

Brexit impact on Sterling Volatility

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Brexit has dominated the news in recent weeks while Sterling volatility has returned to currency markets with Euro/Sterling trading above 91p and over 4% higher than the lows set in late November. Much of the focus has been around negotiating deadlines; the end of October was once seen as the “final deadline”, this became mid-November, which became the EU Summit in December which was extended to 13th December however despite all these deadlines passing, talks remain ongoing between both sides. The only real deadline remains the 31st December and if a deal is reached before year end, but is reached at a time when it's too late to get passed by one or more parliaments, then a temporary agreement to bridge the period between the deal and its parliamentary ratification is the most likely way for both sides to approach the issue of limited time. The main negotiating issues

remain the same with a focus on the Level Playing Field, Fisheries and Governance. While the Level Playing Field has always been the most contentious issue, it may well be resolved under the area of Governance. News reports in recent days suggest that the UK have accepted the idea that they can indeed diverge from EU rules however if that divergence distorts fair competition then retaliatory measures can then be introduced by the EU and of course this will also be reciprocated. From the EU side the focus is very much on mechanisms and processes in place which will allow dispute resolution after Brexit, and while the UK did damage trust with the introduction of the Internal Markets Bill, an independent body that can rule on disputes may offer a solution to this problem. One of the keys to an agreement is going to be getting a deal that will allow both sides to maintain the stance that did not back down on their ‘Red Lines’. Neither the UK or the EU will want to be blamed for forcing a No Deal scenario and with the path to an acceptable deal seemingly beginning to open, both sides know that once they can sell it domestically, then a deal is better than none.

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