

FOREX TRADING

**WILL
BREXIT
ACTUALLY
HAPPEN?**



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BREXIT: THE HOT TOPIC

FOREWORD

Brexit continues to be the issue that dominates British politics. At this moment in time, Brexit negotiations have yet to see significant progress.

This is also an issue both investors and traders are closely tracking in regards to the British economy. The form Brexit takes - if it happens at all - will have a profound impact on monetary policy.

The purpose of this eBook is simple. We'll analyse the current state of Brexit negotiations - and the chances of the decision being reversed.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

EXPLORING A COMPLEX PROCESS

NEGOTIATIONS STALLING?

Once the Brexit decision had been taken by the United Kingdom, political and diplomatic analysts were quick to emphasise the complexity of negotiating an exit from the European Union.

A few months into Brexit negotiations, it's fair to say that these insights have been proven to be true. The United Kingdom and the European Union have made very little progress in agreeing exit terms and future trading relations.

The priority for the United Kingdom is to give its businesses certainty about trade. However, the European Union is reluctant to negotiate future trading relations until the terms of exit are fully agreed.

Specifically, this covers three issues: the status of EU nationals living in Britain; the 'divorce bill' due to the EU; and the arrangements for the Irish border with Northern Ireland.

EU NATIONALS

The uncertainty around the future status of EU nationals living in Britain, along with British nationals living in the European Union has remained a contentious issue in early negotiations.

Specifically, the EU want clarity on the status of EU nationals who live and work in Britain through the principle of 'Freedom of Movement'. Some - including the Liberal Democrats - have called for the UK government to guarantee the rights of EU nationals currently living in Britain.

Currently, the British government is proposing that these EU nationals should apply for 'settled status' to stay in the UK. Some have argued that this proposal is unfair - and causes unnecessary worry for EU nationals currently working and living in the UK. It still remains a contentious issue six months into negotiations.

DIVORCE BILL

There seems to be an acceptance by the British government that they will need to pay some kind of exit fee to meet its original commitments to the EU. In fact, Brexit secretary, David Davis, recently stated that the United Kingdom had a 'moral obligation' to pay some kind of exit fee.

Of course, the amount this bill totals is where there is a difference of opinion between the United Kingdom and European Union. The press has speculated that a sum of £18 billion would be viewed as 'acceptable' by the British government. Whether the EU has the same view remains to be seen.

IRISH BORDER

The border between the Republic of Ireland and Northern Ireland is another important area of negotiations. This is currently a soft border with a common travel area. There had been concerns that after Brexit this border would become more difficult to move across.

However, British Prime Minister Theresa May has indicated that she doesn't want to see new physical infrastructure built at the Irish border after Brexit. Again, specific details are sparse at this stage, but it's another key issue that needs to be resolved before the United Kingdom can negotiate new trade arrangements.

WILL BREXIT ACTUALLY HAPPEN?

POLITICAL UNCERTAINTY

Brexit remains an extremely divisive issue in the United Kingdom. At this moment in time, there is little consensus between the main political parties about what form Britain should take.

In fact, there is little consensus within individual parties regarding the form Brexit should take. The Conservatives, who rule by a minority government, have an influential eurosceptic faction. Meanwhile, Labour - the official opposition - appear uncertain about their negotiating priorities over issues such as the single market. Furthermore, the Liberal Democrats oppose Brexit altogether - and want a second referendum on Brexit once exit terms are agreed.

Theresa May is also politically weak after the UK general election. She lost her majority but was able to form a minority government. This result makes her more exposed to the eurosceptic faction of the Conservative party. It does also have implications on the Brexit

negotiations. Her grip on power has diminished, making it more difficult for her to maintain authority with other EU leaders.

Slow negotiations and political uncertainty have led many prominent 'Leave' campaigners to question whether Brexit will be delivered at all.

THERESA MAY'S SPEECH

The British Prime Minister attempted to quell this uncertainty in late September 2017. She proposed a two-year transition period after the completion of Brexit in 2019 to give businesses certainty over trade. We will know the EU's position on this proposal after the next round of negotiations.

The speech was also upbeat and optimistic in tone. However, it lacked specific detail about Britain's negotiating position on key issues and was deliberately vague. This saw the pound drop against both the US dollar and the euro immediately after the speech.

WHAT TO EXPECT

In our view, Brexit will still happen. The British electorate is still in favour of the original vote being delivered. We also believe that any attempt to reverse the Brexit decision will come at a significant political cost to the advocating party.

However, the last six months are proof that these negotiations are going to be extremely complex with moments of contention. During these moments we can expect downward pressure on the

pound - creating some good short-term trading opportunities.

Our advice to traders is simple. Monitor the news closely in each round of these negotiations in order to determine market sentiment. This will be a useful indicator for if and when to expect downward pressure on the pound.



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THE TRADING DIARY

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