

## 2020 Brexit Eurovision

- **Labour MP, Hilary Benn, the chairman of Parliament's Brexit committee, told BBC radio this week; "There are only two ways out of the Brexit crisis that we've got: either parliament agrees a deal or we go back to the British people and ask them to make the choice".** Even if Theresa May is replaced by a Eurosceptic as Conservative Party Leader, a new Brexiteer PM will still be faced by a parliament that is strongly opposed to a no deal hard Brexit. Thus, the current logjam is likely to persist as the UK heads for another cliff-edge Brexit date at the end of October.
  - **Sterling gained ground in the opening quarter of the year in the belief that the UK Parliament would block a no deal hard Brexit** and in the end would approve some form of a Withdrawal Agreement that would allow for a soft Brexit. The currency, though, has been on a weakening trend this month as opinion polls show very strong support for the Brexit Party in the upcoming European Parliament elections, while Theresa May's days as PM are numbered and the talks with the Labour Party on Brexit ended without agreement.
  - **A very strong showing by the Brexit Party in Thursday's election might encourage Leavers to take a chance on another referendum as the only way to secure the hard Brexit they so desire.** It would become a binary choice then for the UK - Leave the EU without a deal or Remain. It also would become a binary outcome for sterling. Euro/GBP is currently close to the middle of the 85-91p trading range that it has occupied since September 2017. If the UK decided to remain in the EU, then the Euro/GBP rate would likely move down towards 80p. A no deal Brexit, though, would probably push the rate close to parity. As for the timing, if the UK goes down the referendum route again, it would be most likely to be held in the first half of next year given the lengthy legislative process involved. This would require a further extension to Article 50.
  - **In terms of the week ahead, a plethora of survey data in the Eurozone are due, with the highlight being the flash PMIs for May.** Both the manufacturing and services PMIs are expected to have edged higher in the month, with the composite index forecast to have increased slightly to 51.7, from 51.5. We also get the flash reading of the EC measure of consumer confidence for May, which is anticipated to have held at broadly the same level as in April. At a national level, the releases of the German Ifo and the French INSEE (both May) measures of business confidence will warrant some attention. In terms of monetary policy updates, the ECB's account of its April meeting is due to be published this week. Meanwhile, the European Parliamentary elections get underway on Thursday and will run until Sunday. Results will be available from Sunday night.
- Eurozone GDP and Composite PMI**

Quarter	GDP (% QoQ) [LHS]	Composite PMI (Qrt. Average) [RHS]
Q1 2012	-0.2	48.5
Q2 2012	-0.3	48.5
Q3 2012	-0.4	48.5
Q4 2012	-0.3	48.5
Q1 2013	-0.2	48.5
Q2 2013	-0.1	48.5
Q3 2013	0.0	48.5
Q4 2013	0.1	48.5
Q1 2014	0.2	48.5
Q2 2014	0.3	48.5
Q3 2014	0.4	48.5
Q4 2014	0.5	48.5
Q1 2015	0.6	48.5
Q2 2015	0.7	48.5
Q3 2015	0.8	48.5
Q4 2015	0.9	48.5
Q1 2016	1.0	48.5
Q2 2016	1.1	48.5
Q3 2016	1.2	48.5
Q4 2016	1.3	48.5
Q1 2017	1.4	48.5
Q2 2017	1.5	48.5
Q3 2017	1.6	48.5
Q4 2017	1.7	48.5
Q1 2018	1.8	48.5
Q2 2018	1.9	48.5
Q3 2018	2.0	48.5
Q4 2018	2.1	48.5
Q1 2019	2.2	48.5

Source: Refinitiv
- **In the US, flash PMIs for May are also set to feature.** The composite index dipped in April, as the services PMI fell to its lowest level since March 2017. In May, it is envisaged that both the manufacturing and service sector indices will be little changed from their current levels. Meanwhile, the minutes from the Fed's May meeting will also be released this week. Markets will look to them for any further insights into the Fed's thinking on the economy's performance and in turn the outlook for monetary policy.
  - **Turning to the UK, the macro calendar includes April CPI and PPI.** Headline CPI inflation, which has held below the BoE's 2% target for 3 consecutive months, is projected to have picked up to 2.2% in the month, partly reflecting the impact of higher energy prices. However, with underlying wage inflation running above the 3% level, workers will continue to experience real wage gains. Despite the increase in consumer spending power, the consensus forecast is for a 0.4% fall in retail sales in April. However, this follows very strong growth in Q1, including a 1.1% rise in March.
  - **Elsewhere, the first estimate of Japanese Q1 GDP is out this week.** The forecast is for the economy to have contracted by 0.2% in annualised terms, reflecting weaker domestic demand. **In Ireland, the Labour Force Survey for Q1 is due.** Survey indicators in the quarter have suggested that the jobs market has continued to expand at a solid pace. We anticipate that year-on-year growth in employment may have held at 2.3% in the quarter.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2019	2019	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 Q2	End Q3	End Q4
		2019	2019	2019
EUR/USD	1.1164	1.12	1.13	1.14
EUR/GBP	0.8761	0.87	0.87	0.86
EUR/JPY	122.58	123	123	123
GBP/USD	1.2740	1.29	1.30	1.33
USD/JPY	109.78	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Broadbent (Monday); Haldane (Wednesday)		
	<b>ECB Speakers:</b>	Praet (Monday); de Guindos (Tuesday); <b>Draghi</b> , Praet (Wednesday); de Guindos, <b>Draghi</b> , Lane (Thursday)		
	<b>Fed Speakers:</b>	Clarida, Harker, Williams (Monday); Evans, Rosengren (Tuesday); Bostic, Bullard, Williams (Wednesday); Barkin, Bostic, Daly, Kaplan (Thursday)		
	<b>EU-28:</b>	European Parliament Elections (Voting to be held Thursday through Sunday, results expected from late on Sunday night)		
<b>Mon 20th</b>	<b>JPN:</b> 00.50	GDP (Q1: First Reading)	+0.5% / +1.9% s.a.a.r.	+0.0% / -0.2%
	<b>GER:</b> 07.00	PPI (April)	(+2.4%)	(+2.3%)
	<b>US:</b> 13.30	National Activity Index (April)	-0.15	
<b>Tue 21st</b>	<b>UK:</b> 11.00	CBI Industrial Orders (May)	-5	-5
	<b>IRL:</b> <b>11.00</b>	<b>LFS—Employment (Q1)</b>	<b>(+2.3%)</b>	<b>(+2.3%)</b>
	<b>US:</b> 15.00	Existing Home Sales (April)	-4.9% / 5.21m	+1.7% / 5.30m
	<b>EU-19:</b> 15.00	Flash Consumer Confidence (May)	-7.9	-7.7
<b>Wed 22nd</b>	<b>JPN:</b> 00.50	Core Machinery Orders (March)	(-5.5%)	(-3.4%)
	<b>JPN:</b> 00.50	Trade Balance (April)	¥527.8bn	¥203.2bn
		- Exports	-2.4%	-1.8%
	<b>UK:</b> 09.30	CPI (April)	(+1.9%)	(+2.2%)
		- Ex-Food & Energy	(+1.8%)	(+1.9%)
	<b>UK:</b> 09.30	PPI Output (April)	(+2.4%)	(+2.3%)
		- Input	(+3.7%)	(+4.6%)
	<b>UK:</b> 09.30	PSNB Ex-Interventions (April)	April '18: £9.0bn	£5.9bn
	<b>US:</b> 19.00	Minutes from the Fed's May Meeting Published		
<b>Thurs 23rd</b>	<b>GER:</b> 07.00	GDP (Q1: Second Reading)	+0.4% (+0.7%)	+0.4% (+0.7%)
	<b>FRA:</b> 07.45	INSEE Business Climate (May)	101.0	101.0
	<b>FRA:</b> 08.15	Flash Markit Composite PMI (May)	50.1	50.4
	<b>GER:</b> 08.30	Flash Markit Composite PMI (May)	52.2	52.1
	<b>GER:</b> 09.00	Ifo Business Climate (May)	99.2	99.0
	<b>EU-19:</b> 09.00	Flash Markit Composite PMI (May)	51.5	51.7
		- Manufacturing / Services	47.9 / 52.8	48.1 / 53.0
	<b>EU-19:</b> 12.30	ECB Account from April Meeting Published		
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 13th May)	212,000	215,000
	<b>US:</b> 14.45	Flash Markit Composite PMI (May)	53.0	53.0
		- Manufacturing / Services	52.6 / 53.0	52.7 / 53.0
	<b>US:</b> 15.00	New Home Sales (April)	+4.5% / 0.692m	-1.9% / 0.679m
<b>Fri 24th</b>	<b>JPN:</b> 00.30	CPI (April)	(+0.5%)	(+0.5%)
	<b>UK:</b> 09.30	Retail Sales (April)	+1.1% (+6.7%)	-0.4% (+4.5%)
	<b>UK:</b> 11.00	CBI Distributive Trades (May)	13	

◆ 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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