

# Brexit UK Developments - Corporate Update

October 2020



As the path of Brexit enters its crucial final phase, this update outlines the latest UK developments in relation to ongoing Brexit negotiations, currency markets, UK interest rates and also analysis on Benchmark Reform including key dates.

## Latest News

The latest set of Brexit negotiations have failed to produce a breakthrough in the key areas of the Level Playing Field (including State Aid), Fisheries and Governance. UK Prime Minister Boris Johnson had previously set a deadline of October 15th to agree a deal. With this date now passed the UK Prime Minister has warned that the UK will get ready to leave the bloc's single market and customs union at the end of the year without a new agreement in place. Despite this, and the stalled negotiations, both sides have still left the door open for further talks in the coming weeks which means the path to a deal remains in place for now.

In recent weeks, the headlines from negotiations had struck a more positive cord – particularly from the UK side who made clear their intentions to bring talks into the final intensive 'tunnel' phase. EU negotiators remained resolute and insisted that insufficient progress had been made to bring talks into the 'tunnel'. While there is some suggestion of progress in the areas of the Level Playing Field and Governance, the EU have taken a tougher stance on Fisheries which has divided discussions.

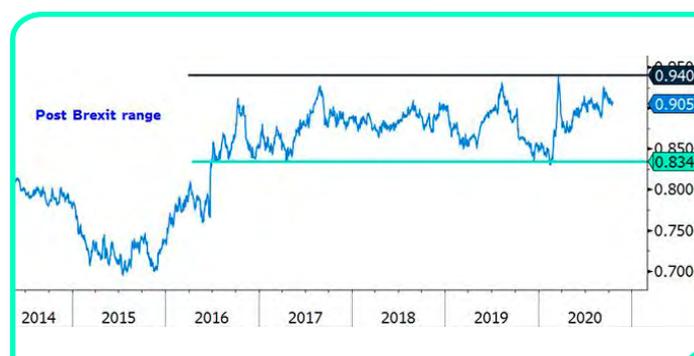
## Currency Update

Euro/Sterling has fallen by about 2% since the middle of September when the pair traded close to 93p for the first time since March of this year. Currency markets had begun to price in higher probabilities of a deal as commentary from the UK side suggested further progress in talks. The Bank of England's ongoing research into negative rates has seen interest rate markets price out any further cuts to UK interest rates for the remainder of this year, this in turn has also boosted the Pound. The post Brexit range of 83p-95p remains intact despite the increasing tension in Brexit negotiations and a downgrade of the UK's Credit Rating; however recent weeks have seen a sharp increase in intraday volatility which is likely to persist for the remainder of this year.

Recent [media reports](#) suggest that *'despite the rhetoric on both sides, a deal should be doable whereby EU fleets lose some fish quota but keep a considerable amount of their access to UK waters in such a way as to allow both sides to dress the outcome up as a victory.'*

A further key area of focus will be on the Internal Markets Bill which is due to begin its process in the UK House of Lords. EU member states have previously warned that in order for a deal to be finalised, the UK must remove articles of the Bill that override aspects of last year's Withdrawal Agreement. UK legislators are likely to pass the Bill however they are expected to reject the more controversial clauses. The coming weeks will see the progress of the Internal Markets Bill in the UK House of Lords and ongoing discussions on the key aspects of a trade deal. Michel Barnier had previously set out a deadline of the end of October to agree a deal however like the UK, the door is also expected to be left open by the EU if both sides can't agree a deal by then.

## Euro/Sterling



Source: Bloomberg

## Benchmark Reform

Benchmark rates are used selectively by banks in some but not all products and services. Bank of Ireland tends to use benchmarks such as the London Interbank Offered Rate ("LIBOR") and Euro Interbank Offered Rate ("EURIBOR") in business or corporate transactions as well as bank to bank transactions. Since 2014, financial institutions worldwide have been progressively moving towards replacing or reforming benchmark rates in what is known as Benchmark Reform. EURIBOR has been reformed and can continue to be used however banks cannot rely on LIBOR being published after the end of 2021. Financial industry and regulatory bodies recommend key milestones in advance of this date and in keeping with these; as of October 1st 2020, alternative rates to Sterling and US Dollar LIBOR are now available to customers. Products are drawn from the Bank's current product suite, or based on risk-free rates. If you wish to enter into a LIBOR contract after October 1st 2020, terms and conditions that can accommodate the future switch to an alternative rate by the end of 2021 must be included. From 31st March 2021 and 30th June 2021 respectively Sterling LIBOR and US Dollar LIBOR will no longer be used for new products that have a maturity beyond 2021. If you have Sterling or Dollar LIBOR linked contracts that extend beyond 2021, Bank of Ireland will engage with you in the coming months to amend your products and contractual terms and conditions to facilitate transition away from LIBORs."

If you would like any further information please talk to your Relationship manager or feel free to contact us on [Benchmarkinfo@boi.com](mailto:Benchmarkinfo@boi.com)

## UK Interest Rates

There are a number of economic and disinflationary risks facing the UK economy over the coming months. UK Chancellor Sunak reduced the amount of fiscal support available to UK workers. This, combined with increased Covid-19 restrictions heading into winter adds to the uncertainty in relation to the UK's trade arrangements come January. These risks point to the potential for additional easing from the Bank of England, first by way of increased asset purchases followed by negative interest rates in early 2021.

The focus in the UK in recent weeks has very much been on communications coming from the monetary policy committee as the internal debate around the pros and cons associated with negative rates continues. Bank of England Governor Andrew Bailey and Chief Economist Andy Haldane have alluded to the need for negative rates to be in the tool box, but they should only be implemented should more monetary stimulus be needed and that negative rates can be deemed as being more effective than other tools currently at the BoE's disposal.

As the Bank's research on negative rates is expected to continue for at least a number of months, we are seeing the markets reflect around a 40% chance of a 25bps cut by Q3 of 2021. With some members of the UK Monetary Policy Council (MPC) pointing at the positives associated with negative rates - markets will continue to focus on the both the rising economic and political risks the UK economy faces as we head into winter, and the continued debate within the MPC at the Bank of England.

## Analysis From



**David Tilson**  
Head of Markets



**Lee Evans**  
Head of FX Strategy



**Cian Pierce**  
UK Interest Rates

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