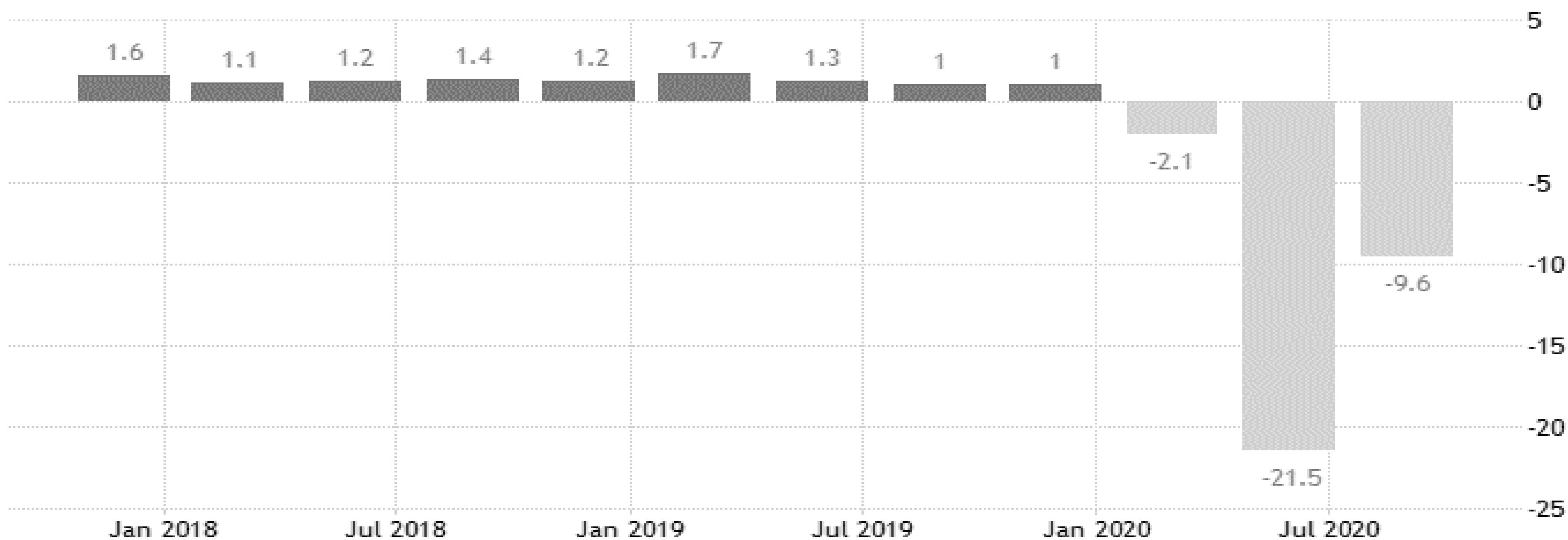
UNITED KINGDOM ECONOMY

30.11.2020

Growth

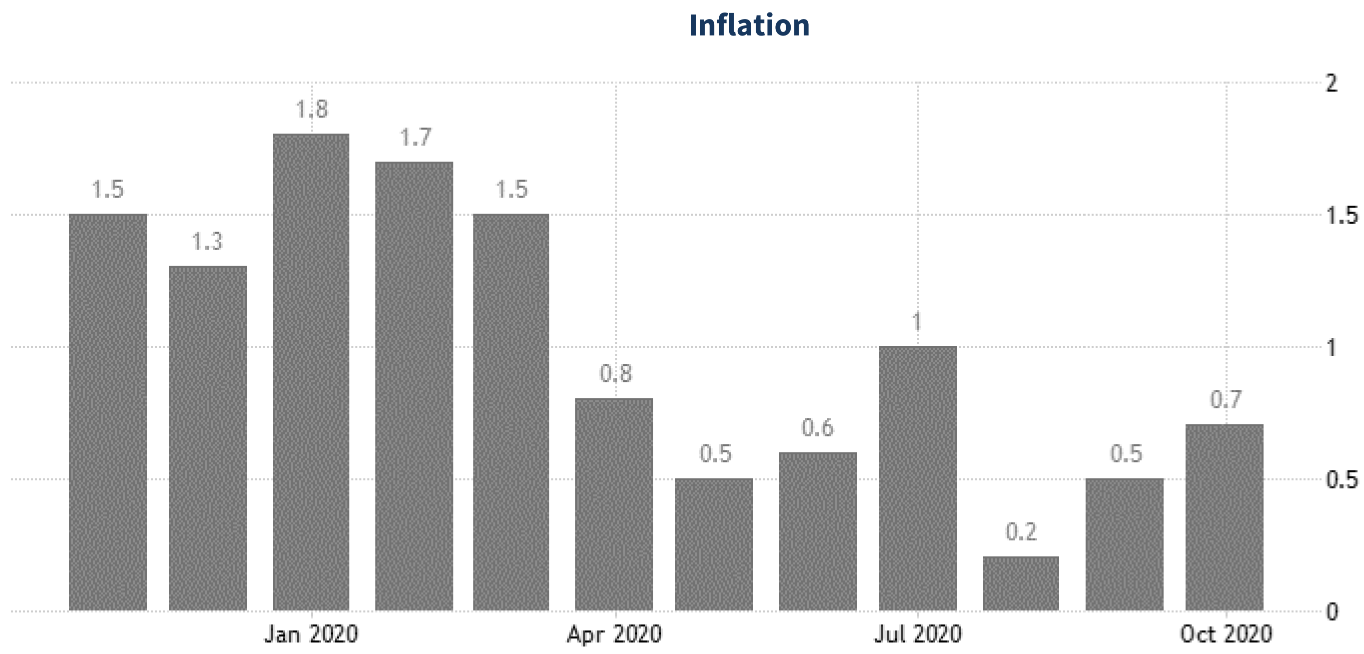
- Britain's gross domestic product shrank by 9.6% year-on-year in the third quarter of 2020, following a record contraction of 21.5% in the previous three-month period and compared with market expectations of a 9.4% fall, a preliminary estimate showed.
- The economy started to recover as restrictions on movement eased across June, July, August and September.
- Household consumption dropped 12.7% (vs -26.2% in Q2) and fixed investment fell by 12.2% (vs -22.6% in Q2). At the same time, public investment declined by 10.9% (vs -17.8% in Q2), while net external demand contributed
- The UK economy is expected to shrink by 11.3% this year and not return to its pre-crisis size until the end of 2022.
- Government borrowing will rise to its highest outside of wartime to deal with the economic impact.

GDP Annual Growth



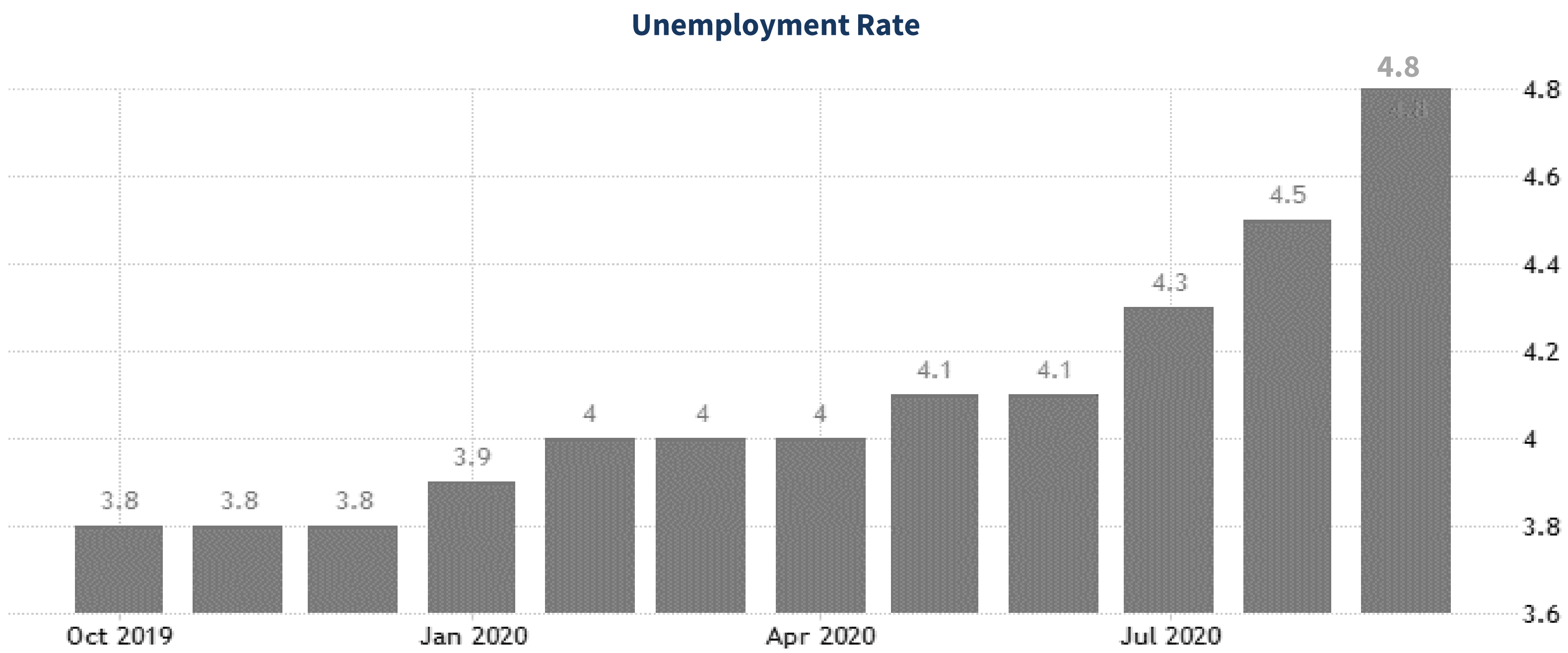
Inflation

- The annual inflation rate in the United Kingdom increased to 0.7% in October of 2020 from 0.5% in September, above forecasts of 0.6%.
- It is the highest reading in three months, amid a rebound in prices of clothing (0% vs -1.5% in September); food (0.6% vs -0.1%); and furniture, furnishings and carpets (0.1% vs -0.5%).
- Prices increased faster for transport (1.2% vs 0.9%, and miscellaneous goods and services (0.8% vs 0.7%) while the cost of recreation and culture eased (2% vs 2.4%) and housing and utilities declined (-1.3% vs -0.9%).



Unemployment Rate

- The coronavirus pandemic continues to affect Britain's job markets as the UK's unemployment rate climbed to 4.8% in the three months ending in September 2020, its highest level since November 2016.
- Figures from the Office for National Statistics (ONS) showed that the number of employees on UK payrolls has fallen by 782,000 since March.
- July to September 2020 also showed a record number of redundancies (up by 181,000 to 314,000), while the employment rate continued to fall to 75.3%.



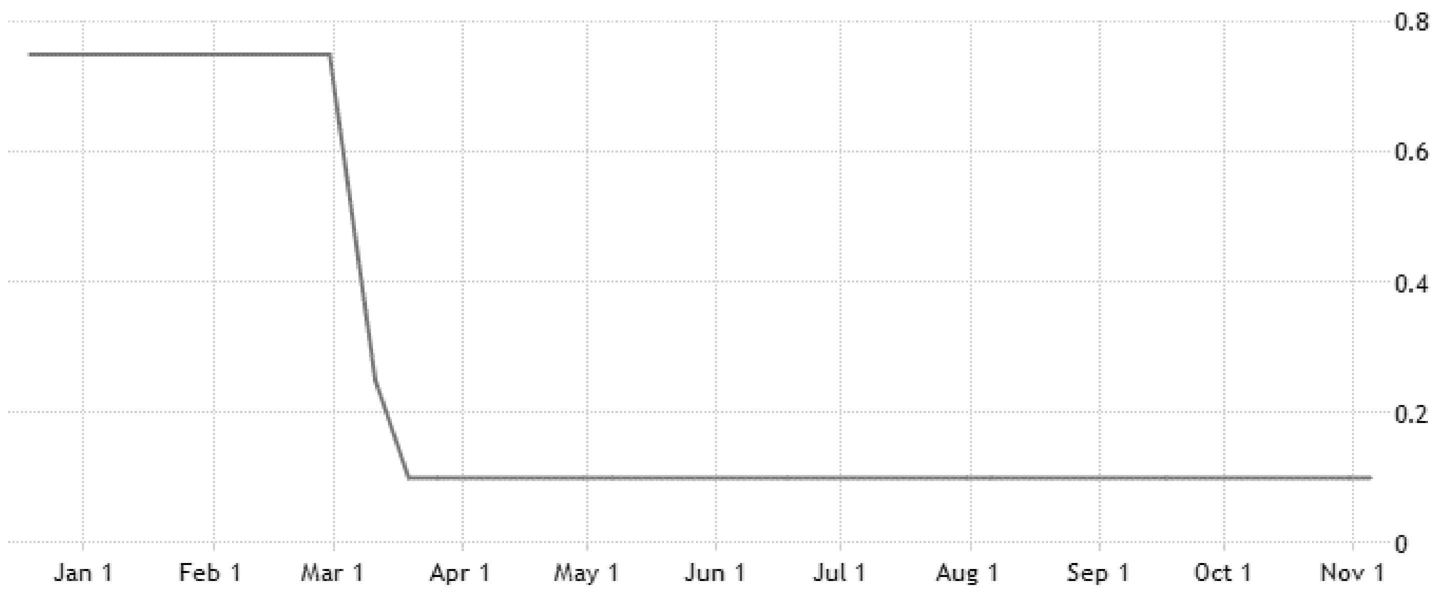
Policy Rate

- The Bank of England left its Bank Rate at a record low of 0.1% on November 5th 2020 and increased the size of its bond-buying program by a larger-than-expected £150 billion to £875 billion, as the country entered a new coronavirus lockdown.

- Policymakers noted that there has been a rapid rise in rates of Covid infection and the UK Government has responded by increasing the severity of Covid restrictions. Also, consumer spending has softened across a range of high-frequency indicators, while investment intentions have remained weak.

- The central bank sees the economy shrinking by 11% in Q4 2020, much worse than a 5.4% drop projected in August and to grow by a stronger 11% in Q4 2021.

Policy Rate



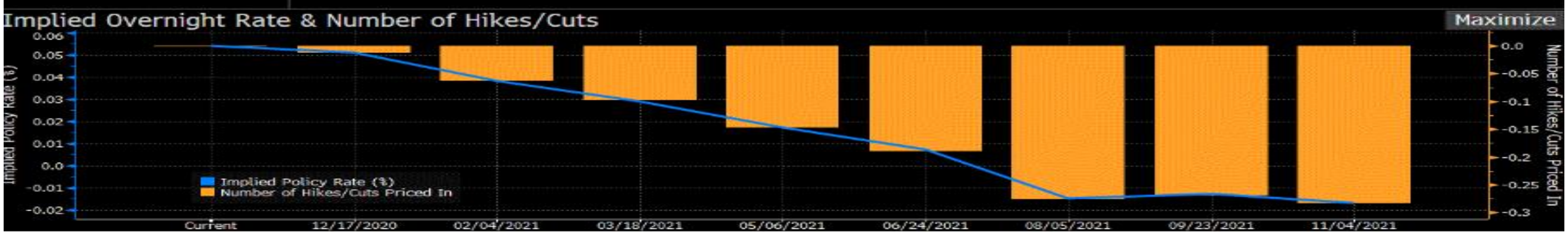
BOE Interest Rate Forecasts

- The Interest Rate in the United Kingdom is expected to be 0.10% by the end of this quarter.
- Looking forward, it is estimated that the interest rate in the United Kingdom will stand at 0.10% in 12 months time.
- In the long-term, the United Kingdom Interest Rate is projected to trend around -0.10% in 2021

Region: United Kingdom »
Target Rate 0.100
Effective Rate ERROR(42): #SUBSCI

Instrument: Overnight Index Swaps »
Pricing Date 11/27/2020
Cur. Imp. O/N Rate 0.054

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
12/17/2020	-0.012	-1.2%	-0.003	0.051	0.250
02/04/2021	-0.063	-5.1%	-0.016	0.038	0.250
03/18/2021	-0.098	-3.5%	-0.025	0.029	0.250
05/06/2021	-0.147	-4.8%	-0.037	0.017	0.250
06/24/2021	-0.190	-4.3%	-0.047	0.007	0.250
08/05/2021	-0.276	-8.7%	-0.069	-0.015	0.250
09/23/2021	-0.269	+0.8%	-0.067	-0.013	0.250
11/04/2021	-0.283	-1.5%	-0.071	-0.017	0.250

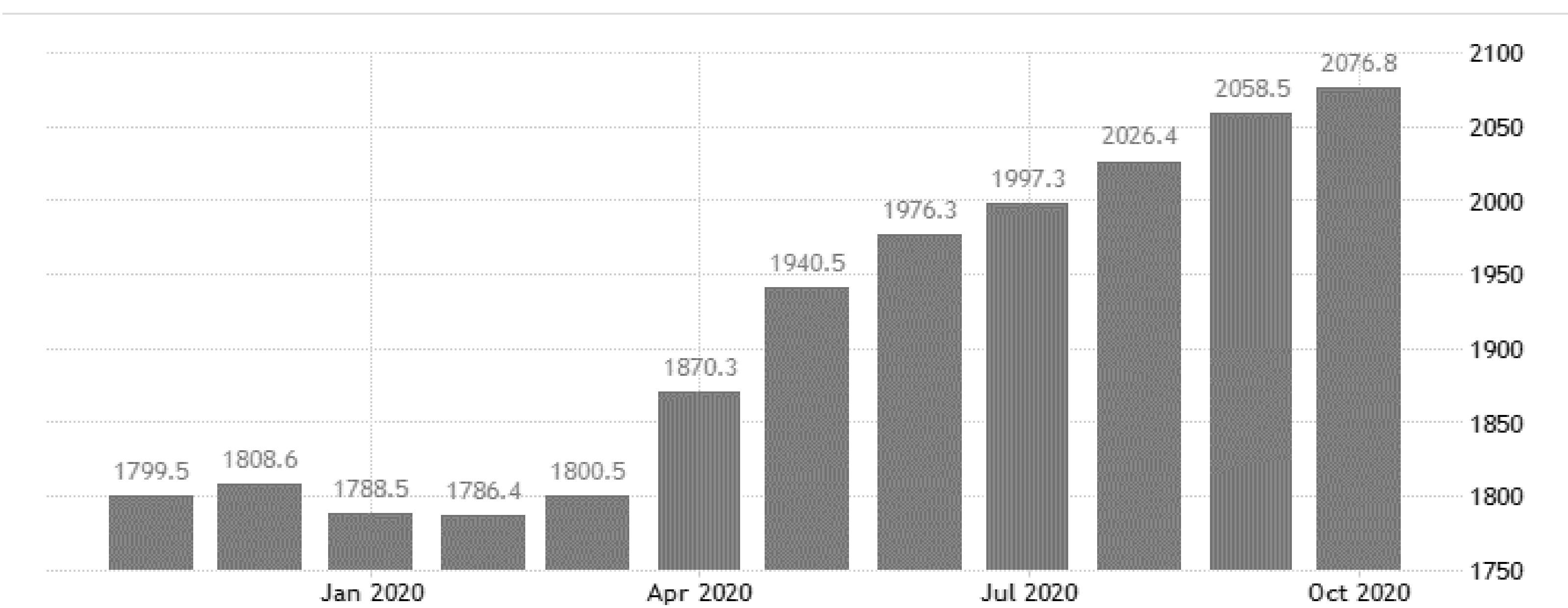


Source : Bloomberg Terminal

Public Sector Debt

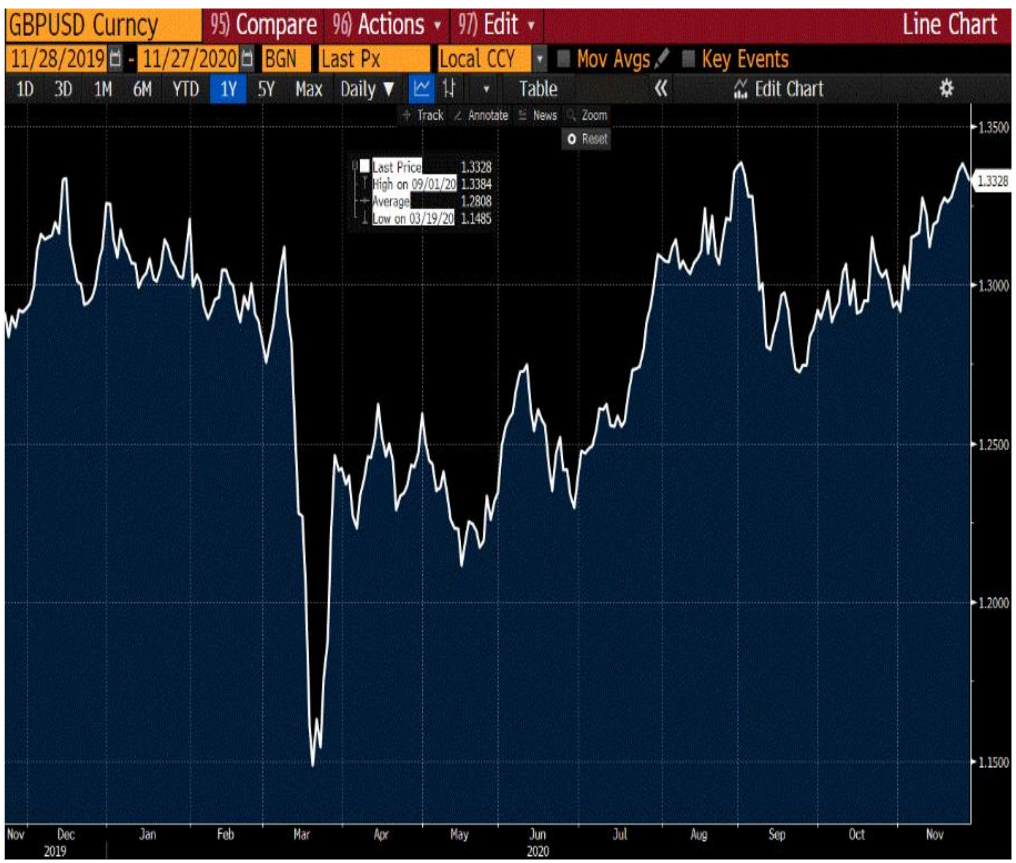
- Public sector net debt, excluding public sector banks, rose by GBP 276.3 billion in the first seven months of the financial year to reach GBP 2,076.8 billion at the end of October 2020.
- That equated to 100.8% of GDP, the highest as a share of the economy since the 1960-61 financial year, due to extra funding required to support government coronavirus support schemes combined with reduced cash receipts and a fall in GDP.
- Borrowing for the first seven months of the financial year is now estimated at £214.9 billion - the highest in any April to October period on record.
- It means the UK's overall debt has reached around 100.8% of gross domestic product (GDP) - a level not seen since the early 1960s - as the Government has spent more than £200 billion supporting the economy through the pandemic.

Public Sector Dept



GBP/USD & EUR/GBP

- GBP/USD rose to 1.33 as the dollar weakened. The US dollar lost interest among investors who predicted Biden as president and the Covid vaccine being almost ready.
- In the UK, it continues its horizontal course at 0.88-0.90 with the expectation that tighter measures will be taken as a result of the increase in the number of coronavirus cases.



Source : Bloomberg Terminal

GBP/TRY

- Due to the increase in the risks of developing countries with the effect of the epidemic, the parity increased to 11.28 levels at the beginning of November.

- Finally, as a result of the CBRT's interest rate hike, normalization steps and positive developments in external financing, GBP / TL declined by 9% to 10.40.

Source : Bloomberg Terminal

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