Weekly Market Brief

AIB Treasury Economic Research Unit

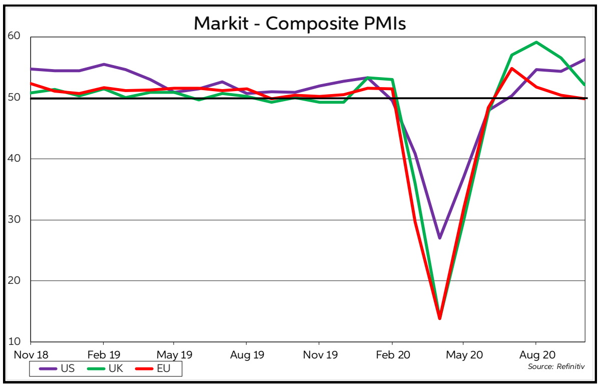
23rd – 27th November 2020

End of the Line

- **The UK Prime Minister is self-isolating in Downing St. Meanwhile, the EU Chief Negotiator is self-isolating in Brussels as a result of another EU trade negotiator testing positive for the coronavirus.** The latter has caused the high-level, face-to-face EU-UK trade talks to be suspended, with the two teams now having to continue their discussions remotely on a virtual basis. This is hardly what you want as the trade talks enter their critical final stage, with time running out to get a deal done that can be ratified before the Brexit transition period expires at the end of December. It is encouraging that there are large teams on each side working on the details of a possible agreement. However, the big decisions around state aid rules, regulatory alignment, a disputes resolution mechanism and fishing rights have to be taken at the top level. Key players are now off the pitch for the next week rather than in the negotiating room. This is far from ideal.

- **The markets remain confident about a deal, judging by the performance of sterling which has been slowly grinding higher.** EUR/GBP has been trading in an 89-90p range for the past fortnight – the euro has fallen back from close to the 93p level hit in September as the trade negotiations continued over the autumn. There were some positive media reports during the past week of some progress being made as both sides softened their positions, especially in regard to fishing rights in UK waters. However, it is still unclear if so called "landing zones" have been reached on the key contentious issues. There is a lot of pressure to conclude a trade deal in the coming week. Even then, it may require the UK and EU Parliaments to sit over the Christmas period to ratify a deal, although this may not be as big an issue now, given that they can meet remotely.

- **Our view remains the upside for sterling is likely to be limited even if a deal is secured. It has already made ground in the past couple of months.** Furthermore, the expectation is that it would be a bare-bones "no tariffs, no quotas" deal on goods, far inferior to the current Single Market trading regime for goods and services. As such, it would have a negative impact on UK growth prospects over the medium-term. Hence, we may only see the euro fall back to around the 86p level against sterling. On the other hand, the UK currency could fall sharply if it becomes clear that we are heading for no trade deal and thus a Hard Brexit. This would have very negative consequences for an already weak UK economy and damage relations with the EU. Sterling has shown the capacity for big falls over the past 12 years or so, at times of crisis. A fall of 10% would not be out of line with previous declines. Thus, markets will be eagerly awaiting signs in the coming week that a trade deal is about to be concluded, thereby avoiding another crisis.



- **Data-wise, this week we get a raft of survey data from the Eurozone, the highlight of which will be the November flash reading of the PMIs.** The consensus is for the services PMI to move deeper into contraction territory as tighter restrictions introduced across the continent dampened activity in the sector. However, the decline is not expected to be anywhere near as sharp as in the spring, with the index falling from 46.9 to 42.5. The manufacturing PMI is forecast to remain expansionary, but to nudge lower to 53.1 from 54.8 as many of the autumn lockdowns allowed for the sector to remain in operation, unlike earlier in the year. It is envisaged that the composite index will fall to 46.1 from 50. The EC sentiment index for November is also expected to move lower to 86.5 from 90.9, an already subdued level. National sentiment measures are not expected to fare much better, with the German Ifo and the French INSEE both expected to pull back as well. Overall, the survey data are expected to show weakening activity in Q4, with the potential for the recovery to come to a halt. On the monetary policy front, the ECB will release the minutes from their October policy meeting on Thursday.

- **Across the Atlantic, the PMIs will also feature.** Markets will be looking to November's readings for signs of a slowdown in the economic rebound in the final quarter of the year. Both the services and the manufacturing index are anticipated to remain broadly unchanged and thus expansionary in November. However, the risks to the release are to the downside, particularly for the service sector. On the demand side of the economy, consumption is forecast to increase by 0.4% in October, the smallest monthly rise since the spring. Durable goods orders are anticipated to increase by 1.0% in October also. November's print of consumer confidence will be of keen interest as well, with the forecast for the index to edge lower to 98.0 from 100.9. The Fed's preferred measure of inflation Core-PCE is also due. It is anticipated to have slipped to 1.4% in October from 1.5%. Turning to monetary policy, the minutes of the FOMC's November meeting will garner some attention also

- **In the UK, the flash PMIs are the main release also.** The services PMI is forecast to fall well below 50, to 42.5 as tighter restrictions and an eventual lockdown negatively impacted the sector. The manufacturing index is expected to fall to 50 from 53.7. The composite index is projected to decline to 44.1 from 52.1. The only other release in the UK is Nationwide house prices for November, with the housing sector performing strongly despite the pandemic.

Interest Rate Forecasts

	Current	End Q4 2020	End Q1 2021	End Q2 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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 2020	End Q1 2021	End Q2 2021
EUR/USD	1.1869	1.18	1.20	1.22
EUR/GBP	0.8935	0.88	0.88	0.89
EUR/JPY	123.15	124	126	127
GBP/USD	1.3280	1.34	1.36	1.37
USD/JPY	103.76	105	105	104

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 23rd - Friday 27th November

AIB Treasury Economic Research

Oliver Mangan Chief Economist

John Fahey Senior Economist

Daniel Noonan Economist

Date		*UK & Irish Time (GMT+1)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:** Schnabel (Monday); Fernandez-Bollo, Schnabel, **Lagarde,** Lane (Tuesday); Lane, Schnabel (Thursday) Panetta, Schnabel (Friday)				
	BoE Speakers: Haskel (Tuesday)				
	Fed Speakers: Clarida (Tuesday)				
Mon 23	**FRA:**	08:15	Flash Markit Composite PMI (November)	47.5	34.0
	GER:	08:30	Flash Markit Composite PMI (November)	55.0	50.1
	EU-19:	09:00	Flash Markit Composite PMI (November)	50.0	46.1
			Manufacturing / Services	54.8 / 46.9	53.1 / 42.5
	UK:	09:30	Flash Markit Composite PMI (November)	52.1	42.5
			Manufacturing / Services	53.7 / 51.4	50.5 / 42.5
	US:	14:45	Flash Markit Composite PMI (November)	56.3	
			Manufacturing / Services	53.4 / 56.9	53.0 / 55.5
Tue 24th	**GER:**	07:00	GDP (Q3: Detailed Reading)	+8.2% / (-4.3%)	+8.2% / (-4.3%)
	FRA:	07:45	INSEE Business Climate (November)	90	
	GER:	09:00	Ifo Business Climate (November)	92.7	90.8
	UK:	11:00	CBI Distributive Trades	-23	
	US:	14:00	Case-Shiller House Prices (September)	+1.1% (+5.2%)	
	US:	15:00	Conference Board Consumer Confidence (Nov.)	100.9	98.0
Wed 25th	**US:**	13:30	Personal Income / Consumption (October)	+0.9% / +1.4%	+0.1% / +0.4%
			- Core PCE Prices	+1.5%	+1.4%
	US:	13:30	Durable Goods Orders (October)	+1.9%	+1.0%
	US:	13:30	GDP (Q3: Second Reading)	+33.1% s.a.a.r	+33.1% s.a.a.r
	US:	13:30	Initial Jobless Claims (w/e 16th November)	742,000	
	US:	15:00	Final Michigan Consumer Sentiment (Nov.)	77.0	78.0
	US:	15:00	New Home Sales (October)	0.959m / -3.5%	0.970m / +1.8%
	US:	19:00	Minutes from November FOMC published		
Thurs 26th	**US:**		Thanksgiving (Market Holiday)		
	GER:	07:00	Gfk Consumer Sentiment (December)	-3.1	
	EU-19:	09:00	M3 Money Supply (October)	(+10.4%)	(+10.5%)
	EU-19	13:30	October Monetary Policy Account Published		
	JPN:	23:30	Flash CPI (November)	(-0.5%)	(-0.7%)
			- Core	(-0.3%)	
Fri 27th	**UK:**	07:00	Nationwide House Prices (November)	+0.8% (+5.8%)	
	FRA:	07:45	Consumer Spending (November)	-5.1%	
	FRA:	07:45	GDP (Q3: Final Reading)	+18.2% (-4.3%)	+18.2% (-4.3%)
	FRA:	07:45	Flash HICP (November)	+0.0% / (+0.1%)	+0.0% / (+0.1%)
	FRA:	07:45	PPI (October)	+0.2% / (-2.4%)	
	SPA:	08:00	Retail Sales (October)	-3.3%	
	ITA:	09:00	ISTAT Consumer Confidence (November)	102.0	100
	EU-19:	10:00	Business Climate (November)	-0.74	
	EU-19:	10:00	EC Economic Sentiment Index (November)	90.9	86.5
			- Industrial / Services / Consumer	-9.6/ -11.8/ -15.5	-10.8/ -15.0/ -18.0
	IRL:	***11:00***	***Retail Sales (October)***	***+1.5% / (+9.7%)***	***-4.0% / (+4.5%)***

♦ *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