

# Week Ahead

Focus: Brexit

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## Brexit: Things will change from January 1, 2021

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Even after the latest round of negotiations between the EU and the United Kingdom in mid-July, there was little progress. According to EU chief negotiator Barnier, the deadlock even continued in crucial areas. These were the securing of a uniform framework for competition, above all through uniform standards and rules for state subsidies, as well as fishing rights in British territorial waters. Furthermore, it also fails in general: While the EU is striving for a comprehensive agreement, the British side wants to work through the thematic blocks individually.

The transitional period during which EU law applies in the United Kingdom ends on December 31. So, the clock is ticking, which reminds us of last autumn. At that time, a solution was found in October and a hard Brexit was avoided. The danger of a (delayed) hard Brexit, with the exception of Northern Ireland, is now again on the agenda. The negotiations are extremely complex and touch on a wide range of issues. For example, the European Commission has listed 100 areas for which the necessary preparations have been specified. It is impossible to predict what the outcome of the negotiations will be in detail. In some - very important - areas, however, there will be disruptions in any case, regardless of whether or not the future relationship between the EU and the United Kingdom can be redefined in a new treaty.

This distinguishes the current situation from that of a year ago. The option that everything should remain as it is is not on the table this time. At the end of June, the deadline for applying for an extension of the transitional period expired and the British side repeatedly confirmed the end of the transitional period at the end of 2020.

We will briefly outline here a few areas in which there will be significant changes from January 1, irrespective of the outcome of the negotiations.

From January 1, 2021, goods traffic between the EU and Great Britain will in any case be subject to customs clearance. An agreement could only prevent or reduce customs duties or quotas. Thus, the handling of the exchange of goods will take more time and effort. Only the first few weeks of the new year will show whether both sides have prepared themselves sufficiently for this. Production with closely timed supply chains is particularly susceptible to disruptions. In addition, in future, excise duties will have to be cleared when goods cross the border to and from Great Britain. A further trade obstacle is created because certifications and attestations from British authorities for products imported into the EU lose their validity. In future, these must be available from authorities based in the EU. In the future, EU exports that contain inputs from Great Britain will lose their originating status. This means that they can no longer be exported on more favorable terms to countries with which a preferential agreement exists. EU companies must also adapt to this, possibly by changing their supply chains.

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Note: Past performance is not necessarily indicative of future results

For the exchange of services, January 1, 2021, will also bring far-reaching changes. The financial sector will be particularly affected. However, based on a study by the ECB, together with the supervisory authorities and the preparations already made, the European Commission sees risks to financial stability in only one area, namely the central settlement of derivatives (clearing). This risk is to be countered with a temporary equivalence decision.

*What will be the impact on the economy? It will probably not be possible to assess this until it is clear in which areas agreement can be reached on a successor arrangement. Uncertainty over this could lead to higher exports, but also imports and inventory build-up in the EU in the fourth quarter, which on balance could be a temporary positive effect. At the same time, investments could suffer. The trading volumes affected by the end of the transition period are not insignificant. The European Union exported goods worth EUR 314bn to the United Kingdom in 2019. This represented 2.2% of GDP and 6% of total EU exports. Vehicles, machinery and electrical machinery accounted for the largest share. The EU imported EUR 184bn from the United Kingdom. The highest shares were machinery, petroleum and related products and vehicles. The EU exported EUR 122bn in services to the United Kingdom and imported EUR 148bn from there.*

*So far, the markets have been dominated by the COVID-19 pandemic and all the consequences that have resulted from it. As a result, relatively little attention has been paid to the foreseeable effects due to the definite expiry of the transitional period. However, this should change if there is no further progress in negotiations. In our forecasts, we assume that the negotiations will at least succeed to the extent that strong effects on the economy and thus the markets are avoided. However, the risks are considerable and are currently not sufficiently perceived by the markets.*

## Economic calendar

| Ctry            | Date   | Time  | Release   | Period | Consens    | Prior      |
|-----------------|--------|-------|-----------|--------|------------|------------|
| <b>Eurozone</b> |        |       |           |        |            |            |
| EA              | 21-Aug | 10:00 | PMI Index | Aug P  | 52.7 Index | 51.8 Index |
| DE              | 21-Aug | 9:30  | PMI Index | Aug P  | 52.5 Index | 51.0 Index |
| FR              | 21-Aug | 9:15  | PMI Index | Aug P  |            | 52.4 Index |

### USA

### China

## Central bank events

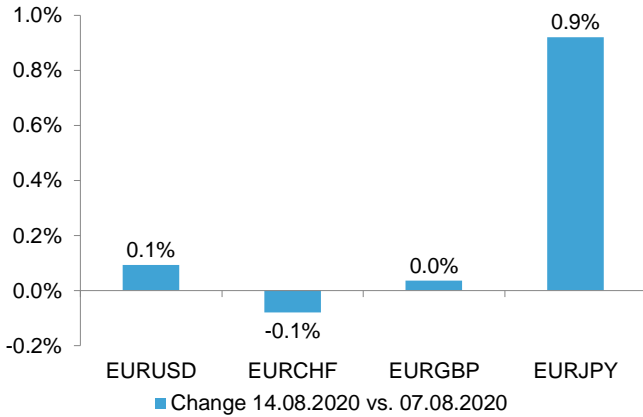
|            | Date   | Time  | Event  |
|------------|--------|-------|--|
| <b>ECB</b> | 20-Aug | 13:30 | Account of the monetary policy meeting of the Governing Council, 15-16, July |
| <b>Fed</b> | 19-Aug | 20:00 | FOMC minutes, meeting 28-29, July  |

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY

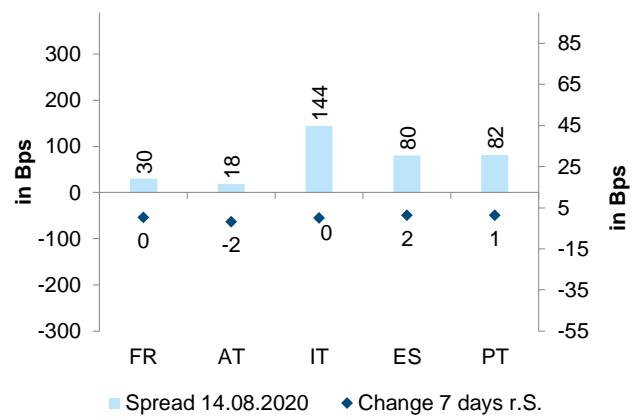
Changes compared to last week



Source: Market Data Provider, Erste Group Research

### Eurozone spreads vs. Germany

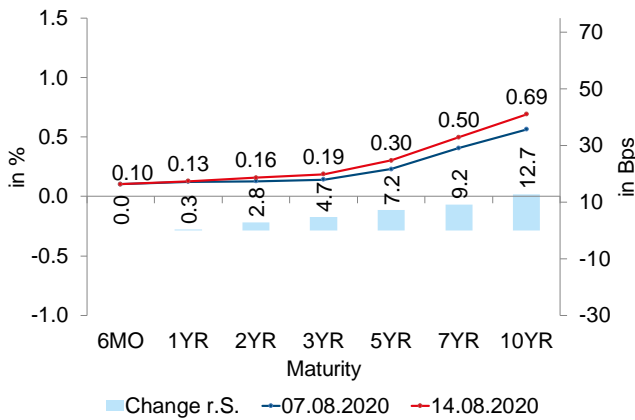
10Y government bonds



Source: Market Data Provider, Erste Group Research

### US Treasuries yield curve

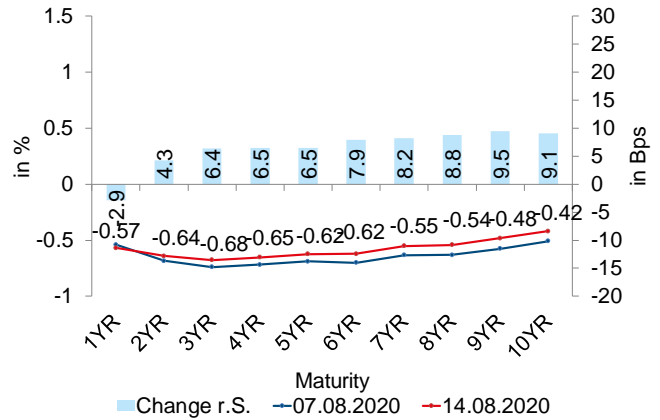
Changes compared to last week



Source: Market Data Provider, Erste Group Research

### DE Bund yield curve

Changes compared to last week



Source: Market Data Provider, Erste Group Research

## Forecasts<sup>1</sup>

| GDP      | 2018 | 2019 | 2020 | 2021 |
|----------|------|------|------|------|
| Eurozone | 1.9  | 1.2  | -7.1 | 5.4  |
| US       | 2.9  | 2.3  | -5.5 | 5.4  |

| Inflation | 2018 | 2019 | 2020 | 2021 |
|-----------|------|------|------|------|
| Eurozone  | 1.7  | 1.2  | 0.4  | 1.2  |
| US        | 2.4  | 1.8  | 1.0  | 1.5  |

| Interest rates    | current | Sep.20 | Dec.20 | Mar.21 | Jun.21 |
|-------------------|---------|--------|--------|--------|--------|
| ECB MRR           | 0.00    | 0.00   | 0.00   | 0.00   | 0.00   |
| 3M Euribor        | -0.48   | -0.45  | -0.45  | -0.45  | -0.45  |
| Germany Govt. 10Y | -0.41   | -0.40  | -0.20  | -0.10  | 0.00   |
| Swap 10Y          | -0.15   | -0.10  | 0.10   | 0.20   | 0.30   |

| Interest rates         | current | Sep.20 | Dec.20 | Mar.21 | Jun.21 |
|------------------------|---------|--------|--------|--------|--------|
| Fed Funds Target Rate* | 0.10    | 0.13   | 0.13   | 0.13   | 0.13   |
| 3M Libor               | 0.26    | 0.40   | 0.40   | 0.40   | 0.40   |
| US Govt. 10Y           | 0.69    | 0.80   | 1.00   | 1.10   | 1.20   |
| EURUSD                 | 1.18    | 1.16   | 1.18   | 1.18   | 1.20   |

\*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.  
 Source: Market Data Provider, Erste Group Research*

<sup>1</sup> Note: In accordance with regulations, we are obliged to issue the following statement:  
 Forecasts are not a reliable indicator of future performance.

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