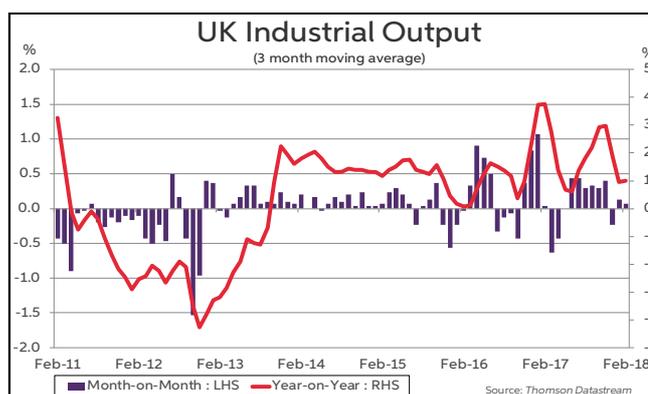


The Grim Reaper

- It may have taken some time to register, but the vote for Brexit is now really reaping its toll on the UK economy.** The UK went from being the fastest growing G7 economy ahead of the vote to the slowest by the final quarter of 2017, with even Japan and Italy surpassing it. This trend continued in the opening quarter of 2018, with UK GDP rising by a paltry 0.1%, and the year-on-year growth rate slowing to 1.2%, the weakest since Q2 2012. This is at a time when the world economy has gained momentum, with the IMF forecasting global growth of close to 4% this year, compared to 3.2% back in 2016.
- There were hopes that bad weather had temporarily depressed UK growth in Q1 and the economy would regain momentum in April. However, PMI survey data have disappointed for the month,** showing no meaningful rebound in activity, with the manufacturing index actually falling further. The April CBI Distributive Trades Survey was also disappointing. No wonder then, as discussed below, that a rate hike is no longer on the table at the upcoming MPC meeting.
- Meanwhile, the agreement reached in March between the EU and UK on a post-Brexit transition period to last until end 2020, fuelled hopes of a soft Brexit when the UK leaves the EU next March. However, there is still very strong resistance by many in the UK Government to the idea of any form of customs partnership with the EU after the transition period ends. **The deep divisions within the UK government also mean it will be a challenge to get an EU withdrawal agreement through Parliament.** The risk of a hard Brexit remains, as PM May struggles to find common ground on the issue within her party that would also prove acceptable to the EU.
- In the week ahead, the Bank of England concludes the latest cycle of major central bank policy meetings.** After the vote by two MPC members to raise rates at its last meeting in March, markets had moved to price in a rate hike this week. However, following some weaker than expected data, more recent comments from BoE speakers have poured cold water on this. For example, Governor Carney was keen to emphasise in a recent interview that the UK data have been “mixed” and that while he expects interest rates to rise again in 2018, “there are other meetings over the course of this year”, implying he is in no hurry to hike. As a result, **futures contracts show that markets have pushed their expectation of the next BoE hike out, with the August meeting now the most likely candidate.** This week’s Inflation Report and post-meeting press conference from Governor Carney will be closely analysed for any indications in that regard.

- In terms of UK data, industrial production for March is due.** Growth looks to have been broadly flat in the month, despite the severe weather conditions in March. Although, the UK trade deficit is anticipated to have widened further in March.



- There is a light macro data schedule in the Eurozone in the coming days.** Indeed, the main releases of note are March industrial production figures from the Eurozone’s three largest economies; Germany, France and Italy. German production is forecast to have recorded a solid increase, after falling in March. French output is also expected to move higher building on March’s strong gains, while Italian production is forecast to see some recovery in the month.

- Finally, CPI inflation data for April are due in the US.** Inflation has risen to above 2% in recent months, and is expected to edge up further to 2.4%. However, the Fed has sought to ‘downplay’ the potential policy impact of inflation above 2%, referring to its target rate as being “symmetric”. This suggests that the Fed would not respond aggressively to inflation moving slightly above target for a period. Meanwhile, the preliminary Michigan measure of consumer sentiment is predicted to have remained at a very strong level in May.

| | Interest Rate Forecasts | | | |
|-------------|-------------------------|--------|--------|--------|
| | Current | End Q2 | End Q3 | End Q4 |
| | | 2018 | 2018 | 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 | End Q3 | End Q4 |
| | | 2018 | 2018 | 2018 |
| EUR/USD | 1.1940 | 1.22 | 1.24 | 1.26 |
| EUR/GBP | 0.8836 | 0.87 | 0.86 | 0.85 |
| EUR/JPY | 130.34 | 132 | 131 | 131 |
| GBP/USD | 1.3512 | 1.40 | 1.44 | 1.48 |
| USD/JPY | 109.13 | 108 | 106 | 104 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|--------------------------|--|--------------------------------|--------------------------------|
| This Week: | ECB Speakers: | Praet (Monday); Draghi (Friday) | | |
| | Fed Speakers: | Bostic, Barkin, Harker (Monday); Bostic (Wednesday); | | |
| Mon 7th | IRL/UK: | May Bank Holiday (Market Holiday) | | |
| | GER: 07.00 | Industrial Orders (March) | +0.3% | +0.5% |
| | EU-19: 09.30 | Sentix Index (May) | 19.6 | 21.1 |
| Tue 8th | CHINA: 02.00 | Trade Balance (April) - Exports | -\$4.98bn (-2.7%) | \$24.7bn (+6.3%) |
| | GER: 07.00 | Industrial Output (March) | -1.6% | +0.8% |
| | GER: 07.00 | Trade Balance (March) - Exports | €19.2bn -3.2% | €20.0bn +1.8% |
| | UK: 08.30 | Halifax House Prices (April) | +1.5% (+2.7%) | -0.2% (+3.3%) |
| | US: 11.00 | NFIB SME Optimism (April) | 104.7 | |
| Wed 9th | JPN: 06.00 | Leading Indicators Index (March) | +0.2% / 106.0 | |
| | FRA: 07.45 | Industrial Output (March) | +1.2% | +0.3% |
| | IRL: 11.00 | Residential Property Prices (March) | +1.1% (+13.0%) | +0.5% (+13.2%) |
| | US: 13.30 | PPI (April) | +0.3% (+3.0%) | +0.3% (+2.9%) |
| Thurs 10th | UK: 00.01 | BRC Retail Sales (April) | (+1.4%) | |
| | UK: 00.01 | RICS House Price Balance (April) | 0 | -1 |
| | JPN: 06.00 | Economy Watchers' Index (April) | 48.9 | |
| | ITA: 09.00 | Industrial Output (March) | -0.5% | +0.3% |
| | UK: 09.30 | Industrial Output (March) - Manufacturing | +0.1% (+2.2%) -0.2% (+2.5%) | +0.1% (+3.1%) -0.2% (+2.9%) |
| | UK: 09.30 | Goods Trade Balance (March) - Non-EU | -£10.20bn -£2.24bn | -£11.25bn |
| | IRL: 11.00 | CPI (April) | +0.3% (+0.2%) | +0.4% (+0.2%) |
| | UK: 12.00 | BoE Interest Rate Announcement - BoE Inflation Report Published | 0.50% | 0.50% |
| | UK: 12.30 | BoE Press Conference | | |
| | US: 13.30 | CPI (April) - Ex-Food & Energy | (+2.4%) (+2.1%) | (+2.5%) (+2.2%) |
| | US: 13.30 | Initial Jobless Claims (w/e 5th May) | 232,000 | 220,000 |
| | US: 19.00 | Federal Budget (April) | -\$209.0bn | |
| Fri 11th | US: 13.30 | Import / Export Prices (April) | 0.0% / +0.3% | +0.5% / +0.3% |
| | US: 15.00 | Prelim' Michigan Consumer Sentiment (May) | 98.8 | 98.5 |

◆ 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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