Q1, possibly up near 6%.** The release will be of added interest as it includes the CSO's new GNI* measure of underlying (i.e. ex-distortion from multinationals) economic growth. GDP/GNP figures have been highly distorted in the last couple of years.

	Interest Rate Forecasts			
	Current	End Q3 2017	End Q4 2017	End Q1 2018
Fed Funds	1.125	1.125	1.375	1.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.25	0.25	0.25	0.25
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 2017	End Q4 2017	End Q1 2018
EUR/USD	1.1188	1.11	1.09	1.07
EUR/GBP	0.8798	0.87	0.86	0.86
EUR/JPY	124.37	125	125	124
GBP/USD	1.2712	1.28	1.27	1.24
USD/JPY	111.19	113	115	116

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Draghi (Monday); Cœuré, Praet (Tuesday); Mersch, Lautenschläger, Constâncio, Draghi (Wednesday); Lautenschläger, Cœuré (Friday)		
	Fed Speakers:	Harker (Tuesday)		
Mon 26th	GER:	09.00 Ifo Business Climate (June)	114.6	114.4
	US:	13.30 Durable Goods (May)	-0.8%	-0.6%
	US:	13.30 Chicago Fed National Activity Index (May)	0.49	
Tue 27th	UK:	00.01 Gfk Consumer Confidence (June)	-5	-7
	ITA:	09.00 ISTAT Business Confidence (June)	106.9	106.6
	ITA:	09.00 Consumer Confidence (June)	105.4	
	UK:	11.00 CBI Distributive Trades (June)	2	0
	US:	14.00 Case-Shiller House Prices (April)	+0.9% (+5.9%)	+0.5% (+5.9%)
	US:	15.00 Consumer Confidence (June)	117.9	116.9
Wed 28th	FRA:	07.45 Consumer Confidence (June)	102	103
	EU-19:	09.00 M3 Money Supply (May)	(+4.9%)	(+5.0%)
	ITA:	10.00 Preliminary HICP (June)	(+1.6%)	(+1.4%)
	IRL:	11.00 Retail Sales (May)	-0.6% (+1.6%)	
	US:	13.30 Advanced Goods Trade Balance (May)	-\$67.14bn	
	US:	15.00 Pending Home Sales Index (May)	-1.3% / 109.8	+0.5% / 110.3
Thurs 29th	GER:	07.00 Gfk Consumer Sentiment (July)	10.4	10.4
	UK:	06.00 Nationwide House Prices (June)	-0.2% (+2.1%)	0.0% (+1.8%)
	UK:	09.30 BoE Mortgage Approvals (May)	64,645	64,000
	EU-19:	10.00 EC Business Climate (June)	0.90	0.96
	EU-19:	10.00 EC Economic Sentiment (June)	109.2	109.5
		- Industrial / Services / Consumer	2.8 / 13.0 / -3.3	2.8 / 13.0 / -1.3
	IRL:	11.00 GDP (Q1)	(+7.2%)	(+5.9%)
	IRL:	11.00 Current Account Balance (Q1)	-€11.1bn	
	GER:	13.00 Preliminary HICP (June)	-0.2% (+1.4%)	0.0% (+1.3%)
	US:	13.30 GDP (Q1: Final Reading)	+1.2% s.a.a.r.	+1.2%
	US:	13.30 Initial Jobless Claims (w/e 24th June)	241,000	240,000
Fri 30th	JPN:	00.30 CPI: National (May) / Tokyo (June)	(+0.4%) / (+0.2%)	
	JPN:	00.30 Unemployment / Jobs : Applicants (May)	2.8% / 1.48	2.8% / 1.48
	JPN:	00.50 Preliminary Industrial Output (May)	+4.0%	-3.2%
	CHINA:	02.00 NBS Manufacturing PMI (June)	51.2	
		- Non-Manufacturing	54.5	
	GER:	07.00 Retail Sales (May)	-0.2% (-0.9%)	+0.3% (+2.6%)
	FRA:	07.45 Consumer Spending (May)	+0.5%	+0.7%
	FRA:	07.45 Preliminary HICP (June)	(+0.9%)	(+0.8%)
	GER:	09.00 Unemployment (June)	5.7%	5.7%
	UK:	09.30 GDP (Q1: Final Reading)	+0.2% (+2.0%)	+0.2% (+2.0%)
	UK:	09.30 Current Account (Q1)	-£12.09bn	-£17.00bn
	EU-19:	10.00 Flash HICP (June)	(+1.4%)	(+1.2%)
		- Ex-Food & Energy	(+1.1%)	(+1.0%)
	US:	13.30 Personal Income / Consumption (May)	+0.4% / +0.4%	+0.3% / +0.2%
		- Core PCE Prices	+0.2% (+1.5%)	+0.1% (+1.4%)
	US:	15.00 Final Michigan Consumer Sentiment (June)	94.5	94.5

◆ 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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