

FINANCIAL MARKETS

BREXIT: IS TIME  
RUNNING OUT?



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# THE CLOCK IS TICKING

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## FOREWORD

Those with sharp memories will recall that October 2018 was supposedly when a Brexit deal between the UK and European Union (EU) would be agreed.

That time is now here - and Brexit negotiations have seemingly reached something of an impasse, leaving the markets nervous about the prospect of a 'No Deal' scenario.

The purpose of this eBook is to analyse where Brexit negotiations currently are - and what we can expect in the coming months.

**Patrick Latchford**  
**CEO, Blackwell Global Investments (UK) Limited**

# DOES A BREXIT DEAL MATTER?

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## A QUICK RECAP

Brexit is a long and complex saga. For this reason, it's prudent for traders and investors to remember why a Brexit deal matters.

So let's look at the big picture.

The UK and EU want to clarify their future relationship after Brexit. It makes sense to do this. The UK has integral economic ties to the EU. Plus, the UK has adopted EU laws and regulatory standards.

With these close ties in mind, both the UK and EU want to ensure a smooth Brexit process. This will help reassure businesses and the markets. To achieve this, the UK and EU are working on a withdrawal agreement.

Both parties wanted a withdrawal agreement signed by October 2018. At the time of writing, this has not happened.

But negotiations have made progress. For instance, the UK and EU have agreed to a 21-month transition period once Brexit happens in March 2019. This would only come into effect if a withdrawal agreement was signed. Again, the intention here is to ease Brexit's impact on business and the markets.

The following terms have been agreed for the duration of the transition period:

***Both UK and EU citizens will be entitled to 'freedom of movement' within the UK and EU.***

***The UK can negotiate its own trade deals. But it will still be part of existing EU trade deals.***

***The UK would still be part of the single market and customs union. However, the UK will have no influence over its rules.***

Crucially, the UK and EU will also use the transition period to negotiate a new trading relationship.

## THE IRISH BORDER

However, there is one issue that threatens to derail the withdrawal agreement - the Irish border.

The Republic of Ireland and Northern Ireland currently enjoy a soft border. This means people and goods can easily cross between the two countries.

However, when Northern Ireland (which is part of the UK) leaves

the customs union and single market, more thorough border checks could be required. Some are calling this a hard border.

With Ireland's fraught political and religious history, a hard border is problematic.

To solve this problem, the EU has suggested a 'backstop'. This would require Northern Ireland to maintain regulatory alignment with the EU customs union. But this option has been refused by the UK Prime Minister Theresa May. She fears such an arrangement would threaten the integrity of the United Kingdom.

However, the UK has accepted the need for a 'backstop' in principle. But until the Irish border issue is 100% resolved, we're in deadlock.

In an attempt to reach a compromise, UK Prime Minister Theresa May has proposed an optional extension of a 'few months' to the transition period. This would give both the UK and EU more time to resolve the Irish border and formalise their future trading arrangements.

According to press reports, an extension to the transition period is something the EU would accept. But the EU isn't the main obstacle to a withdrawal agreement being signed - it's the UK parliament.

# DIFFICULTIES BACK AT HOME

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## THE PARLIAMENT PROBLEM

Theresa May's biggest Brexit problem is the UK parliament. Currently, the British Prime Minister and her party do not command a majority.

What's more, the Conservatives are deeply divided over Brexit. The eurosceptic wing of the party is likely to vote against any plan that Theresa May brings back to parliament. They believe the current deal being negotiated with the EU does not deliver the Brexit the British electorate voted for.

Across the aisle, Theresa May is also short of support. Labour - the UK opposition party - might also sense an opportunity to weaken an already diminished Prime Minister and force a general election

This is certainly one potential scenario should a withdrawal agreement be rejected by parliament.

Ultimately, the problem with Theresa May's current strategy is that her Brexit plan doesn't please anyone. Brexiteers believe it keeps the UK too close to the EU, while remainers believe it cuts vital economic alignment with the UK's biggest trading partner.

As things stand, there's a chance any Brexit deal will be rejected by the UK parliament.

Interestingly, some commentators have speculated that Theresa May is hoping to force parliament into a binary choice: her deal, or no deal at all. It's a risky strategy - and it remains to be seen how it will unfold ahead of March 2019.

### PROSPECTS FOR GBP

As expected, GBP strength will continue to be influenced by the progress of the ongoing Brexit negotiations. The market clearly favours a withdrawal agreement being signed.

However, we can expect some GBP volatility ahead of March 2019. This is especially likely should a Brexit deal be brought back to UK parliament.

Traders should closely monitor negotiations in the coming weeks - and the rhetoric from key British Conservative eurosceptics, such as Boris Johnson and Jacob Rees Mogg.



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