YOUR GUIDE TO BREXIT

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Brexit Britain

How much progress has the UK made since voting to leave the EU? What will be the next topic in negotiations? Will the UK experience a hard or a soft Brexit? How much will the divorce bill amount to? And will UK businesses be able to access the Single Market and Customs Union after 2019? There are plenty of questions surrounding the decision to leave the European Union, and more are likely to arise as negotiations continue.

If your business has a foreign exchange requirement, you will have no doubt noticed the extreme Pound exchange rate fluctuations since the initial Brexit referendum in June 2016 and had to navigate the market accordingly since. Your Guide to Brexit is designed to highlight the timescales of negotiations and developments, as well as offering up some key bits of information to give you some insight on how Brexit may affect you and your company.

Brexit Timeline

23 June 2016 – Brexit Referendum

24th June 2016 - David Cameron steps down

13th July 2016 - Theresa May sworn in

17th January 2017 – Theresa May says UK will walk away from bad deal

29th March 2017 – Article 50 triggered

29th April 2017 – Other EU members take on negotiating guidelines

18th April 2017 - Snap election called

8th June 2017 - UK general election takes place – May wins election but loses power, GBP/EUR slips

19th June 2017 – Formal Brexit negotiations begin

July talks 2017 – Rights of EU citizens in Britain and Brits abroad, Northern Ireland border, separation concerns, money

12th September 2017 – British Brexit bill backed by a majority – 326 to 290 in the House of Commons to give clarity and certainty throughout Brexit process

1st-4th October 2017 – Conservative Party annual conference

October-December 2017 – Target for the agreement of the basic divorce deal, so trade discussions can take place

October 2018 – Michel Barnier's deadline for a deal to be agreed – ratification procedure

March 29th 2019 – Britain's last day in the European Union

Although the UK voted to leave the European Union on 23rd June 2016, little has really been achieved since. Speculation as to how the British economy might perform outside of the EU has increased, economic figures have begun to note a Brexit related slowdown, and political quips have been thrown from both sides. And let's not forget the UK has witnessed further political instability because of the snap election.

How Entwined is the UK?

The infographic shows the different economic groups that create ties amongst the other countries in Europe:

European Union – The UK is leaving the EU and bidding farewell to the other 27 member states which have access to the Single Market and share regulation on aspects such as the free movement of people, goods, services, and capital.

Eurozone – 19 of the 28 European Union nations make up the Eurozone, and each state uses the common, or single currency, the Euro.

European Economic Area – 28 nations that pay to have access to the Single Market. The EEA has a safety measure, an 'emergency break', on the free movement of people.

Customs Union – Allows all member states to trade freely and have a universal tariff for imports from nations outside of the Customs Union.

European Free Trade Association – A free-trade area which has a matrix of agreements with other nations.

Country	GDP	Economic groups
Germany	$3.36t	
U.K	$2.86t	
France	$2.42t	
Italy	$1.82t	
Spain	$1.20t	
Netherlands	$750b	
Turkey	$750b	
Switzerland	$690b	
Sweden	$500b	
Poland	$480b	
Belgium	$460b	
Norway	$390b	
Austria	$380b	
Denmark	$300b	
Ireland	$280b	
Finland	$230b	
Portugal	$200b	
Greece	$190b	
Czech Republic	$190b	
Hungary	$120b	
Slovakia	$90b	
Luxembourg	$60b	
Bulgaria	$50b	
Croatia	$50b	
Slovenia	$40b	
Lithuania	$40b	
Latvia	$30b	
Estonia	$30b	
Cyprus	$30b	
Iceland	$20b	
Malta	$10b	
Liechtenstein	N/A	

Source: ETRA, World bank, ETRA

Key Players

UK

Theresa May – UK Prime Minister

David Davis – Conservative MP/ Secretary of State for Exiting the European Union

Oliver Robbins – British Sherpa (Brexit coordinator) top civil servant

Sir Tim Barrow – Permanent UK Brussels representative

Simon Case – Director general of the UK/EU partnership and former private secretary to David Cameron

Sarah Healey – Director general of David Davis' department

Boris Johnson – Foreign secretary

EU

Michel Barnier – The EU equivalent of Davis, former French foreign minister and EU commissioner

Sabine Weyand – Michel Barnier's deputy chief negotiator

Donald Tusk – President of the European Council

Didier Seeuws – A diplomat heading the European Council's Brexit negotiations task force

Elections

Despite not wanting to hold the referendum at all, David Cameron orchestrated the vote on EU membership to keep his election campaign promise. Despite Cameron saying he wouldn't step down should he not get the result he'd hoped, he shortly resigned after the vote, allowing May to take over.

It seemed like a perfect plan when Theresa May announced the UK would be offered a snap election in June 2017, but unfortunately it didn't unfold quite as May had expected. Although she started with the backing of strong numbers, her popularity quickly fell and Britons began to see her as a weak leader as several U-turns took place. While she had hoped to strengthen her Brexit negotiating hand, May achieved the complete opposite. Even with no clear winner May failed to step down and has since limped her way through negotiations. Labour leader Jeremy Corbyn is waiting in the wings, should the opportunity for another snap election rise.

Meanwhile in Europe with the defeat of populist parties in both France and the Netherlands in 2017, the Euro has less political instability to impact it. Furthermore, Germany's Federal Election saw Angela Merkel secure another term, although her party notably bled votes to the right wing Alternative for Germany party. In addition, Catalonia has recently experienced some disruption with its independence referendum. However, on the whole, political instability in the European Union is minimal, while the UK is on an unknown road where there's plenty of uncertainty ahead.

Green Party

Labour

DUP

Liberal Democrats

Plaid Cymru | Party of Wales

Hard or Soft Brexit?

As negotiations recommence in October following a summer break, European leaders such as Angela Merkel and Emmanuel Macron will be asking questions and expecting firm answers. One of the most important queries will be whether a hard or soft Brexit will take place. May could try and steer the UK out of the European Union quickly (a hard Brexit), or take several years to leave (a soft Brexit).

Hard Brexit

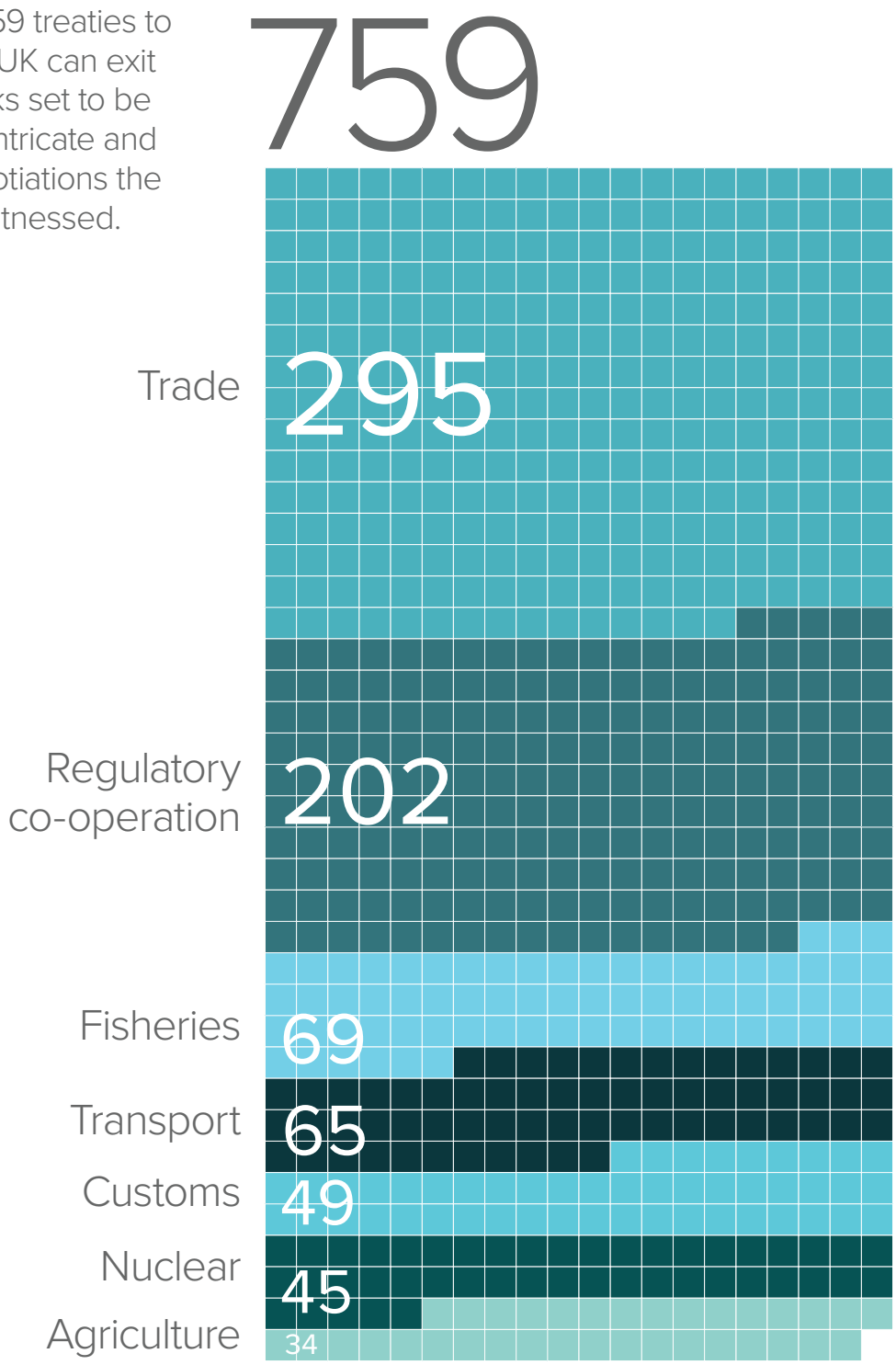
A hard Brexit would see the UK leave everything – the European Union; the Single Market which allows the free movement of people, goods, services and money; and the Customs Union which allows EU member states to buy goods from one another with no taxes. This would allow Britain to make trade deals with other nations such as the US and China, on its own terms, whilst also having control of immigration, borders, and employment rights.

Soft Brexit

Meanwhile a soft Brexit could see Britain gain special access to the Single Market at the cost of more fluid movement for EU nationals and the possibility of remaining within the Customs Union. However, it's worth noting that remaining in the Customs Union would restrict the UK making its own trade deals with other nations such as the US and China, as EU trade laws would still be in place.

What Needs to Happen?

There are over 759 treaties to cover before the UK can exit the EU and it looks set to be one of the most intricate and complicated negotiations the world has ever witnessed.



Source: FT research

Following Brexit, the UK will lose hundreds of international agreements, meaning that aspects in trade, regulations and cooperation, and other areas such as agriculture, transport, customs, and nuclear will all need to be re-organised.

Legislation Opposition

One of the problems for Theresa May will be pushing Brexit legislation through the House of Commons. The Prime Minister could find herself vulnerable to pro-EU MPs with a working majority of only 13, meaning even if May wanted to encourage a hard Brexit, she might find it difficult to push through.

The Red Lines

In 2016 Theresa May stated her ‘red lines’, which included coming out of the Single Market in order to restrict immigration, leaving the Customs Union yet trying to form a customs agreement, taking control of immigration yet still attracting highly skilled migrants, the discontinuation of ‘vast contributions’ to the European Union and the need for negotiations in parallel with talks on a free-trade agreement.

However, in August 2017, Theresa May compromised on one of her promises. The government announced that the UK would remain under the influence of European judges when it released plans for cross-border legal cases. This development came in contrast to May’s speech, where she stated: ‘We will not have truly left the European Union if we are not in control of our own laws.’

While Theresa May made the decision to soften the red line she had once promised in order to make negotiations quicker, the Pound fell to a two-month low against the US Dollar, and the lowest level versus the Euro since the October 2016 Sterling flash crash, before reaching a fresh eight-year low.

The Divorce Bill

Theresa May is attempting to speed up trade agreements by compromising in other areas, but it's unlikely that trade talks will begin until the matter of the divorce bill has been settled. While the UK has released a torrent of documents, the subject of the separation payment has been avoided altogether.

Meanwhile, Boris Johnson has repeatedly stepped into the debate about how much the UK will pay the European Union. In August Johnson suggested the EU could 'go whistle' over a reported €60-100 billion bill, he then said the UK would have to meet its obligations, whilst being hazy about whether that meant agreeing to the large figures Michel Barnier had suggested. Johnson stated that the UK would not pay 'a penny more' than it believes is right.

'Some of the sums that I've seen seem to be very high. Of course, we will meet our obligations. We should not pay a penny more, not a penny less of what we think our legal obligations amount to.' – Boris Johnson

Getting Serious

However, Michel Barnier dismissed the UK's policy documents and stated, 'We must start negotiating seriously.' Barnier's key interest is how much Britain is willing to pay for its divorce and is unwilling to discuss the post-Brexit transition until the UK/EU split cost has been resolved, while the UK has suggested that the divorce and future relationship need to be discussed together. Furthermore, every time the UK and EU meet a stalemate, negotiations are pushed back further, creating a lack of progress and more political uncertainty; neither of which are positive for the Pound.

The Impact

The impact on Britain so far has been relatively muted in comparison to the expectations economists initially held. However, as time goes on it's becoming clearer that the cracks in Britain's stoic façade are beginning to deepen. While some major banks are forecasting the pound will reach parity against the euro (GBP/EUR) by the end of the year, economic data and central bank developments could be a key influence on how Sterling performs in the near future.

Best-Case Scenario

In an ideal world the UK would depart the EU without a fee and efforts could be focused on creating trade agreements which would ensure a smooth transition for both the UK and EU for when Britain finally leaves. Brexit secretary David Davis had previously suggested there may be a loophole dependent on whether Britain's departure is considered a 'cancellation of a club membership' or a fully-fledged divorce. However, the government has now acknowledged that it will have to pay, the question is, how much? Moreover, how quickly can this be resolved?

Meanwhile, if Britain could leave the EU with a trade agreement in place for the other 27 nations, it would be a great development for the UK as it goes it alone. President of the United States Donald Trump has suggested that a trade deal between the UK and America would be completed 'Very, very quickly', which suggests Britain may be in demand with other nations post-Brexit. If negotiations go well and the British economy experiences some stability, the pound could regain some lost ground which would improve import costs, while still remaining competitive to global markets wanting to buy UK products.

Worst-Case Scenario

One of the worst-case scenarios would be a huge divorce bill for the UK. Furthermore, the European Union may push for a hefty payment following ratings agency Standard and Poor's suggesting that the EU may experience a downgraded credit rating if the UK decides not to pay. It's reported that Brexit supporting cabinet ministers have suggested that the Brexit bill needs to be capped at £3 billion, while Barnier is suggesting that the UK could be faced with a bill in the region of £66 billion. If communications over the divorce bill heat up, Brexit negotiations could be halted and spell bad news for the pound.

Meanwhile, if Britain were to depart the EU without a deal, there would be major disruption to UK businesses and citizens. Flights out of the UK to Europe could be suspended or interrupted, and increases in queues to cross the Channel could be expected. As well, supply chains could experience severe disruptions. If negotiations don't go well, the Pound could slip and become even more volatile, which could create higher inflation levels as imports become more expensive, creating a headache for the Bank of England (BoE). If the Pound weakens the UK would become more appealing as a tourist destination with a weaker currency. Since the referendum, the Office of National Statistics (ONS) has confirmed a rise month by month in visitors to the UK (excluding October where the Pound experienced a flash crash) as the currency weakens.

While speculation is likely to be rife in coming months, only one thing is certain; Britain will experience a significant amount of change in 2019.

Things to Watch Out For

If your business has a forex requirement there are plenty of questions that cannot be answered at this early stage. However, key areas to watch for will be free movement of people; access to the Single Market, Customs Union, and European Free Trade Association; business developments which may cause some companies to relocate overseas; and any changes to the Single Euro Payments Area and UK access to euro payment systems.

Your International Money Transfers and Hedging Requirements

Whether your business sends money abroad regularly or needs to make sporadic one-off currency purchases, it has never been more important to plan ahead to maximise your funds. Global Reach Partners assigns you with your own dedicated Dealer who can help you hedge your currency requirements and offer you specialist market insight into the best ways to protect your funds amid Brexit negotiations and the UK's transition away from the EU. Additionally, we have a host of qualified FX Options specialists available through our subsidiary, Global Reach Markets.

Speak to one of our experts today to discuss how we can help your business to make intelligent foreign exchange choices, even amid the most volatile market conditions.

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