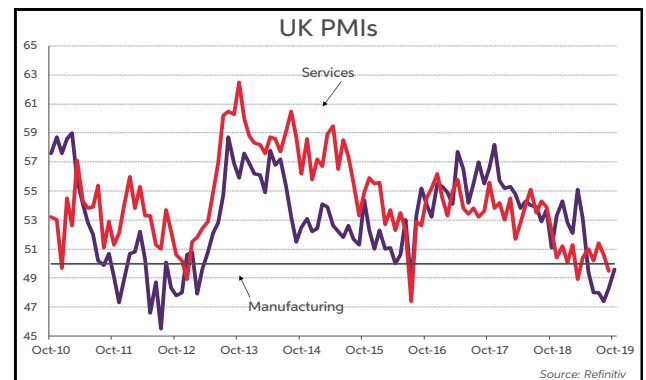


Any Brexit Respite May Prove Temporary

- Sterling has remained very range bound against the euro in the past fortnight, after making big gains in mid-October on news of agreement on a revised Brexit deal.** The euro has been trading at just above the 86p level against sterling since then, with the calling of a general election in the UK having little impact on the currency. **The election is the next big risk event for sterling. Another hung Parliament still deadlocked over Brexit is likely to see sterling come under pressure again,** with the euro rising back above the 90p level. However, the opinion polls published in the past week show the Conservatives' vote moving up towards 40%, which would put them on course for a comfortable majority. The most comparable recent election is 2015, when the Conservatives won a small outright majority with 37% of the vote.
- A clear Conservative win would pave the way for the UK to ratify the Revised Withdrawal Agreement and leave the EU on 31 January 2020. Sterling could be expected to make further gains in such circumstances, but they may prove limited and short lived.** There is strong technical support for the euro at around the 84-85p level against sterling, which may be difficult to overcome. Furthermore, this revised Brexit deal is seen as being quite negative for the UK economy as it will be leaving the EU Customs Union and Single Market. There is also considerable uncertainty about the future trading relationship between the UK and EU. Thus, a Conservative win may only see the euro decline to around the 84p level. Meanwhile, cable could rise towards \$1.35, helped also by some strengthening of the euro against the dollar.
- The trade talks that would follow next year are likely to prove very difficult.** The more a Conservative government wants to "take back control" so that the UK has its own regulatory and customs regime, the more limited will be any trade deal concluded with the EU. **The EU has been very clear that it will insist on a level playing field** in any trade deal, so that "regulatory divergence does not turn into regulatory dumping". It has stated that guaranteeing and enforcing "common rules" will be a crucial part of any deal. **This may be a bridge too far for a Brexit orientated Conservative government.** Indeed, such a government could be **prepared to fall back on WTO rules rather than sign up for a trade deal** that requires the UK to closely follow the rules of the Single Market. This would be very much a hard Brexit, but occurring at the end of the transition period at end 2020. **Next year, then, could see downward pressure and volatility re-emerge for the UK currency** given that the next phase of Brexit, the trade negotiations, are likely to prove difficult and protracted, with a very uncertain outcome. We would not be surprised to see the 90p level revisited against the euro in this situation.
- Turning to the week ahead, the BoE will hold its November policy meeting.** There have been hints from the central bank recently that continuing Brexit uncertainty could see it cut rates soon. However, it is likely to hold off on any decision until its next meeting on December 19, after the UK election. Markets are pricing in a close to 25bps rate cut by end-2020. In September, the central bank stated that it believes a "degree of slack has opened up in the economy". The data lends credence to this assessment, with economic growth stalling and inflation below the BoE's 2% target level, as Brexit uncertainty and the global downturn act as headwinds. This week, both the November Inflation Report and Governor Carney's accompanying press conference will be looked to for an update on the BoE's view on the likely trajectory of the UK economy.
- Data-wise, the UK schedule is once again very sparse.** The only release of note is the October reading of the services PMI. It is anticipated that the index edged higher in the month, but remained below the key 50 level that separates expansion from contraction.
- In the Eurozone, retail sales figures for September are due.** The weaker outlook for growth in the region has weighed on consumer confidence in recent months, which in turn has seen retail sales growth slow. In September, the forecast is for a 0.1% increase. On a national level, German and French industrial production numbers for September are out this week. Output is projected to have fallen by 0.3% in the former, while a small 0.2% increase is pencilled in for the latter. Overall, the data are likely to suggest that the Eurozone industrial sector remains in recession.
- The highlight in the US is the non-manufacturing ISM for October.** The index dropped to a 3-year low of 52.6 in September. Some rebound is expected in October, but only to 53.2, which is still well below levels seen in the early part of the year. On the demand side, it is envisaged that the University of Michigan measure of consumer sentiment was unchanged in November.



	Interest Rate Forecasts			
	Current	End Q4 2019	End Q1 2020	End Q2 2020
Fed Funds	1.625	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.60	-0.60
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 Q4 2019	End Q1 2020	End Q2 2020
EUR/USD	1.1161	1.10	1.11	1.12
EUR/GBP	0.8615	0.86	0.86	0.86
EUR/JPY	120.61	118	119	119
GBP/USD	1.2953	1.28	1.29	1.30
USD/JPY	108.05	107	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Monday); de Guindos, Holzmann, Mersch (Wednesday)		
	Fed Speakers:	Daly (Monday); Barkin, Kaplan, Kashkari (Tuesday); Evans, Harker, Williams (Wednesday); Bostic, Kaplan (Thursday)		
Mon 4th	EU-19:	09.00	Final Markit Manufacturing PMI (October)	45.7 / 45.7 (p) 45.7
	UK:	09.30	CIPS / Markit Construction PMI (October)	43.3 44.0
	EU-19:	09.30	Sentix Index (November)	-16.8 -13.8
	US:	15.00	Factory Orders (September)	-0.1% -0.6%
	IRL:	16.30	Exchequer Balance (October)	Sept '18: -€2.7bn -€1.7bn
Tue 5th	UK:	00.01	BRC Retail Sales (October)	(-1.7%)
	IRL:	01.01	AIB Services PMI (October)	53.1
	UK:	09.30	CIPS / Markit Services PMI (October)	49.5 49.6
	EU-19:	10.00	PPI (September)	(-0.8%) (-1.2%)
	IRL:	11.00	Unemployment (October)	5.3% 5.3%
	US:	13.30	International Trade (September)	-\$54.9bn -\$52.5bn
	US:	14.45	Final Markit Composite PMI (October) - Services	51.0 / 51.2 (p) 51.0 50.9 / 51.0 (p)
	US:	15.00	Non-Manufacturing ISM (October) - Business Activity	52.6 53.2 55.2 55.0
Wed 6th	GER:	07.00	Industrial Orders (September)	-0.6% +0.0%
	ITA:	08.45	Markit Composite PMI (October)	50.6
	FRA:	08.50	Final Markit Composite PMI (October)	50.8 / 52.6 (p) 52.6
	GER:	08.55	Final Markit Composite PMI (October)	48.5 / 48.6 (p) 48.6
	EU-19:	09.00	Final Markit Composite PMI (October)	50.1 / 50.2 (p) 50.2
	EU-19:	10.00	Retail Sales (September)	+0.3% (+2.1%) +0.1% (+2.5%)
Thurs 7th	GER:	07.00	Industrial Output (September)	+0.3% -0.3%
	IRL:	11.00	CPI (October)	-0.2% (+0.9%) -0.2% (+0.8%)
	IRL:	11.00	Live Register (October)	-200/188,800 +0/188,800
	UK:	12.00	BoE Interest Rate Announcement - Meeting Minutes / November Inflation Report	0.75% 0.75%
	US:	13.30	Initial Jobless Claims (w/e 28th October)	218,000 215,000
	US:	20.00	Consumer Credit (September)	\$17.9bn \$14.5bn
Fri 8th	CHINA:	02.00	Trade Balance (October) - Exports	\$39.65bn (-3.2%) \$41.2bn (-3.5%)
	JPN:	05.00	Leading Indicators' Index (September)	-1.8
	GER:	07.00	Trade Balance (September) - Exports	€18.1bn -1.8% €18.1bn +0.5%
	FRA:	07.45	Industrial Output (September)	-0.9% +0.2%
	FRA:	07.45	Trade Balance (September)	-€5.02bn
	US:	15.00	Prelim' Michigan Consumer Sentiment (Nov.)	95.5 95.8

◆ 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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