

## Don't count your chickens

Leading Brexiteers have been sent off by Mrs May to drum up support for trade deals but headlines have been hijacked by 'chlorinated' chickens.



With PM Theresa May holidaying in Northern Italy, she has sent the leading Brexiteers in the cabinet off to try and drum up support for future trade deals. International Trade Secretary, Liam Fox, is in discussions with US officials, but the newspaper headlines have all been about concerns over cheap “chlorinated” chicken entering the UK market, rather than the £40bn annual boost to exports he believes possible once a deal is struck after the UK leaves the EU. Foreign Secretary Boris Johnson is in the middle of a nine-day tour of Japan, New Zealand and Australia and has been adding to the list of countries that have been promised slots “at the front of the queue” for a trade deal with the UK.

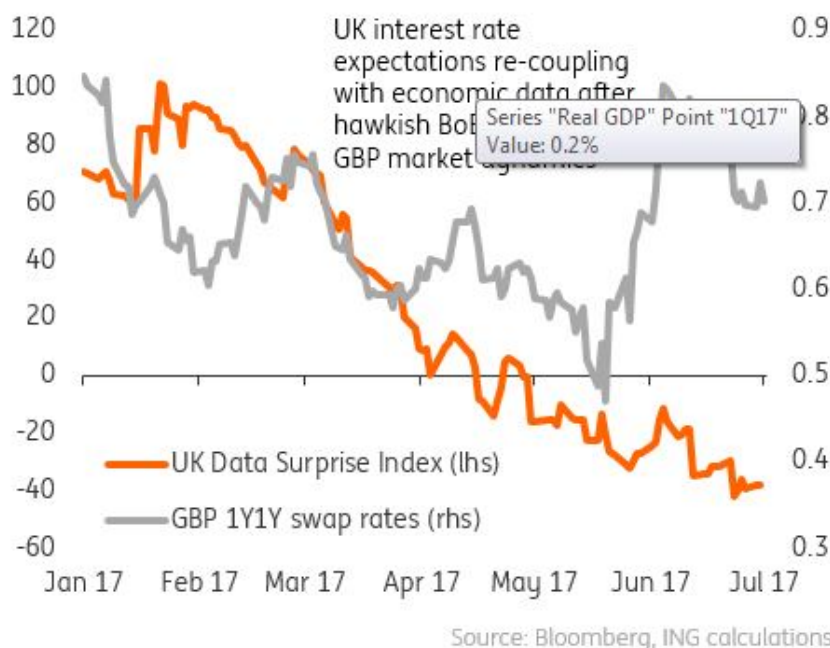
Meanwhile, Brexit Secretary David Davis is in Germany to discuss economic ties. Weakening UK activity data is seemingly focusing the minds of British politicians on the need for deals, but until there is clarity on a transitional arrangement, business is likely to remain nervous.

### Divorce details to be agreed on first

The UK government initially wanted the divorce and new agreement to be finalised within the two year window for Brexit with a short “implementation period” added on to allow the country to

adjust to the new environment. However, it has become clear to the British government this was too short a timescale with acceptance of a full blown “transitional period” now widespread amongst ministers.

Chancellor Philip Hammond wants a “long” transition to protect the UK’s economy, and even arch-Brexiteers such as Liam Fox are now acknowledging the need. That said, he feels it must end before the next scheduled election in 2022 to prevent Brexit being reversed. However, there will be no agreement with the EU on transition until the broad framework for the divorce, including the exit fee, citizens rights and land border issues with Ireland are resolved. This is unlikely to happen until 4Q17 at the earliest, which will leave corporates sitting nervously waiting for news.



## Too early for markets to price in a transition deal

The growing consensus within Theresa May's cabinet over a post-Article 50 transitional arrangement with the EU is certainly good news for sterling. But along with the length of such a transition period, the details are crucial for GBP markets. A continuation of current arrangements over the agreed period - free movement of trade, capital and labour - would have the greatest positive effect on GBP markets.

---

*Until we get further clarity, we think GBP will continue to trade with a negative bias in the short term.*

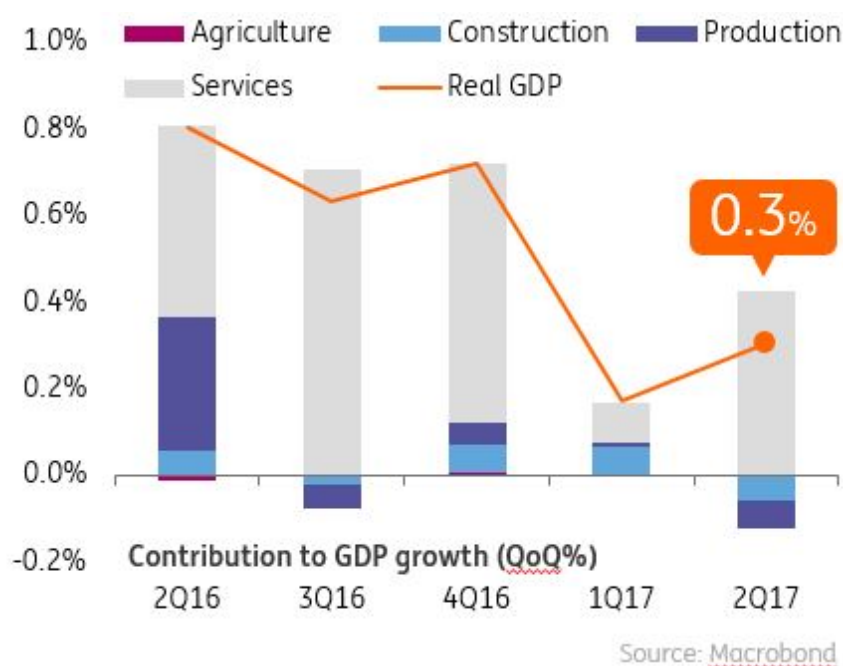
---

Signs of the UK economy slowing down are likely to dampen calls for a 2017 BoE rate hike, with markets pushing out expectations into next year. A recovery in dollar sentiment should see GBP/USD move back below 1.30, while a consolidation in the euro is likely to keep EUR/GBP below 0.90 for now.

The latest growth data has dashed any hope that momentum would return after a particularly soft start to the year. Admittedly, the performance of the all-important service sector could have been worse: Warm weather and a late Easter helped retailers sell their summer wares. But this is likely to prove temporary and, as real wages continue to fall, the household spending squeeze will continue to intensify.

It's also worth remembering that today's GDP estimate is composed of only 45% 'hard' data, with the rest generated by ONS statistical models. The relatively construction and service sector gains assumed for June means a downwards revision cannot be ruled out.

## Sluggish quarter casts doubt over a rate hike



### BoE outlook

But for the Bank of England outlook, what matters most is that growth in the first half of this year is markedly slower than the pace seen last year. With signs of domestic inflationary pressures still limited, we think it is unlikely that the Bank will hike rates this year

## Authors

### James Knightley

Chief International Economist

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### James Smith

Developed Markets Economist

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.