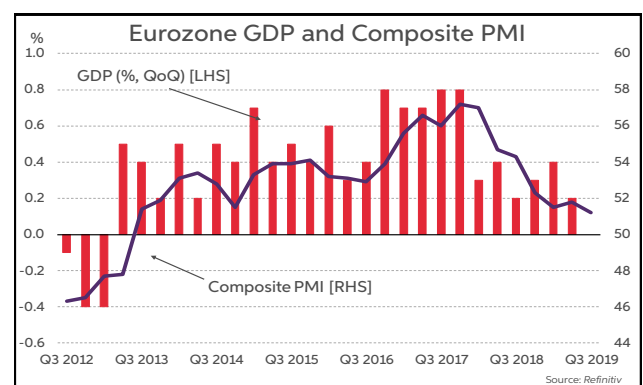


Heads I Win, Tails You Lose

- The revised Brexit deal may have been signed off at the EU Heads of State Summit, but getting it through the UK Parliament tomorrow is going to be a challenge.** It will most likely require the support of a significant number of Labour MPs to pass. However, a failure to get it passed does not mean the deal is dead. Instead, it will likely force the UK government to seek an extension to Article 50, which would pave the way for an early general election. Boris Johnson will almost certainly put the deal at the centre of his campaign and be fairly confident of winning that election. Labour will campaign on the back of a softer Brexit deal that would keep the UK in the Customs Union and then putting that deal to a referendum. Thus, the prospect of a no-deal Brexit has receded. Of course, we could also get another hung Parliament, still deadlocked over Brexit. However, this could also lead to another referendum.
- While the worst case scenario of a disorderly no-deal hard Brexit looks like being avoided, the revised Withdrawal Agreement still poses plenty of future challenges for the Irish and UK economies, despite the provision for a transition period.** This is not a soft Brexit. Once the transition period ends, those trading with the UK will need to lodge customs declarations forms to have clearance to move their goods. This will result in new administration costs and likely delays for firms. Meantime, any new UK-EU trade deal will be much inferior to the current Single Market, especially if it is done by a Conservative government that wants to go down the route of regulatory divergence and setting its own customs duties. Thus, while a hard border had been avoided on the island of Ireland, within the next couple of years a hard border could well be appearing in the Irish Sea between Britain and the Republic and in the English Channel between the UK and EU.
- The revised deal is good news for the Northern Ireland economy as it is the one part of the UK that will retain free access to EU markets as it is remaining within the Single Market.** Meanwhile, its exports to Great Britain are not impacted in any way by this deal. It is important to note that any checks on trade with Great Britain only relate to goods moving from there to NI. Even then, it is clear from the text of the agreement that the focus of the proposed new Customs arrangements is on goods being brought into NI from another part of the UK that are “at risk of subsequently being moved into the Union”. There has been much talk about divergence between NI and the rest of the UK. However, there are already many examples of such divergence. The most recent example was the adoption by NI of the same corporation tax rate as the Republic. NI will be in a very strong position to capture a growing share of foreign direct investment if the current Brexit deal is ratified, as it secures its position within the Single Market and in effect the EU Customs Union, while continuing to have unfettered access to UK markets. Indeed, the deal places Northern Ireland in a uniquely advantageous position.
- Turning to the week ahead, the highlight is the ECB’s October policy meeting.** In spite of muted inflation, it appears unlikely that President Draghi will announce any changes in what is his last meeting as head of the central bank. A significant easing package was put in place in September, which divided the Governing Council. A number of members have made it clear that they believe it to have been too dovish, especially with regard to restarting QE. Therefore, the ECB will likely want to observe the effectiveness of the aforementioned easing measures over the next few months before acting again.
- A raft of Eurozone survey data for October are also due this week.** Of particular interest will be the flash PMIs given September’s weak readings. It is anticipated that the composite index edged slightly higher to a still subdued level of 50.4, from 50.1. The breakdown is expected to show that both the manufacturing and service sector PMIs recorded small increases to 46 and 51.9, respectively. On a national level, the German Ifo measure of business confidence is judged to have remained at a level consistent with an economy in recession.
- In the US, the flash PMIs for October are also set to feature.** It is envisaged that the composite index will continue to point to moderating US economic activity, as trade tensions and the global downturn in manufacturing act as headwinds. Indeed, the manufacturing PMI is projected to have fallen down to 50.5, reversing the rise in September. At the same time, the consensus is that the services index will come in at 51.0, broadly unchanged from the prior month. **The UK macro-release calendar is comparatively sparse this week.** The only data due are September public finance figures and October CBI industrial orders.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2019	2020	2020
Fed Funds	1.875	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	End Q1	End Q2
		2019	2020	2020
EUR/USD	1.1140	1.10	1.11	1.12
EUR/GBP	0.8658	0.86	0.86	0.86
EUR/JPY	120.86	118	119	119
GBP/USD	1.2868	1.28	1.29	1.30
USD/JPY	108.45	107	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Haldane (Monday)		
	ECB Speakers:	de Guindos (Monday)		
Mon 21st	JPN: 00.50	Trade Balance (September) - Exports	-¥143.bn (-8.2%)	¥54.0bn (-4.0%)
	GER: 07.00	PPI (September)	(+0.3%)	(-0.3%)
Tue 22nd	UK: 09.30	PSNB Ex-Interventions (September)	-£6.42bn	£9.50bn
	UK: 11.00	CBI Industrial Orders (October)	-28	-23
	US: 15.00	Existing Home Sales (September)	+1.3% / 5.49m	-0.7% / 5.45m
Wed 23rd	FRA: 07.45	INSEE Business Climate (October)	102	102
	EU-19: 15.00	Flash Consumer Confidence (October)	-6.5	-6.7
Thurs 24th	JPN: 01.30	Flash Jibuan Manufacturing PMI (October)	48.9	
	SWE: 08.30	Riksbank Interest Rate Decision	-0.25	-0.25
	NOR: 09.00	Norges Bank Interest Rate Decision	1.50	1.50
	FRA: 09.15	Flash Markit Composite PMI (October)	50.8	51.0
	GER: 09.30	Flash Markit Composite PMI (October)	48.5	48.7
	EU-19: 10.00	Flash Markit Composite PMI (October) - Manufacturing / Services	50.1 45.7 / 51.6	50.4 46.0 / 51.9
	EU-19: 12.45	ECB Refi Rate Announcement - Deposit Rate	0.00% -0.50%	0.00% -0.50%
	US: 13.30	Durable Goods (September)	+0.2%	-0.8%
	US: 13.30	Initial Jobless Claims (w/e 14th October)	214,000	215,000
	US: 14.45	Flash Markit Composite PMI (October) - Manufacturing / Services	51.0 51.1 / 50.9	50.5 / 51.0
	US: 15.00	New Home Sales (September)	+7.1% / 0.71m	-1.4% / 0.7m
Fri 25th	GER: 07.00	GfK Consumer Sentiment (November)	9.9	9.8
	GER: 09.00	Ifo Business Climate (October)	94.6	94.5
	US: 15.00	Final Michigan Consumer Sentiment (Oct.)	96.0	96.0

◆ 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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