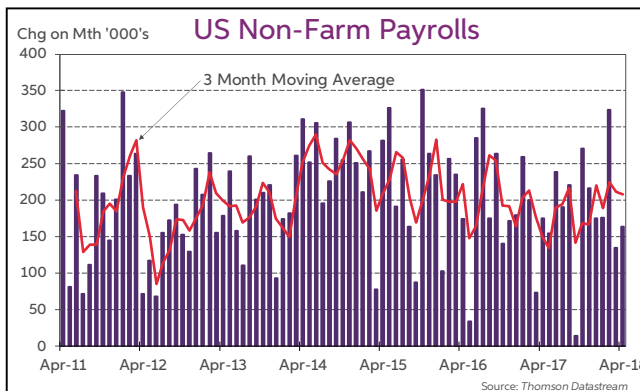


Breaking Up is Hard to Do

- **Sterling has remained very range bound against the euro since last September**, with the very narrow range of 87-89.5p containing nearly all the action. While much progress has been made in Brexit negotiations over this period, it is still very unclear what shape Brexit will take next March. Markets need clarity on the issue in order to determine the future course of sterling.
- The EU and UK have agreed there should be a post-Brexit transition period that would last until the end of 2020. During this period the current free trade arrangements would be maintained and the UK would continue to abide by all EU regulations. **There is now speculation that the UK may look to extend the transition period until 2024.** There seems to be a growing realisation in the UK that it will be unable to finalise a bespoke trade deal with the EU by end 2020. The technology needed to support the new customs arrangements being suggested by the UK to maintain borderless trade after the transition period ends, will also not be fully developed by end 2020.
- **However, a long transition period is likely to prove difficult to swallow for many in the Conservative Party.** Furthermore, the EU may view it as a means for the UK to maintain the benefits of EU membership long after it has left, and thus find it unacceptable. With key EU summits on Brexit fast approaching at the end of June and in October, and a withdrawal agreement to be concluded by the autumn, the time for obfuscation is nearing an end. **The UK government will have to make some difficult choices soon that may even threaten its own survival.** Sterling traders are likely to hold fire until it becomes clearer how this drama will unfold.

- **In terms of the week ahead, the main focus of the data calendar will be Friday's May employment report in the US.** Non-farm payrolls have continued to increase at a solid pace in recent months, with a further encouraging 185k increase forecast for May. The unemployment rate looks set to have held at an 18-year low of just 3.9%.



- **Despite evidence of a tight labour market**, including the NFIB 'jobs hard-to-fill' index being near an all-time high in March/April, **wage growth in the US has remained relatively subdued.** Year-on-year growth in average hourly earnings is forecast to have held at 2.6% in May, remaining firmly within the narrow 2.5-2.8% band that has largely been in place since H2 2015.
- **The Fed's preferred core-PCE inflation measure is forecast to have edged up to its target rate of 2% in April.** Although, the most recent Fed statement indicated that the FOMC is willing to tolerate a period of above target inflation. Meantime, personal consumption is expected to have recorded a healthy rise in April. A busy US schedule also includes the manufacturing ISM for May and the second reading of Q1 GDP.
- **We get a further raft of May survey data in the Eurozone this week.** This includes the latest EC sentiment indices. The headline economic sentiment index is anticipated to have fallen back, mirroring last week's disappointing PMIs. **This would suggest that the slowdown in growth seen in Q1 may not be transitory.** Meanwhile, the flash Eurozone HICP for May is due, with inflation forecast to rise from 1.2% to 1.6%, partly on the back of higher oil prices. The Eurozone unemployment rate is forecast to move down to a fresh 10-year low of 8.4% in April.
- **In the UK, there is a comparatively light schedule.** The May manufacturing PMI is the main release. It is predicted to have edged down slightly in the month, continuing to point to an only modest pace of expansion in the sector. BoE mortgage approvals (April) and Nationwide House Prices (May) are also due.

| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q2 2018 | End Q3 2018 | End Q4 2018 |
| Fed Funds | 1.625 | 1.875 | 2.125 | 2.375 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| BoE Repo | 0.50 | 0.50 | 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 2018 | End Q3 2018 | End Q4 2018 |
| EUR/USD | 1.1648 | 1.19 | 1.22 | 1.25 |
| EUR/GBP | 0.8752 | 0.88 | 0.87 | 0.86 |
| EUR/JPY | 127.20 | 130 | 131 | 131 |
| GBP/USD | 1.3308 | 1.35 | 1.40 | 1.45 |
| USD/JPY | 109.19 | 109 | 107 | 105 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|--------------------------|--|----------------------|----------------------|
| This Week: | ECB Speakers: | Lautenschlager, Mersch (Tuesday) | | |
| | Fed Speakers: | Bullard (Tuesday); Bullard (Thursday); Kaplan (Friday) | | |
| Mon 28th | UK/US/Some-EU-19: | Market Holiday | | |
| | JPN: 00.30 | Unemployment / Jobs : Applicants (April) | 2.5% / 1.59 | 2.5% / 1.60 |
| | IRL: 11.00 | Retail Sales (April) | -2.2% (-2.8%) | +1.5% (+1.8%) |
| Tue 29th | FRA: 07.45 | Consumer Confidence (May) | 101 | 101 |
| | ITA: 09.00 | ISTAT Business Confidence (May) | 107.7 | |
| | ITA: 09.00 | Consumer Confidence (May) | 117.1 | |
| | EU-19: 09.00 | M3 Money Supply (April) | (+3.7%) | (+3.9%) |
| | US: 14.00 | Case-Shiller House Prices (March) | +0.8% (+6.8%) | |
| | US: 15.00 | Consumer Confidence (May) | 128.7 | 128.0 |
| Wed 30th | GER: 07.00 | Retail Sales (April) | -0.6% (+1.3%) | +0.5% (+1.1%) |
| | FRA: 07.45 | Consumer Spending (April) | +0.1% | |
| | FRA: 07.45 | GDP (Q1: Final Reading) | +0.3% | +0.3% |
| | GER: 09.00 | Unemployment (May) | 5.3% | 5.3% |
| | EU-19: 10.00 | EC Business Climate (May) | 1.35 | |
| | EU-19: 10.00 | EC Economic Sentiment (May) | 112.7 | 112.0 |
| | | - Industrial / Services / Consumer | 7.1 / 14.9 / 0.2 | 6.6 / 14.4 / 0.2 |
| | GER: 13.00 | Preliminary HICP (May) | (+1.4%) | (+1.9%) |
| | US: 13.30 | GDP (Q1: Second Reading) | +2.3% s.a.a.r. | +2.3% |
| | US: 13.30 | Advanced Goods Trade Balance (April) | -\$68.3bn | |
| | CAN: 15.00 | BoC Interest Rate Announcement | 1.25% | 1.25% |
| | US: 19.00 | Fed Beige Book Published | | |
| Thurs 31st | UK: 00.01 | Gfk Consumer Confidence (May) | -9 | -8 |
| | JPN: 00.50 | Industrial Output (April) | +1.4% | +1.2% |
| | CHINA: 02.00 | NBS Manufacturing PMI (May) | 54.8 | |
| | | - Non-Manufacturing | 51.4 | |
| | UK: 06.00 | Nationwide House Prices (May) | +0.2% (+2.6%) | +0.2% (+3.0%) |
| | FRA: 07.45 | Preliminary HICP (May) | (+1.8%) | |
| | ITA: 09.00 | Unemployment (April) | 11.0% | |
| | UK: 09.30 | BoE Mortgage Approvals (April) | 62,914 | 63,500 |
| | ITA: 10.00 | Preliminary HICP (May) | (+0.6%) | (+1.0%) |
| | EU-19: 10.00 | Flash HICP (May) | (+1.2%) | (+1.6%) |
| | | - Ex-Food & Energy | (+1.1%) | (+1.3%) |
| | EU-19: 10.00 | Unemployment (April) | 8.5% | 8.4% |
| | US: 13.30 | Personal Income / Consumption (April) | +0.3% / +0.4% | +0.3% / +0.3% |
| | | - Core-PCE Prices | (+1.9%) | (+2.0%) |
| | US: 13.30 | Initial Jobless Claims (w/e 26th May) | 234,000 | 225,000 |
| | US: 15.00 | Pending Homes Sales Index (April) | +0.4% / 107.6 | +0.6% / 108.2 |
| Fri 1st | CHINA: 02.45 | Caixan Manufacturing PMI (May) | 51.1 | 51.0 |
| | ITA: 09.00 | GDP (Q1: Second Reading) | +0.3% (p) | +0.3% |
| | EU-19: 09.00 | Final Markit Manufacturing PMI (May) | 56.2 / 55.5 (p) | 55.5 |
| | UK: 09.30 | CIPS/Markit Manufacturing PMI (May) | 53.9 | 53.6 |
| | US: 13.30 | Non-Farm Payrolls (May) | 164,000 | 185,000 |
| | | - Unemployment | 3.9% | 3.9% |
| | | - Average Earnings | +0.1% (+2.6%) | +0.2% (+2.6%) |
| | US: 15.00 | Manufacturing ISM (May) | 57.3 | 58.4 |
| | US: 20.30 | Total Vehicle Sales (May) | 17.15m s.a.a.r. | 17.20m |

◆ 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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