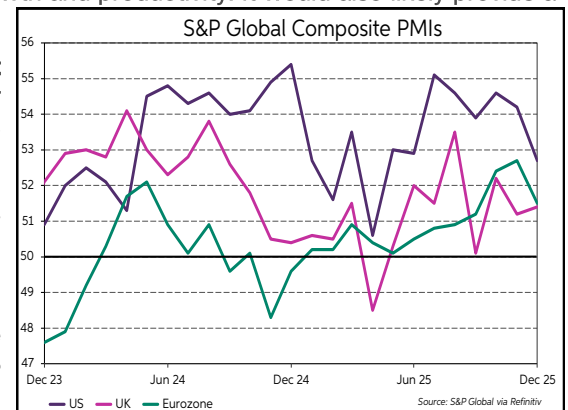


Could “Breturn” provide a boost for sterling?

- **2026 marks the 10-year anniversary of the Brexit referendum in the UK.** Yet, almost a decade on, the debate continues, as highlighted by the recent suggestions from UK PM Starmer of a move back towards Single Market access. In 2016, the UK was the 5th largest economy in the world, roughly about 85% the size of Germany's. It is now the 6th, and about 80% the size of a recently stagnant German economy. Indeed, new research now shows the damage the Brexit vote has caused the UK economy. A paper published in the National Bureau of Economic Research (NBER), estimates that Brexit has reduced UK GDP by between 6-8%, lowered investment by 12-18%, cut employment by 3-4% and dampened productivity by 3-4%. This exceeds predictions made at the time of the referendum, when economists estimated a leave vote could lower GDP by 4-6%.
- **Brexit has particularly impacted sterling.** In the decade up to the referendum result, EUR/GBP averaged around 80p but frequently traded below that threshold. In the 10 years since, it has not traded near to 80p, and has averaged close to 87p. The depreciation of the pound has not been enough to offset newly erected trade barriers. Goods exports are roughly 15% below their pre-2020 trend. True, services exports have expanded at a healthy pace since the Brexit deal was announced. However, another study from the London School of Economics, estimates that they are roughly 4-6% lower because of Brexit, as the UK's access to the single market has not been offset by increased market share outside of the EU.
- **Of course, the UK economy still has many strengths.** London remains the second largest financial sector in the world, and its share of lucrative derivative and forex trading has risen in recent years. The fiscal deficit is lower than most G7 peers, including the US and France. Furthermore, the UK has consistently ranked as one of the fastest adopters of AI. However, the main drag on the economy since the Global Financial Crisis has been weak productivity growth, exacerbated by Brexit. The Labour government came to power promising to boost growth, yet it has failed to outline a coherent economic plan to lift productivity.
- **Meanwhile the “reset” in relations between the EU and UK has so far yielded only marginal results.** The Government's own calculations project that the policies announced to date may add just 0.3% to UK GDP by 2040. A bolder economic strategy could place a new relationship with the EU at its centre. In this regard, PM Starmer's apparent openness to “closer alignment” to the EU's single market is a positive step, ahead of the first 5-year review of the Trade and Co-operation Agreement, expected this year. Greater exposure for UK firms to EU markets could support both growth and productivity. It would also likely provide a boost for sterling - although, a “Breturn” dividend still seems some way off yet.
- **This week, a busy UK data calendar contains updates on the labour market and the consumer (prices, sales and confidence).** Conditions in the labour market have softened over the past year. The unemployment rate has increased steadily, from 4.4% in January to 5.1% in October, its highest level since January 2021. Against this backdrop, wage inflation has cooled. Average earnings growth fell to +4.7% y/y in the three months to October. The consensus is for the jobless rate to fall to 5.0% in November, and for wage growth to slow to 4.6% y/y. Meantime, headline inflation is projected to rise marginally to 3.3% in December, but the core rate is set to stay at 3.2%. Elsewhere, a 0.1% decline in retail sales is pencilled in for a second successive month in December. Encouragingly, consumer confidence is expected to improve to -16.0 in January, its best reading since August 2024.
- **In the US, core-PCE inflation, personal consumption and income, as well as the final reading of GDP for Q3 will feature.** Throughout the first three quarters of 2025, core-PCE inflation has been quite sticky. It started the year at 2.8%, fell to a low of 2.6% in April, but peaked at 2.9% in July/August, before edging back to where it began the year, at 2.8% in September. The October data were postponed due to the Government shutdown, but will be released alongside the November report. Expectations are for core-PCE to inch down to 2.7% in November. Similarly, the October and November personal income and consumption updates will be released together. A 0.4% rise in the former and a 0.5% increase in the latter is anticipated in November. The final estimate of US Q3 GDP growth is set to confirm the economy expanded by 4.3% annualised in the quarter.
- **The flash PMIs for January in the Eurozone, UK and US are also due.** The Eurozone services PMI has been in expansion mode since June, albeit it fell to 52.4 in December. In contrast, the manufacturing PMI has been in contraction territory in three of the last four months. The consensus is for a slight increase in both in January, although the manufacturing survey is set to remain consistent with a further decline in activity. In the UK, the services sector is also outperforming manufacturing, but crucially both sectors have stayed above the key 50 level. This trend is set to continue in January, with the manufacturing PMI edging up to 50.7 and the services PMI to 51.7. Meantime, the US PMIs have printed above 50 in recent months, but they fell to their lowest levels since April and July, respectively, in December. However, an improvement to 52.0 and 52.8 is expected in January.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2026	2026	2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.50	3.50
BoJ OCR	0.75	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2026	2026	2026
EUR/USD	1.1622	1.17	1.18	1.18
EUR/GBP	0.8670	0.88	0.88	0.87
EUR/JPY	183.47	179	179	179
GBP/USD	1.3399	1.33	1.34	1.36
USD/JPY	157.85	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 19th - Friday 23rd January

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:	Cipollone (Mon); de Guindos (Tue); Lagarde (Wed); Lagarde (Fri) Greene (Fri)		
World Economic Forum (19th-23rd January)				
Mon 19th	US: EU-21:	Martin Luther King Jr. Day (Market Holiday) Final HICP Inflation (December) - Ex-Food & Energy - Ex-Food, Energy, Alcohol & Tobacco	-0.4% (+2.0%) -0.4% (+2.3%)(+0.3% (+2.3%)	-0.4% (+2.0%) -0.4% (+2.3%) +0.3% (+2.3%)
Tue 20th	GER: UK: UK: UK: UK: GER:	07:00 Producer Prices (December) 07:00 Unemployment Rate (November) 07:00 HMRC Payrolls Change (December) 07:00 Claimant Count (December) 07:00 Average Earnings Growth (November) - Ex-Bonus 10:00 ZEW Economic Sentiment (January)	+0.0% (-2.3%) 5.1% -38,000 20,100 (+4.7%) (+4.6%) 45.8	-0.1% (-2.4%) +5.0% (+4.6%) (+4.5%) 50.0
Wed 21st	UK: UK: UK: UK: IRE:	07:00 CPI Inflation (December) - Core-CPI - Services CPI 07:00 PPI Input Prices (December) - PPI Output Price Inflation 11:00 CBI Trends—Orders (January) 11:00 CBI Business Optimism (Q1) 11:00 Residential Property Prices (November)	-0.2% (+3.2%) -0.2% (+3.2%) -0.2% (+4.4%) +0.3% (+1.1%) +0.1% (+1.1%) -32.0 -31.0 +0.6% (+7.3%)	+0.4% (+3.3%) +0.3% (+3.2%) (+4.5%) +% (+%) +% (+%) +0.5% (+7.0%)
Thu 22nd	EU-21: UK: US: US: US: US: US: JPN:	10:00 ECB Monetary Policy Account (17-18th Dec) 11:00 CBI Distributive trades (January) 13:30 GDP (Q3: Final Reading) 13:30 PCE Prices (Q3: Final Reading) - Core-PCE Prices 13:30 Initial Jobless Claims (w/e 12th January) 15:00 Personal Income / Consumption (November) 15:00 PCE prices (November) - Core-PCE Prices 23:50 CPI Inflation (December) - Core CPI Inflation	-44.0 +4.3% S.a.a.r. +2.8x% S.a.a.r. +2.9% S.a.a.r. +198,000 +0.4% / +0.4% +0.3% (+2.8%) +0.2% (+2.8%) (+2.9%) (+3.0%)	+4.3% S.a.a.r. +2.8% S.a.a.r. +2.9% S.a.a.r. +0.4% / +0.5% +0.2% (+2.7%) +0.2% (+2.7%) (+2.4%)
Fri 23rd	JPN: UK: JPN: UK: FRA: FRA: GER: EU-21: UK: US:	00:01 BoJ Interest Rate Announcement 00:01 Gfk Consumer Confidence (January) 00:30 Flash S&P Composite PMI (January) 07:00 Retail Sales (December) - Ex-Fuel 07:45 INSEE Business Climate (January) 08:15 Flash HCOB Composite PMI (January) 08:30 Flash HCOB Composite PMI (January) 09:00 Flash HCOB Composite PMI (January) - Manufacturing / Services 09:30 Flash Composite PMI (January) - Manufacturing / Services 14:45 Flash S&P Composite PMI (January) - Manufacturing / Services	0.75% -17.0 51.1 -0.1% (+0.6%) -0.2% (+1.2%) 99.0 50.0 51.3 51.5 48.8 / 52.4 51.4 50.6 / 51.4 52.7 51.8 / 52.5	0.75% -0.1% (+1.0%) -0.2% (+1.4%) 98.0 50.1 51.8 51.6 49.0 / 52.5 51.7 50.7 / 51.7 52.9 52.0 / 52.8

♦ Month-on-month changes (year-on-year shown in brackets)

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.