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Pound Sterling Retraces Recent Gains against Euro and Dollar, Barnier says Greatest Challenge to Reaching a Trade Deal is Fisheries

Modified: Friday, 23 October 2020 09:30 BST Written by Gary Howes

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- Barnier said to now be most concerned about fisheries
- Markets wary of further trade negotiation disappointments
- Potential upside for GBP from here is limited say analysts





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- Market rates: GBP/EUR: 1.1066, GBP/USD: 1.3059
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The British Pound went sharply higher against all major currencies mid-week when it was announced on Wednesday (</gbp-live-today/14401-pound-sterling-bid-higher-against-euro-and-dollar-on-fresh-barnier-commitments>) the EU and UK had agreed to intensify trade negotiations, however the currency has since retraced some of these gains ahead of the weekend which suggests a market that remains cautious of unwelcome surprises.

The Pound-Euro exchange rate remains the bellwether pair for foreign exchange market sentiment regarding Brexit negotiations, and at 1.1066 it is at levels similar to just ten days prior. This hardly suggests a market that has been unleashed by a wave of fresh optimism.

"It's a fairer barometer to use the value of the Pound versus the Euro to determine interest in Sterling, as the Dollar has its own issues at the moment. On that basis, the move higher is noticeable but doesn't show complete faith that this isn't another groundhog day situation," says Mark Palmer, COO at *Hamilton Court FX*.



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over.

"Having reached six-week highs on Wednesday, the pound has slipped back the last couple of days as markets continued to await progress on the Brexit talks. Nevertheless, the pound continues to trade above the 1.30 versus the dollar and 1.10 against the euro," says Nikesh Sawjani, an economist at *Lloyds Bank*.

Familiar issues remain, namely level playing field provisions, governance of the future relationship and fisheries.

EU chief negotiator Michel Barnier held a briefing with EU diplomats in Brussels on Wednesday where he is reported to have said he "wasn't worried about anything else but fish", according to *Reuters* (<https://www.reuters.com/article/uk-britain-eu/time-running-short-uk-and-eu-get-back-down-to-business-idUSKBN2771WN>), citing a diplomat who participated in the closed-door meeting.

"Fish is now the thing to tackle. The other elements seem doable, more or less," the diplomat said.

"For fisheries, despite being a minuscule part of both the UK and EU economies (it's been pointed out that the single Harrods Department store in London contributes nearly three times more to the UK economy than the entire fishing industry), it remains a political lightning rod in the country," says James Rossiter, Head of Global Macro Strategy at *TD Securities*.

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Our fishermen be sacrificed for Brexit. We didn't choose Brexit, the British people did. So preserving our fishermen's access to the UK's waters allows a good compromise," French President Emmanuel Macron told reporters on his arrival (</gbp-live-today/14357-pound-to-euro-and-dollar-trade-deal-optimism-grows>) at the mid-October European Council summit.

"I want to be clear: this deal will not be made at any price. If these conditions are not met, it's possible there won't be a deal. We are ready for that. France is ready for that. We are in the process of finalising... we are ready for a no-deal."

Macron has adopted a strong opening gambit on fisheries and the entire prospect of a deal could well rest with how much he is prepared to walk back from this position.

"French President Macron faces an election in 2022, and the French fishing industry depends on fishing in British waters. Both Johnson and Macron therefore need to be "seen" fighting for their fishing industries until the very end. A compromise is therefore highly likely on fish, but will be one of the last (if not the final) issue resolved. The Germans have noted that a no deal outcome removes all fishing rights for EU countries in UK waters, so even a "bad deal" is better than no deal," says Rossiter.

But the *Telegraph's* Brussels Correspondent James Crisp paints a decidedly more optimistic picture on the issue of fisheries.

In an article out on Friday Crisp reports (<https://www.telegraph.co.uk/politics/2020/10/22/brexitmichel-barnier-says-uk-eu-have-huge-common-responsibility/>) an EU diplomat as saying:

"All three issues remain open, but I would be more cautiously optimistic about fish... but don't tell Paris."

Another Brussels source said the issue of fish was "symbolically big but practically small".

It is "politically difficult" but "technically possible" to balance UK demands for increased fishing opportunities and the EU need for access to British waters, sources said.

Emmanuel Macron, the French president, last week said France would compromise to keep access to UK waters. He suggested paying for a fishing quota.

In further developments the Dutch Prime Minister Mark Rutte is meeting the European Commission president Ursula von der Leyen in The Hague on Friday, "fuelling speculation that a deal could be done," says Crisp, noting the importance of fisheries to the Netherlands.



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TD Securities join the market consensus and maintain a base case scenario that sees an eventual deal being reached, which in turn supports a moderate recovery for Sterling over the medium term.

TD Securities expect the Pound-to-Dollar exchange rate to move up to 1.35 by year-end and forecast 1.38 for the fourth-quarter of 2021.

However, they expect a depreciation in the Dollar to be the primary driver of this move and their forecasts imply a path for the Pound-to-Euro exchange rate that stays mostly in the 1.11-1.0989 range over the same horizon.

"A no-deal surprise would naturally see a knee-jerk GBP sell off. This may remain somewhat contained, however, as a lot of bad news is now in the price and the UK has larger problems on its hands," says Rossiter.

Despite the theatrics of the past week, the Pound finds itself at more or less the same value against the Euro as it was ten days ago, and some foreign exchange analysts say the potential downside in Sterling on a 'no deal' outcome far exceeds the potential upside in the event of a deal being struck.

"The worry is that the recent rally may be a classic case of 'buy the rumour sell the fact' for the pound and we see sterling actually weaken from here because a limited trade deal would still hurt the fragile



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provide a 'buy the rumour, sell the fact moment' and GBP to underperform in the medium term. But we believe now is the time to buy into the potential for a last-minute deal before mid-November and with it we expect a higher GBP in the short term at least."

UK businesses are meanwhile subject to an advertising blitz by the UK government warning them that time is running out in which to prepare for new trading conditions with the EU that will come into place in 2021, regardless of whether a deal is reached.

This will come as a real reminder for businesses and investors that the fluidity of doing business with the UK's largest and most importing trading partner will be compromised.

The inevitable economic impact of such a change should in turn reflect in Sterling levels, capping the potential for strong gains in response to a deal being agreed.

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"While a trade deal between the EU and the UK would likely trigger a relief rally in the pound we expect a move to be half-hearted. The risk that a deal would lack the comprehensiveness that had once been hoped for, combined with the vulnerable nature of the UK economy and the weak popularity levels of the PM suggest that GBP will still face several hurdles next year," says Jane Foley, Senior FX Strategist at *Rabobank*.

Domestic economic concerns will also likely weigh on Sterling going forward, with the proliferation of covid-19 outbreaks and a rising case load prompting the government to raise restrictions on swathes of the population and businesses.

The FCA has warned recently (<https://uk.reuters.com/article/healthcoronavirus-britain-fca/12-million-people-in-britain-will-struggle-to-pay-bills-watchdog-says-idUKL8N2HB4ED>) that as many as 12 million people in the UK could struggle to pay bills and loan repayments in the months ahead.

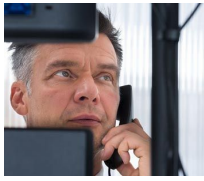
"Such an outcome will have knock-on effects for other businesses and for creditors and could spark a downward spiral of confidence which could further knock demand and recovery prospects," says Foley.

Rabobank see potential for EUR/GBP to fall back to 0.89 if a Brexit deal is announced in the coming weeks between the UK and the EU, this gives a GBP/EUR exchange rate of 1.1235.



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The 0.89/0.88 area mentioned by Foley equates to 1.1364-1.1235.



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Mortgage Direct - a Spanish mortgage broker specialising in the provision of mortgages for expats - have confirmed they have secured their Spanish license.



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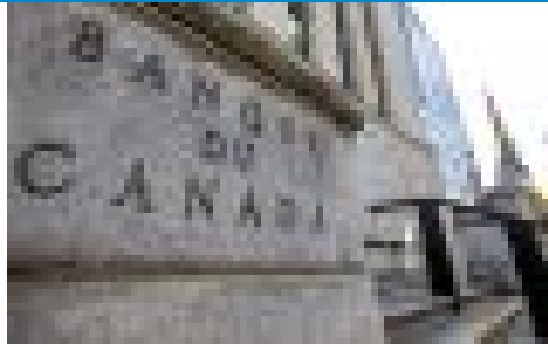
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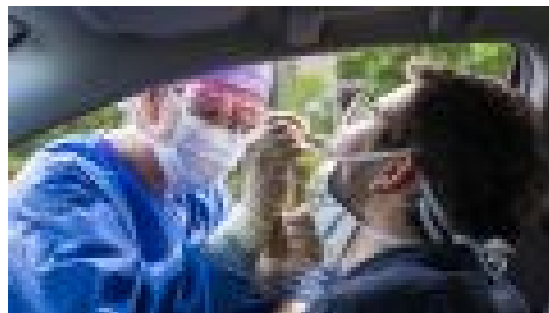
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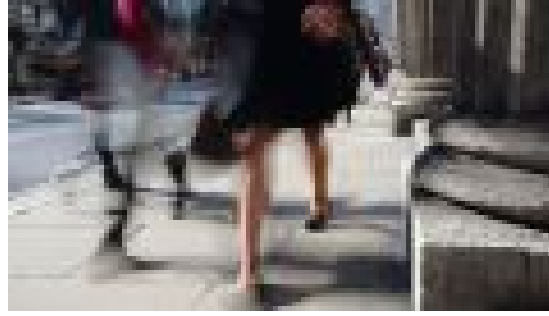
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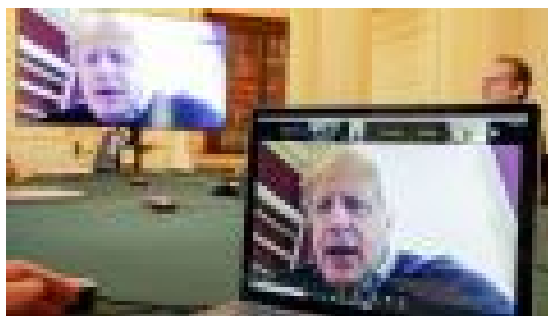
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