

Nearing the End Game

- Trading in sterling has been very volatile over the past couple of weeks**, albeit while remaining within fairly well-defined trading ranges, with the currency being moved by the ebb and flow of news on the EU-UK trade talks. There is no doubt that there is a fair bit of spin going on regarding the negotiations. The UK appears anxious to have an agreement concluded soon, signalling that it would like a deal to be ready for consideration at the EU Summit on October 15th. The EU has set the end of October as its deadline for a deal. The more upbeat soundings on progress in the talks have come from the UK side in unofficial media briefings, with a more cautious tone being struck by Brussels. The discussions have yet to enter the so called “tunnel” stage of intensive detailed negotiations, suggesting there is still some way to go yet on agreeing the broad parameters of a deal. The key issues of state aid rules and fisheries persist as the main sticking points.
 - However, it would seem that we are moving closer to a trade agreement**, with UK and EU politicians signalling their desire to get a deal done. Both sides are keen to avoid the disruption to trade and negative impact on economic activity that the failure to agree a deal would bring in 2021. This would include the imposition of tariffs and quotas on trade in goods between the EU and UK. The negative consequences would be far greater for the UK economy than the EU, given the large share of its exports that go to EU markets. The very negative impact of Covid-19 on economic activity also increases the pressure to avoid another shock and get a deal done. After sharp contractions in GDP in 2020, neither side wants to be seen as inflicting further harm to the economy next year. A failure to reach a deal could also really sour relations between the EU and UK for some time.
 - Regardless of the outcome of the talks, though, the end of the transition period on December 31st will herald a major change in the trading relationship between the EU and UK.** The UK will be outside the EU Single Market and Customs Union. Any free trade agreement will be far inferior to the Single Market and involve a lot of extra administration costs for firms. This is sometimes lost sight off in the current trade discussions. Even with a trade deal, a lot of non-trade barriers will come into play, including the requirements to complete customs declarations, compliance with rules of origin on products, increasing regulatory divergence, as well as the loss of free market access for services and passporting rights for financial companies. Trade between the EU and UK will not be anywhere near as seamless as now, come 2021.
 - There is still plenty of scope for volatility in sterling in the next month or so, as the trade negotiations enter the crucial final stages.** A deal is by no means a guaranteed outcome, and there could well be more bumps along the road. The markets remain cautious, with the euro close to its 6-month high versus sterling at around 91p. A significant move by the UK currency in the weeks ahead can be expected depending on the outcome of the trade negotiations.
 - Data-wise, this week the highlight is the first reading of UK GDP for August.** GDP collapsed by –19.8% in Q2 as the impact of lockdown restrictions that were in place in April and May dampened activity. However, the economy rebounded strongly in June once restrictions were eased and carried this momentum into July, as GDP growth picked up to 8.7% and 6.6%, respectively. The forecast is for this momentum to have continued in August, with output expected to have grown by 4.6%. Although, GDP would still be 7.5% below its pre-Covid level in February.
- | Month | % MoM |
|--------|-------|
| Jul-19 | 0.0 |
| Sep-19 | 0.0 |
| Nov-19 | 0.0 |
| Jan-20 | 0.0 |
| Mar-20 | -19.8 |
| May-20 | 8.7 |
| Jul-20 | 6.6 |

Source: Refinitiv
- Staying with the UK, industrial output is forecast to remain expansionary in August, growing by 2.5%.** In general, manufacturing has been able to cope better with restrictions than other sectors. However, Industrial output is expected to still be 4.6% lower than in February. Another area of the economy that has proved to be resilient is the housing sector. Halifax house prices for September are due, with prices having increased by 1.6% in both July and August.
 - In the Eurozone, retail sales figures for August will bear watching.** Retail sales actually contracted in July by 1.3% month-on-month, after elevated sales in May and June. A small gain of 2% is expected in August. This would see retail sales move back above February’s level. The Eurozone sentix index is projected to fall for the first time since May to –9.5, a very subdued level as uncertainty continues to weigh on investor sentiment. August’s national industrial output data for Germany, France and Italy are also due, with forecasts for a further rise in production.
 - The US schedule has a more muted look to it this week.** The only release of note is the non-manufacturing ISM for September, which is forecast to edge lower to 56.0 from 56.9. The Federal Reserve will also release the minutes of the September FOMC meeting. Markets will continue to closely monitor Brexit related developments and updates from the US Presidential election as crucial dates in both draw closer. On the home front, the Government will publish the Pre-Budget 2021 White Paper late on Friday.

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	2021	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	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.1715	1.18	1.20	1.22
EUR/GBP	0.9066	0.88	0.88	0.89
EUR/JPY	123.34	124	126	127
GBP/USD	1.2917	1.34	1.36	1.37
USD/JPY	105.28	105	105	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast	
This Week:					
ECB Speakers: Lagarde, Panetta (Monday); de Guindos, Lagarde, Lane (Tuesday); Lagarde, (Wednesday) Schnabel, de Guindos (Thursday)					
BoE Speakers: Haldane (Monday); Haldane (Friday)					
Fed Speakers: Evans (Monday); Powell, (Tuesday); Kashkari, Williams, Evans (Wednesday)					
Mon 5th	IRL:	01:01	AIB Services PMI (September)	52.4	
	JPN:	01:30	Flash Services PMI (September)	45.0	
	ITA:	08:45	Final Markit Composite PMI (September)	49.5	49.5
	FRA:	08:50	Final Markit Composite PMI (September)	48.5	48.5
	GER:	08:55	Final Markit Composite PMI (September)	53.7	53.7
	EU-19:	09:00	Final market Composite PMI (September)	50.1	50.1
			- Services	47.6	47.6
	UK:	09:30	Final CIPS / Markit Composite PMI (Sept)	55.7	55.5
			- Services	55.1	55.0
	EU-19:	09:30	EU Sentix Index (October)	-8.0	-9.5
	EU-19:	10:00	Retail Sales (August)	-1.3% (0.4%)	+2.3% (2.0)
	US:	14:45	Final Markit Composite PMI (September)	54.4	54.4
			- Services	54.6	54.6
	US:	15:00	Non-Manufacturing ISM (September)	56.9	56.3
Tue 6th	GER:	07:00	Industrial Orders (August)	+2.8%	+2.5%
	US:	13:30	International Trade (August)	-63.6bn	-66.3bn
Wed 7th	GER:	07:00	Industrial Output (August)	+1.2%	+1.5%
	UK:	09:30	Halifax House Prices (September)	+1.6% (+5.2%)	
	US:	20:00	Consumer Credit (August)	+\$12.25bn	+\$14.6bn
	US:	19:00	Minutes from September FOMC Published		
Thurs 8th	UK:	00:01	RICS Housing Survey (September)	44	44
	JPN:	00:50	Economy Watchers Poll (September)	43.9	
	GER:	07:00	Trade Balance (August)	+€18.0bn	+€17.9bn
			- Exports	+4.7%	
	IRL:	11:00	CPI (September)	-0.1% (-1.0%)	0.0%(-0.7%)
	US:	13:30	Initial Jobless Claims (w/e 28th September)	837,000	
Fri 9th	JPN:	00:30	All Household Spending	-6.5% (-7.6%)	+3.2% (-6.9%)
	CHINA:	02:45	Caixan Services PMI (September)	54.0	54.0
	UK:	07:00	GDP (August)	+6.6% (-11.7%)	+4.6% (-7.1%)
	UK:	07:00	Industrial Output (August)	+5.2% (-7.8%)	+2.5% (-4.5%)
			- Manufacturing	+6.3% (-9.4%)	+3.0% (-5.8%)
	UK:	07:00	Goods Trade Balance (August)	-£8.64bn	-£8.90bn
			- Non-EU	-£2.36bn	
	FRA:	07:45	Industrial Output (August)	+3.8%	+2.0%
	ITA:	09:00	Industrial Output (August)	+7.4%	+1.2%
	IRL:	23:59	Pre-Budget 2021 White Paper		

◆ 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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