



# MONTHLY UK ECONOMIC BRIEFING

## NOVEMBER 2018

### KEY POINTS

- A draft Brexit deal was agreed on 14 November by UK and EU officials.
- The declaration essentially seeks to preserve the existing EU-UK trade flows in goods by establishing a single customs territory, a much closer relationship between the EU and UK on services and investment and an equivalence arrangement for financial services.
- The draft deal agreement paves the way for an emergency European Council summit on 25 November and a vote in the UK Parliament before Christmas.
- Theresa May needs 320 votes to pass the deal in the House of Commons. If the deal is rejected, we could see a number of possible scenarios play out.



UK interest rates are currently at

**0.75%**



In October the RPI rate remained at

**3.3%**



Q3 2018 GDP increased to

**0.6%**



In October the 10yr government bond yield averaged

**1.44%**



In October the CPI rate was unchanged at

**2.4%**



Forecast for Q4 GDP growth are

**0.4%**

Sources: ONS, BNP Paribas, BoE and Macrobond

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# UK ECONOMIC UPDATE

## **Draft Brexit deal agreed**

A draft Brexit deal was agreed on 14 November by UK and EU officials, the 585-page draft withdrawal agreement included provisions for a transition period ending December 2020.

A draft seven-page political declaration about the future relationship between the UK and the EU was also published, which highlights the long-term vision for trade. This declaration provides a basis for UK-EU trade negotiations to begin after the 29 March 2019.

## **Overview of the political declaration**

The declaration essentially seeks to preserve the existing EU-UK trade flows in goods by establishing a single customs territory, a much closer relationship between the EU and UK on services and investment and an equivalence arrangement for financial services.

The free movement of migrants would end between the EU and UK, however, the declaration does include provisions for visa-free tourist and business travel.

The UK would be outside the EU's Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP). Instead of the CFP the EU and UK would establish a new agreement on fisheries and access to waters.

Businesses have welcomed the political declaration as this now provides some much needed and long-awaited clarity on the framework for a future trade deal. However, businesses are aware that the final EU-UK trade agreement remains subject to negotiations and may differ from the political declaration.

## **What next?**

The draft deal agreement now paves the way for an emergency European Council summit on 25 November and a vote in the UK Parliament before Christmas.

Although the date is yet to be finalised many believe the vote in Parliament could take place around 7 December.

Theresa May needs 320 votes to pass the deal in the House of Commons. Many MPs

across the political spectrum have been vocal about their unhappiness with the deal. The prime minister needs to get the deal through Parliament. The vote is likely to be tight.

If the deal is rejected, we could see a number of possible scenarios play out: the prime minister could make a few tweaks to make the deal a bit more acceptable but this will be subject to approval by the EU, an extension of Article 50, a new leadership contest, a second referendum, or a no deal Brexit.

BNP Paribas believe there is around a 50% chance that the meaningful vote in Parliament gets rejected. If it is rejected, all options remain on the table, with the risks of anything from no deal to no Brexit rising. BNP Paribas however think an extension of Article 50 is more likely than a no deal.

**“The draft deal agreement now paves the way for an emergency European Council summit on 25 November and a vote in the UK Parliament before Christmas.”**

## BREXIT TIMETABLE

25 November 2018	Emergency EU Summit
December 2018	House of Commons approval
January – February 2019	Deal passed into UK law
29 March 2019	UK leaves the EU
30 March 2019	Trade talks begin
31 December 2020	End of transition period

# KEY ECONOMIC & PROPERTY METRICS

November 2018

IPD Net initial yields (%)	Level	1m ago	Difference
All Property	4.91	4.93	● -0.01
Retail	5.67	5.68	● -0.02
Office	4.48	4.49	● -0.01
Industrial	4.47	4.47	● 0.01
Residential	2.67	3.03	● -0.36

IPD Capital growth (%)	Level	1m ago	Difference
All Property	0.09	0.18	● -0.09
Retail	-0.49	-0.52	● 0.03
Office	0.20	0.31	● -0.11
Industrial	0.61	0.84	● -0.23
Residential	0.46	0.72	● -0.27

IPD Total Returns (%)	Level	1m ago	Difference
All Property	0.51	0.60	● -0.08
Retail	0.01	-0.04	● 0.05
Office	0.58	0.68	● -0.10
Industrial	1.00	1.22	● -0.22
Residential	0.83	1.12	● -0.29

Economic (%)	Level	1m ago	Difference
UK GDP*	0.6	0.4	▲ 0.21
EU GDP*	0.3	0.5	▼ -0.14
US GDP*	0.9	1.0	▼ -0.16
UK RPI	3.3	3.3	▬ 0.00
UK CPI	2.4	2.4	▬ 0.00
US CPI	2.5	2.3	▲ 0.26
EU HICP	2.2	2.1	▲ 0.09

Rates (%)	Level	1m ago	Difference
BoE policy rate	0.75	0.75	▬ 0.00
ECB key interest rate	0.00	0.00	▬ 0.00
US Fed rate	2.25	2.25	▬ 0.00
SONIA	0.70	0.70	▲ 0.00
EONIA	-0.34	-0.35	▲ 0.01
SHIBOR	2.37	2.65	▼ -0.28
TONAR	-0.07	-0.06	▼ 0.00
UK 5YR swap	1.38	1.44	▼ -0.06
US 5YR swap	3.11	3.03	▲ 0.07
EU 5YR swap	0.35	0.39	▼ -0.04

10YR Bond yields (%)	Level	1m ago	Difference
UK	1.44	1.57	● -0.13
France	0.75	0.81	● -0.06
Germany	0.40	0.37	● 0.03
US	3.15	3.00	● 0.15
Japan	0.14	0.12	● 0.02

Equity dividend yields (%)	Level	1m ago	Difference
All share	4.04	3.80	● 0.24
Financial	4.12	3.87	● 0.25
Non-financial	4.02	3.77	● 0.25
REITS	4.29	4.22	● 0.07

Exchange rates	Level	1m ago	Difference
EUR per GBP	1.13	1.12	▲ 0.00
USD per GBP	1.28	1.30	▼ -0.03
MYR per GBP	5.35	5.40	▼ -0.05
SGD per GBP	1.77	1.78	▼ -0.01
CNY per GBP	8.91	8.96	▼ -0.04
JPY per GBP	144.24	148.15	▼ -3.91
HKD per GBP	10.02	10.20	▼ -0.19
KRW per GBP	1457.83	1447.30	▲ 10.53

Volatility	Level	1m ago	Difference
FTSE 100 Volatility Index	16.84	11.75	▶ 5.09
S&P 500 Volatility Index	21.23	12.12	▶ 9.11
Eurostoxx Volatility Index	20.30	14.76	▶ 5.54

Commodities	Level	1m ago	Difference
Brent \$/bbl	82.67	77.43	▼ -5.24
Gold \$/oz	1214.95	1187.25	▼ -27.70

\*Quarterly GDP - compared to the previous quarter  
The latest level date of reference refer to the previous month highlighted on the top right, unless stated otherwise.

Sources: Macrobond, MSCI, BNPPRE