



## A bitter New Year's Eve for the United Kingdom

Probable contraction of -2.5% in Q4. Increasing economic risks at the beginning of 2021. Limited room for manoeuvre for the BoE. Weak pound sterling. FTSE 100 trading at 17% discount.

### Key points

- A few more days to avoid a disastrous no-deal Brexit for the British
- Temporary rebound in GDP in Q3
- Probable contraction of -2.5% of the economy in Q4
- Confidence once again at an all-time low
- Leading indicators somewhat more circumspect
- BoE to increase its asset purchase programme rather than introduce negative rates
- Slight rise in long-term rates
- Likely return of pressure on the pound sterling
- Short-lived catch-up of British equities?

### A few more days to avoid a disastrous no-deal Brexit for the British

The standoff between the UK government and EU negotiators continues, with basically only a few days left to determine the terms of the UK's exit from the European Union by 31 December 2020, failing which divorce will be finalised without an agreement at the end of the current transition period – thus, only a few days to finally agree on the same issues that have been unsuccessfully debated for months, all the more so as the parties' positions could well remain entrenched until the deadline expires, each waiting for the other to make a last-minute gesture that would allow the dispute to be unblocked and settled favourably.

Coincidentally, just a few days ago the Americans voted to end the radical experiment that brought Donald Trump to the presidency in 2016, but the British will unfortunately not have the opportunity to correct their protest vote of 2016 and will likely have to leave the European Union without an agreement in 2020, accepting the still very uncertain consequences of this decision.

It will only be a few weeks before the UK and its people begin to really feel the effects of this decision on the country's foreign trade and on their daily lives. From 1 January 2021, trade with the European Union, which amounts to nearly EUR 1 trillion, will no longer be covered by the transition period expiring on 31 December 2020. Business interests continue to warn Prime Minister Boris Johnson that an exit without an agreement would be catastrophic for many companies, which will simultaneously have to face the Covid-19 crisis and new regulations restricting their access to the European economic market.

Over the last few days, the Governor of the Bank of England, Andrew Bailey, has once again emphasised the probable negative effects of a no-deal Brexit on the British economy, deemed to be more destructive in the long term than the Covid-19 pandemic, which has plunged the country into recession and caused GDP to contract by -11% in 2020.

A few weeks ago, the EU clearly seemed to be exasperated by the UK's strategy, even though it still very likely wanted to find a positive outcome to the current conflict. The situation today is increasingly uncertain, with negotiators still suggesting that fundamental differences remain.