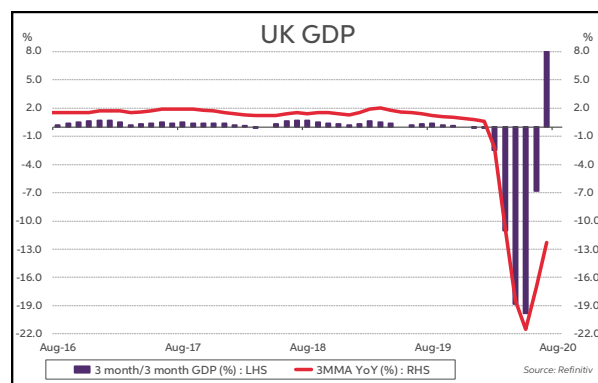


Biding His Time

- Between the big second wave to the coronavirus, new lockdowns across Europe and the knife edge US elections, the EU-UK trade talks have slipped into the background.** However, with the clock ticking down to the expiry of the Brexit transition period at the end of December, we can expect these talks to take centre stage again in the next couple of weeks. Time is rapidly running out to get a deal done that can be ratified by the end of the year. The markets remain calm, though, with sterling continuing to trade in a narrow 90-91p range against the euro. This suggests markets expect a deal to be agreed.
- However, the updates this week on the latest round of the negotiations should really be setting alarm bells ringing.** Despite two weeks of intensive negotiations, the two sides remain far apart on the keys issues of regulatory alignment, a disputes resolution mechanism and EU access to UK fishing waters. Both sides agree that despite some progress, very serious divergences remain. Quite worryingly, the talks could not even make progress on relatively straight forward issues such as ‘non-regression’ from existing labour market and environmental standards. The negotiations have taken a break for a number of days and are due to resume early in the coming week.
- It is likely that there will be have to be an intervention at a political level in the next week or two if the talks are to take a decisive step forward.** They simply can’t keep going around in circles on the key issues. In fairness to the negotiators, the issues are politically sensitive. If a deal is to be done, it will require political compromise on both sides. A political call will have to be made at the top level, in particular in the UK, in regard to what compromises they are prepared to make if they want to get a trade deal done.
- The new lockdowns across Europe and dimming growth prospects for 2021 suggest that the UK and EU governments will want to avoid a Brexit shock also hitting their economies from the start of next year.** The UK economy is much more exposed than the EU in this regard. Just 8% of EU countries exports go to the UK. By contrast, the UK sends 43% of its exports to the EU. Without a deal, the UK would move to WTO rules with tariffs, quotas and non-tariffs barriers in its trade with all EU countries from the start of January. The National Audit Office warned this week that UK trade with the EU faces “widespread disruption” at ports next year as they are not ready to handle new border controls. These problems are likely to be exacerbated if there is a no trade deal outcome.
- The UK Prime Minister has been biding his time up to now and not showing his hand in the trade talks.** He will have to do so soon if the UK Government wants a trade deal with the EU. The imminent regime change in Washington may help concentrate minds in this regard. Our view remains that sterling will fall sharply if it becomes clear that we are heading for no trade deal, but the upside for the currency may be limited if a deal is secured.
- Data-wise this week, the highlight of the schedule is the first estimate of UK GDP for Q3.** Following a record 19.8% contraction in the second quarter of the year, the expectation is that the economy rebounded by 15.8% in Q3. This largely reflects the re-opening of many parts of the economy over the summer months. Indeed, the monthly estimates of GDP for July and August show a strong recovery, with output increasing by 6.6% and 2.1% m/m respectively. However, despite a strong rebound in Q3, GDP is forecast to still be over 9% below its pre-Covid level. The national lockdown imposed in November is also likely to cause GDP to contract again in Q4, although not to the same extent as in the spring.
- Staying with the UK, industrial output is forecast to have risen by a further 0.5% in September.** Although, this would mean output is still 5% below its February level. The UK labour market report will also be released. So far the labour market has been sheltered by the Government’s furlough scheme. However, the unemployment rate for September is projected to rise to 4.8% from 4.5%. Turning to the housing market, which has so far proved resilient to the Covid-19 shock, the RICS housing market survey is expected to fall to 55 from 61 in September.
- The Eurozone schedule has a muted look to it over the coming days.** Euro area industrial production is forecast to rise by 0.7% in September, although this would still leave production 5.1% below its pre-Covid level. The Eurozone sentix index is expected to fall for the second consecutive month in November as uncertainty continues to weigh on investor sentiment. The German ZEW, also a measure of investor sentiment is projected to fall from 56.1 to 40 in November, following a resurgence in Covid cases. **In the US, CPI inflation for October will feature.** It is envisaged that the headline rate slipped to 1.3% from 1.4%, while the core rate is expected to remain at 1.7%. On the demand side, the Michigan measure of consumer sentiment is forecast to edge up to 81.9 from 81.2, a very subdued level still.



	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	1.1866	1.17	1.19	1.21
EUR/GBP	0.9045	0.87	0.88	0.88
EUR/JPY	122.89	123	125	126
GBP/USD	1.3115	1.34	1.35	1.38
USD/JPY	103.57	105	105	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers: Lagarde (Monday); Lagarde, de Guindos, Lane (Wednesday); de Guindos, Panetta, Lagarde, Schnabel (Thursday) BoE Speakers: Bailey (Monday); Bailey (Thursday); Tenreyro (Friday) Fed Speakers: Quarles, Brainard (Monday);			
Mon 9th	GER:	07:00 Trade Balance (September)	+€15.7bn	
		- Exports	+2.4%	
	EU-19:	09:30 EU Sentix Index (November)	-8.3	-14.0
Tue 10th	UK:	00:01 BRC Retail Sales (October)	(+6.1%)	
	CHINA:	01:30 PPI (October)	(-2.1%)	(-2.0%)
	CHINA:	01:30 CPI (October)	(+1.7%)	(+0.8%)
	JPN:	05:00 Economy Watchers Poll	49.3	
	FRA:	06:30 ILO Unemployment Rate (Q3)	7.1%	
	UK:	07:00 ILO Employment (September)	-153,000	-135,000
		- Unemployment Rate	4.5%	4.8%
	UK:	07:00 Average Weekly Earnings (September)	(0.0%)	(+1.0%)
		- Ex-Bonus	(+0.8%)	(+1.5%)
	UK:	07:00 Claimant Count (October)	+28,000	
	FRA:	07:45 Industrial Output (September)	+1.3%	+0.6%
	ITA:	09:00 Industrial Output (September)	+7.7%	-2.0%
	GER:	10:00 ZEW Economic Sentiment (November)	56.1	40.0
	US:	11:00 NFIB Business Optimism (October)	104.0	
Wed 11th	UK:	07:00 Business Investment (Q3 Preliminary)	-26.5% (-26.1%)	
	JPN:	23:50 Core Machinery Orders (September)	(-15.2%)	(-11.6%)
Thurs 12th	UK:	00:01 RICS Housing Survey (October)	61	55
	GER:	07:00 Final HICP (October)	(-0.5%)	(-0.5%)
	UK:	07:00 GDP (Q3)	-19.8% (-21.5%)	+15.8% (-9.4%)
		- Month-on-Month (September)	+2.1% (-9.3%)	+1.1% (-8.0%)
	UK:	07:00 Industrial Output (September)	+0.3% (-6.4%)	+0.5% (-6.0%)
		- Manufacturing	+0.7% (-8.4%)	+0.9% (-7.4%)
	UK:	07:00 Goods Trade Balance (September)	-£9.01bn	-£9.30bn
		- Non-EU	-£2.31bn	
	EU-19:	10:00 Industrial Production (September)	+0.7% (-7.2%)	+0.7% (-5.9%)
	IRL:	11:00 CPI (October)	-0.4% (-1.2%)	-0.1% (-1.1%)
	US:	13:30 CPI (October)	+0.2% (+1.4%)	+0.2% (+1.3%)
		- Core	+0.2% (+1.7%)	+0.2% (+1.7%)
	US:	13:30 Initial Jobless Claims (w/e 2nd November)	751,000	
Fri 13th	FRA:	07:45 Final HICP (October)	-0.1% (+0.0%)	-0.1% (+0.0%)
	EU-19:	10:00 Flash Employment (Q3)	-2.9% (-3.1%)	
	EU-19:	10:00 GDP (Q3: Second Reading)	+12.7%	+12.7%
	EU-19:	10:00 Trade Balance (September)	+€21.9bn	
	US:	13:30 PPI (October)	+0.4% (+0.4%)	+0.2% (+0.4%)
	US:	15:00 Preli. Michigan Consumer Sentiment (Nov.)	81.8	81.9

◆ 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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