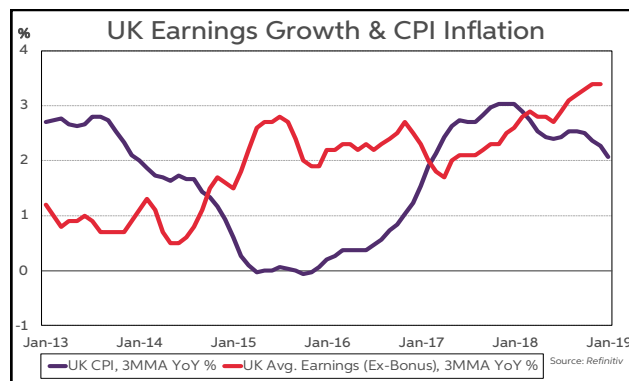


Sterling Not Out of the Brexit Woods

- Some of the Brexit fog has begun to lift over the English Channel following the votes by the UK Parliament this week to rule out a no-deal Brexit at any time and to seek an extension to Article 50 to delay Brexit.** This has forced Brexiteers into a corner, with indications that many are now increasingly likely to support the Withdrawal Agreement (WA). This is expected to be voted on yet again in the coming days, ahead of the EU Summit that commences on Thursday. If Parliament ratifies the WA, then a short technical extension to Article 50 will be all that is needed to allow the UK sufficient time to pass the enabling legislation to give legal effect to the deal. However, as the PM has warned, Brexit could be delayed for a couple of years in the event that Parliament does not ratify the deal.
- Sterling has made good ground on the belief that a no-deal Brexit is effectively off the table.** However, even if there is an orderly Brexit, there may still be choppy waters ahead for the currency. Difficult trade talks with the EU will follow over the next two years. It is very unclear what the outcome of these talks will be, so uncertainty over the final shape of Brexit could last for some time. Uncertainty will also come to the fore if the WA is not ratified and there is a long extension to Article 50. Thus, Brexit uncertainty could weigh on sterling for some time. Hence, we see little upside potential for sterling from its recent level of 85-86p against the euro. If anything, the currency could drift lower as uncertainty persists.
- In terms of the week ahead, there is a busy central bank calendar, with the BoE and the Fed due to meet.** Neither central bank is expected to make any changes to policy. The BoE is seen on hold until a clearer picture of the nature of the UK's exit from the EU emerges. Likewise, the Fed has been guiding that it intends to leave rates unchanged in the near term due to the uncertainty of the US economic outlook. Given the recent cautious tone from the Fed, the consensus view is that this week's updated rate projections will be revised down from December's, when the FOMC had been guiding that two 25bps rate hikes would occur this year. Such a revision would move the Fed's view of the likely future path for rates more in line with the markets. Futures contracts indicate that the market believes the central bank will not hike rates again, with a rate cut priced in by early 2021. However, our view is that given the ongoing strength of US economic activity, the possibility of at least one hike cannot be discounted this year.
- Data-wise, a busy UK schedule this week includes a batch of labour market statistics.** Soft survey data at the start of 2019 suggests that employment growth may have slowed to 1.2% in the 3-months to January, from 1.4% in the previous period. Meantime, the jobless rate looks set to have held at 4.0%, while tight market conditions are expected to see underlying wage inflation remain above the 3% level. We also get CPI data. Despite strong earnings growth, inflation has moderated in recent months, in part due to lower energy prices. Price pressures are expected to remain relatively contained in February, with headline inflation anticipated to be unchanged in the month at 1.8%. Although workers have in recent months received a boost to their real wages, it is envisaged that retail sales declined by 0.4% in February. This may in part reflect the impact of Brexit related uncertainty.
- Turning to the US,** the highlights of the diary this week are the flash PMIs for March. The composite index is projected to have edged up in the month. In a positive development, the manufacturing index is expected to have risen, while the services PMI is forecast to have been broadly unchanged. Meanwhile, both the Philly Fed index and the NAHB measure of homebuilder sentiment (both March) are also set to feature.
- In the Eurozone, a plethora of survey data are due.** A very slight improvement is expected in the flash composite PMI for March. As in the US, a small increase in the manufacturing index is forecast to outweigh a slight decline in the service sector. Although, the manufacturing PMI is projected to have remained below the 50.0 level that separates expansion from contraction. Meanwhile, we also get an update on the household side of the economy in the form of the flash EC measure of consumer confidence for March. Sentiment is likely to have remained broadly unchanged in the month.



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q1 2019 | End Q2 2019 | End Q3 2019 |
| Fed Funds | 2.375 | 2.375 | 2.375 | 2.625 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| 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 Q1 2019 | End Q2 2019 | End Q3 2019 |
| EUR/USD | 1.1329 | 1.13 | 1.14 | 1.15 |
| EUR/GBP | 0.8536 | 0.85 | 0.85 | 0.85 |
| EUR/JPY | 126.29 | 127 | 127 | 127 |
| GBP/USD | 1.3267 | 1.33 | 1.34 | 1.35 |
| USD/JPY | 111.46 | 112 | 111 | 110 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT) | Release | Previous | Forecast |
|-------------------|-----------------------|--|---|------------------|
| This Week: | ECB Speakers: | de Guindos, Praet (Monday); Praet (Tuesday); de Guindos, Draghi , Mersch (Friday) | | |
| | EU-28: | EU Leaders' Summit (Thursday to Friday) | | |
| Mon 18th | IRL: | Market Holiday | | |
| | EU-19: | 10.00 | International Trade Balance (January) | €17.0bn |
| | US: | 14.00 | NAHB Homebuilders' Sentiment (March) | 62 |
| | | | | 63 |
| Tue 19th | UK: | 09.30 | ILO Employment (3 months to January) | +167,000 |
| | | | - Unemployment | 4.0% |
| | UK: | 09.30 | Average Weekly Earnings (3 months to January) | (+3.4%) |
| | | | - Ex-Bonus | (+3.4%) |
| | GER: | 10.00 | ZEW Economic Sentiment Index (March) | -13.4 |
| | EU-19: | 10.00 | Wage Growth (Q4) | (+2.4%) |
| | US: | 14.00 | Factory Orders (January) | +0.1% |
| | | | | +0.3% |
| Wed 20th | GER: | 07.00 | PPI (February) | (+2.6%) |
| | UK: | 09.30 | CPI (February) | (+1.8%) |
| | | | - Ex-Food & Energy | (+1.9%) |
| | UK: | 09.30 | PPI Output (February) | (+2.1%) |
| | | | - Input | (+2.9%) |
| | UK: | 11.00 | CBI Industrial Orders Index (March) | 6 |
| | US: | 18.00 | Fed Interest Rate Announcement | 2.25%-2.50% |
| | US: | 18.30 | Fed Press Conference | |
| | | | | 2.25%-2.50% |
| Thurs 21st | UK: | 09.30 | Retail Sales (February) | +1.0% |
| | UK: | 12.00 | BoE Interest Rate Announcement | 0.75% |
| | | | - Meeting Minutes | |
| | US: | 12.30 | Initial Jobless Claims (w/e 11th March) | 229,000 |
| | US: | 12.30 | Philly Fed Index (March) | -4.1 |
| | US: | 14.00 | Leading Indicators Index (February) | -0.1% |
| | EU-19: | 15.00 | Flash EC Consumer Confidence (March) | -7.4 |
| | JPN: | 23.30 | CPI (February) | (+0.2%) |
| Fri 22nd | FRA: | 07.15 | Flash Markit Composite PMI (March) | 50.4 |
| | GER: | 08.30 | Flash Markit Composite PMI (March) | 52.8 |
| | EU-19: | 09.30 | Flash Markit Composite PMI (March) | 51.9 |
| | | | - Manufacturing / Services | 49.3 / 52.8 |
| | UK: | 09.30 | PSNB Ex-Interventions (February) | -£14.9bn |
| | US: | 13.45 | Flash Markit Composite PMI (March) | 55.5 |
| | | | - Manufacturing / Services | 53.0 / 56.0 |
| | US: | 14.00 | Existing Home Sales (February) | -1.2% / 4.94m |
| | US: | 19.00 | Federal Budget (February) | Feb'18: -\$215bn |

◆ 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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