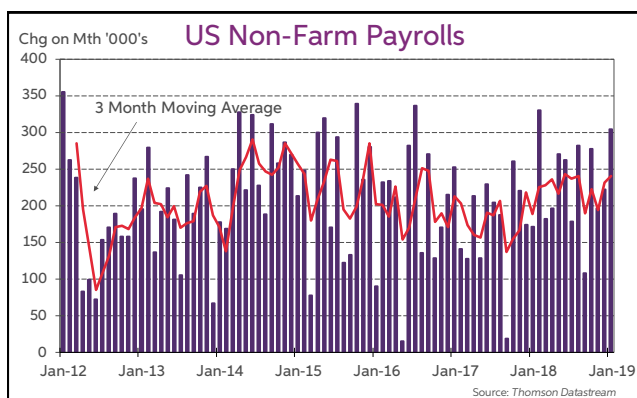


Shifting Sands

- The events in Westminster in recent days mean there is a growing possibility that the UK Parliament may yet ratify the Withdrawal Agreement (WA) this month.** The past week has seen opposition to the WA soften within the Conservative party. A vote in Parliament indicating that, if necessary, it would seek an extension to Article 50 to prevent a no-deal hard Brexit at the end of March, combined with the Labour Party now formally backing a second referendum, have given hard-line Brexiteers food for thought. The WA now looks their only route to ensure that the UK departs from the EU on time, so they may well decide to back it, especially if some form of legal addendum is agreed indicating that the Northern Ireland backstop is intended to be temporary in nature. If the WA is not ratified, the UK is set to seek and be granted a short extension to Article 50 to delay its EU departure, possibly to end June.
- Sterling has made good ground on expectations that a no-deal hard Brexit will be now avoided at end March.** However, to quote Ken Clarke MP, a short extension to Article 50 is simply “giving us a date for a new cliff edge” for Brexit. This time it will be even more serious as it will be more difficult to secure a further extension to Article 50 if Parliament is still not minded to ratify the Withdrawal Agreement. **So sterling is not out of the woods yet.** Indeed, even if the WA is ratified, there are choppy waters ahead for sterling when difficult trade talks get underway between the UK and EU. What emerges from these may still look like a hard Brexit if the UK is out of a Customs Union with the EU, as well as the Single Market. Sterling will not like the look of that.
- Data-wise, there is a very sparse macro diary in the UK this week.** Indeed, the only release of note is the February reading of the service sector PMI. Activity in the sector looks to have eased for a second consecutive month as Brexit continues to act as a headwind. The index is anticipated to have fallen just below the 50.0 level separating expansion from contraction, edging down to 49.9, from 50.1.

In the US, the highlight of the schedule is the February employment report. Labour market data have been very strong in recent months, with non-farm payrolls increasing by 304,000 in January. The forecast is for a smaller, but still solid, expansion of 185,000 in February. Meanwhile, the unemployment rate is projected to have edged down to just 3.9% in the month, from 4.0%. It is envisaged that the tight labour market conditions will see the year-on-year growth rate of average hourly earnings remain above the 3.0% level for a fourth consecutive month. We also get the non-manufacturing ISM for February. The ISM is expected to show that activity in the sector picked up in the month. In terms of other macro updates, the Fed’s Beige Book is due and will offer a timely assessment of current economic conditions in the US ahead of the FOMC meeting on March 20th.



For the Eurozone, the key focus for markets will be the ECB’s March Governing Council meeting. In January, ECB President Draghi acknowledged the recent weaker Eurozone data and stated that the risks to the economic outlook had shifted to the downside. The latest set of ECB macro forecasts (from the December meeting) are for GDP to grow by 1.7% in 2019, a rate that now looks unlikely to be achieved. Therefore, it is widely expected that this week’s updated staff projections will see those forecasts revised down significantly. While rate policy is very much on hold, the ECB may make some announcements in regard to a third round of Targeted Long-Term Refinancing Operations (TLTROs). The central bank could also shift out its guidance for when it is likely to begin to raise rates, given the economic slowdown and subdued inflation. Since June 2018, the central bank has been guiding that rates are on hold “at least through the summer of 2019”.

In terms of Eurozone data releases, there is a very uninspiring calendar. The only major release is the January retail sales report. Having fallen by a steep 1.6% in December, due in part to the impact of the Black Friday sales in November, a partial rebound in sales is envisaged. On a national level, French and Italian industrial production figures for January are due. Output levels are forecast to have been broadly flat in both nations 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	1.1386	1.13	1.14	1.15
EUR/GBP	0.8583	0.87	0.86	0.86
EUR/JPY	127.30	124	125	125
GBP/USD	1.3262	1.30	1.33	1.34
USD/JPY	111.79	110	110	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney (Tuesday); Cunliffe, Haldane, Saunders (Wednesday); Teneyro (Thursday)		
	Fed Speakers:	Rosengren (Tuesday); Mester, Williams (Wednesday); Powell (Friday)		
	ECB Speakers:	Praet (Thursday); Mersch, Nowotny (Friday)		
Mon 4th	UK:	09.30 CIPS / Markit Construction PMI (February)	50.6	50.3
	EU-19:	09.30 Sentix Index (March)	-3.7	-3.2
	EU-19:	10.00 PPI (January)	-0.8% (+3.0%)	+0.3% (+2.9%)
	US:	15.00 Construction Spending (December)	+0.8%	+0.2%
	IRL:	16.30 Exchequer Balance (February)	€0.2bn	€0.5bn
Tue 5th	UK:	00.01 BRC Retail Sales (February)	(+1.8%)	
	CHINA:	01.45 Caixin Services PMI (February)	53.6	
	IRL:	06.00 AIB Services PMI (February)	54.2	
	FRA:	08.50 Final Markit Composite PMI (February)	48.2 / 49.9 (p)	49.9
	GER:	08.55 Final Markit Composite PMI (February)	52.1 / 52.7 (p)	52.7
	ITA:	09.00 GDP (Q4: Final Reading)	-0.2% (+0.1%)	-0.2% (+0.1%)
	EU-19:	09.00 Final Markit Composite PMI (February)	51.0 / 51.4 (p)	51.4
		- Services	51.2 / 52.3 (p)	52.3
	UK:	09.30 CIPS / Markit Services PMI (February)	50.1	49.9
	EU-19:	10.00 Retail Sales (January)	-1.6%	+1.0%
	IRL:	11.00 Unemployment (February)	5.7%	5.6%
	US:	14.45 Final Markit Composite PMI (February)	54.4 / 55.8 (p)	55.8
		- Services	54.2 / 56.2 (p)	56.2
	US:	15.00 Non-Manufacturing ISM (February)	56.7	57.2
		- Business Activity	59.7	
	US:	15.00 New Home Sales (December)	+16.9% / 0.657m	-11.0% / 0.593m
	US:	19.00 Federal Budget (January)	Jan'18: \$49.0bn	
Wed 6th	US:	13.30 International Trade Balance (December)	-\$49.3bn	-\$57.0bn
	US:	19.00 Fed Beige Book Published		
Thurs 7th	JPN:	05.00 Leading Indicators' Index (January)	-1.6	
	UK:	08.30 Halifax House Prices (February)	-2.9% (+0.8%)	+0.1% (+1.0%)
	ITA:	09.00 Retail Sales (January)	-0.7%	
	EU-19:	10.00 GDP (Q4: Third Reading)	+0.2% (+1.2%)	+0.2% (+1.2%)
	IRL:	11.00 Live Register (February)	-3,200/200,300	-2,300/198,000
	EU-19:	12.45 ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	EU-19:	13.30 ECB Press Conference		
	US:	13.30 Initial Jobless Claims (w/e 25th February)	225,000	225,000
	US:	20.00 Consumer Credit (January)	\$16.55bn	
	JPN:	23.50 GDP (Q4: Second Reading)	+0.3% (+1.4%)	+0.3% (+1.4%)
Fri 8th	JPN:	05.00 Economy Watchers' Poll (February)	45.6	
	GER:	07.00 Industrial Orders (January)	-1.6%	+0.4%
	FRA:	07.45 Industrial Output (January)	+0.8%	+0.0%
	FRA:	07.45 Trade Balance (January)	-€4.65bn	
		- Exports	+2.2%	
	ITA:	09.00 Industrial Output (January)	-0.8%	+0.2%
	US:	13.30 Non-farm Payrolls (February)	304,000	185,000
		- Unemployment	4.0%	3.9%
		- Average Earnings	(+3.2%)	(+3.3%)
	US:	13.30 Housing Starts (January)	-11.2% / 1.078m	+10.4% / 1.19m
		- Building Permits	+0.3% / 1.326m	-3.1% / 1.285m

◆ 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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