

# Fixed Income Weekly

FOR PROFESSIONAL INVESTORS

## The Brexit Soap Opera: End of Season 1

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### Key takeaways

- In a face-saving deal for Prime Minister Theresa May, the UK government and the European Commission (EC) announced that an agreement has been reached on the first phase of the Brexit negotiations
- Breakthrough achieved on key points including E.U.-U.K. citizen's rights and Ireland border issue, but experts warn that this could be far from a binding agreement
- While completion of the first phase is a small win, turbulent negotiations that could widen fault lines on either side likely lay ahead of us

### Full commentary

The saga that is Brexit was meandering towards another plot twist, but the scriptwriter in Prime Minister Theresa May stepped in, late in the week, to save the surprises for a future date. One thing remains for certain; the series finale of this soap opera is some ways away.

Prime Minister May was reeling last week, amid chatter that Conservative Party MPs could move against her, after the Northern Ireland focused Democratic Unionist Party (DUP), much to the Prime Minister's embarrassment, derailed her talks with Brussels. However, by the end of the week, May was able to repair relations with the DUP, and then managed to pencil in an agreement with the European Commission as well. The UK government and the European Commission announced last Friday that an agreement had been reached on the conditions of UK's withdrawal from the EU; the first phase of negotiations. The sticking points recently have centered on EU citizen rights and Irish border issues, and a truce, albeit for the time being, was reached on these agenda items. One should not fall into the trap of reading the joint progress report as a binding agreement, the implementation details still remain unresolved. As Brexit Secretary, David Davis chose to emphasize over the weekend, the deal "was much more a statement of intent than it was a legally enforceable thing", a comment that managed to irk Irish government.

Meanwhile, the immediate market reaction was as expected. Investors had seemingly ignored the smoke signals coming out of London, Dublin and Brussels and breathed a sigh of relief when the deal was finally announced and responded by attaching a higher probability on less bad outcomes. The sigh of relief manifested itself with the Sterling soaring to a six-month high against the Euro.

In terms of next steps, the deal needs to be officially endorsed at the European Council meeting on December 14 and 15. Subsequently, the negotiations move on to phase two, centered on and around the future of the trade relationship between the UK and the EU. This is probably the most contentious issue between the involved parties, and with about a year to flesh out a deal on the steady state, one could expect fireworks emanating even within Prime Minister May's cabinet that is comprised of both Brexiteers and Remainers. Businesses still await clarity on what leaving the EU will mean for regulation, customs, hiring, standards, tariffs, and taxes. They will look to phase two of negotiations for answers.

In summary, this season finale ended with a preview of what could lie ahead in 2018. But, expect to be surprised. The stakeholders involved will work hard to ensure viewership ratings continue to skyrocket.

Please note, the Fixed Income Weekly will stop being distributed on December 18, 2017.



### Last week's market developments

#### Monday, December 4

- No data to report

#### Tuesday, December 5

- US trade balance decreased to \$48.7b s.a. for October

#### Wednesday, December 6

- German factory orders decreased to 0.5% m.o.m.
- The Bank of Canada's overnight lending rate remained at 1.00%
- Russian CPI is decreased to 2.5% y.o.y. for November

#### Thursday, December 7

- German industrial production decreased to -1.4% m.o.m. for October
- Eurozone GDP increased 2.6% s.a. y.o.y. for Q3
- US initial jobless claims decreased to 236k s.a. for December
- Japan GDP increased to 0.4% s.a. q.o.q. for Q3

#### Friday, December 8

- US nonfarm payrolls decreased to 228k m.o.m. s.a. for November CONSENT Index
- US unemployment rate remained at 4.1% for November
- US University of Michigan Sentiment Index decreased to 96.8 for December
- UK industrial production decreased to 0.0% m.o.m. s.a. for October

Source: Bloomberg, data as of December 11, 2017



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## Central Bank Watch

	Last move	Date of move	Current policy rate	Implied 3-Month Rate on December 2017 Interest Rate Futures Contract	Next meeting
Fed	+25 basis points	June 14, 2017	1.00% - 1.25%	1.29%	December 13
ECB	-5 basis points	March 10, 2016	0.00%	-0.18%	December 14
BoJ	-20 basis points	February 16, 2016	-0.10% - 0.00%	0.07%	December 21
BoE	+25 basis points	November 2, 2017	0.50%	0.52%	December 14

Source: Bloomberg; data as of December 11, 2017



## This week's market developments

### Monday, December 11

- Japan Producer Price Index is expected to decrease to 3.3% y.o.y. for November

### Tuesday, December 12

- UK CPI is expected to increase to 0.2% m.o.m. n.s.a. for November.
- Japan machine orders are expected to increase to 2.9% m.o.m. s.a. for October
- US PPI final demand is expected to decrease to 0.3% m.o.m. s.a. for November

### Wednesday, December 13

- German CPI is expected to remain at 0.3% m.o.m. for November
- UK unemployment rate is expected to decrease to 4.2% s.a. for October

### Thursday, December 14

- German manufacturing PMI is expected to decrease to 62 s.a. for December
- Eurozone manufacturing PMI is expected to decrease to 59.7 s.a. for December
- UK official bank rate is expected to remain 0.5% for December
- US initial jobless claims is expected to remain at 236k s.a. for December

### Friday, December 15

- US industrial production is expected to decrease 0.3% m.o.m. s.a. for November
- US manufacturing survey general business conditions is expected to decrease to 18.7 s.a. for December
- US manufacturing PMI is expected to remain at 53.9 s.a. for December

Source: Bloomberg, data as of December 11, 2017

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