Brexit: trading the talks

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BREXIT: TRADING THE TALKS

On 29 March 2019, the country is due to officially leave the European Union.

There are myriad matters to resolve in the talks ahead, with a number of different parties involved. But even so, the next few months and years will be defined by a few overarching issues and key events. By identifying these now, the opportunities available to traders and investors along the way may become a little clearer.

In this guide, we'll take you through when such events are set to take place and what they might mean for traders, as well as the key markets to watch along the way.

The Brexit timeline

29 MARCH 2017
Theresa May triggers article 50, formally starting the Brexit process

31 MARCH 2017
Donald Tusk, president of the European Council, publishes the EU's negotiation guidelines

23 APRIL 2017
First round of the French presidential election

29 APRIL 2017
EU leaders agree terms allowing the European Commission to negotiate on their behalf

7 MAY 2017
Second round of the French presidential election

8 JUNE 2017
UK general election

19 JUNE 2017
Brexit negotiations begin

SEPTEMBER 2017
German federal election

AUTUMN 2017
The Great Repeal Bill faces final parliamentary approval

AUTUMN 2018
First Minister Nicola Sturgeon's proposed date for a second independence referendum

SEPTEMBER 2018
EU Brexit negotiator Michel Barnier's proposed deadline for a deal

MARCH 2019
The UK withdraws from the EU

WHAT IS THE GREAT REPEAL BILL?
Since Britain is set to leave the jurisdiction of the European Court of Justice, the Great Repeal Bill – which will likely have a different name when it comes into effect – will effectively transfer all existing EU laws to UK law to ensure there isn't a 'black hole in our statute book'. Parliament can then amend, improve or repeal laws as it sees fit over the coming years.

THE KEY EVENTS

Article 50

29 MARCH 2017

Theresa May triggers article 50, formally starting the Brexit process

Markets took the triggering of article 50 in their stride, thanks in large part to the surprise resilience they'd shown since the 2016 referendum.

Not too much should be made of this, however: article 50's triggering didn't – and was never expected to – provide further clues on what lies ahead for Britain. Instead it was symbolic milestone, marking the start of a complex two years of negotiations. Keep in mind, too, that this two-year period could end up being extended, but only if all member states agree.

UK general election

8 JUNE 2017

UK general election

Theresa May surprised everyone in April 2017 by calling a snap election, with a view to consolidating the Conservatives' 17-seat majority. Expanding this margin could have proven critical in passing Brexit-focused legislation further down the line.

But May's plan backfired: despite a substantial lead in the polls at the start of campaigning, she ended up losing her mandate. So where the election should have acted to cement her hard-line Brexit tactics, it in fact served only to undermine them. Now she will have to create legislation that appeals to both her own party and the opposition, meaning a softer Brexit is likely on the cards.

The implications of the election result don't end there. In the face of EU adversaries, May's success may have lent weight to her assertion that hers are simply an extension of wider British interests. But as it stands, her reputation has very publically been tarnished, eroding her bargaining position when she comes face to face with other international leaders. Of course, if she proves unable to hold onto her job, their opinions may not be of too much significance.

In the immediate aftermath of the election, the pound suffered from the prospect of yet more uncertainty, and the FTSE 100 and 250 saw their rallies interrupted. And while the quick Tory-DUP deal was sufficient to restore some stability, it seems likely markets are simply waiting to see what's next.

BREXIT BY NUMBERS

27
The number of European Union member states involved in negotiations with Britain

43
The number of years Britain had been a member of the EU before the vote to leave

60 billion
The divorce bill, in euros, that the UK is expected to settle with the EU

45
The percentage of Britain's total exports that go to the EU

16
The percentage of the EU's total exports that go to the UK

31
The number of years since the pound was at post-referendum lows

3.3 million
The number of EU nationals living in the UK

French presidential elections

7 MAY 2017

Second round of the French presidential election

The nature of the Brexit talks could be complicated further still by Emmanuel Macron's election.

As president of the EU's second biggest economy, Macron will be one of the most influential voices in the negotiations. But as an unknown quantity on the political scene, exactly what he'll bring to the table is still a point of debate.

We know that he is emphatically for the union, and his election over Marine Le Pen – which would have created a raft of new problems for the EU, let alone completely redefined talks with Britain – will have come as a huge relief to Merkel, Juncker et al. But he will be thrown in at the deep end, and his lack of political experience could be telling when he comes up against veteran British politicians.

On the other hand, a lack of political history could well work in his favour, forcing the British prime minister to go into negotiations blind and stripping her of diplomatic firepower. Little surprise, then, that eyes will be on Macron's performance in the early stages, and on how the euro responds.

German parliamentary elections

SEPTEMBER 2017

German federal election

Chancellor Angela Merkel is reported to have hardened her stance in the weeks leading up to article 50, and if she wins another big mandate, it could act to endorse her strategy.

But Germany is by no means above the current populist shift: Alternative for Germany doesn't have the same traction as its European counterparts, but the Eurosceptic party is expected to make gains in the next election. This means the traditionally dominant parties may not boast the comprehensive parliamentary victory of previous years.

Brexit negotiations are likely to slow before the result of the German election. Merkel's grip on power is seen as intrinsically linked to their outcome, not to mention the future of the EU as a whole. Should this grip be seen to weaken, expect the euro to weaken with it.

Scottish referendum

AUTUMN 2018

First Minister Nicola Sturgeon's proposed date for a second independence referendum

Given Scotland's overwhelming vote in favour of remain, first minister Nicola Sturgeon has made it clear she now expects a second independence referendum as early as autumn 2018.

This date has so far been rejected by Theresa May, who argues there shouldn't be a second referendum vote before the outcome of the negotiations is known. And while both the British government and the EU's chief negotiator Michel Barnier hope to have struck a deal by Sturgeon's proposed date, there is still the matter of final approval from the British and European parliaments, as well as the European Council. In short, even before the election, it was unlikely a second referendum would take place before Britain's formal departure from the EU.

Since the election, the odds have been reduced further still. The loss of 21 seats will prove troublesome for the nationalist cause, and will almost certainly put the conversation on ice for the moment. This is potentially good news for the pound, which has already seen a significant loss in investor confidence in the last few months. With Sturgeon's case for independence suffering a setback before Brexit talks begin, it is one fewer concern traders will have to take too much into account.

MARKETS TO WATCH

Forex: GBP/EUR, GBP/USD, GBP/AUD

After slumping to a 31-year low following the vote to leave, the pound will be in a precarious position until uncertainty starts to abate.

That won't happen any time soon. After all, it's not clear what sort of trade deal Britain will have with the EU after Brexit, given the bloc is the UK's largest trading partner. Several EU officials and leaders have said there's no way the UK can expect to have the same sort of tariff-free trade that member states enjoy once the country leaves. The question for the UK, then, is how close to that arrangement it can get.

Of key interest during this period of uncertainty is GBP/EUR, which will be sensitive to the back and forth of the negotiations and responsive to whichever side appears to be on top. GBP/USD is also worth keeping an eye on, though Brexit's impact on this pair shouldn't be overstated in light of the far more influential Trump presidency.

While the British government can't formally negotiate new trade deals with non-EU countries until Brexit, the potential loss of trade could be offset by new opportunities with other countries. The UK has already begun exploratory talks with Australia, in an effort to turn a quick deal around after March 2019. It's possible that should the British government continue to put themselves in a strong position with global partners further afield, other sterling pairs – including GBP/AUD – could start to see a positive move.

WHO ARE THE KEY NEGOTIATORS?

DAVID DAVIS
Head of the 'Exiting the EU' department

BORIS JOHNSON
Foreign secretary

MICHEL BARNIER
European chief negotiator for Brexit

DONALD TUSK
President of the European Council

Shares and indices: FTSE 100, FTSE 250, Unilever, Easyjet

With its companies far more reliant on the domestic economy for their revenues, the FTSE 250 will continue to be used as a barometer for the success of the Brexit negotiations.

In the run-up to article 50 in March, the mid-cap index subverted the angst expected of it and finished at an all-time high. But the strength of this position mustn't be overstated: only when governmental trade deals are finalised will companies be able to evaluate their impact in full. Plus, it's still unclear what sort of deal will be struck regarding immigration – on which many sectors including hospitality, agriculture and retail rely heavily for workers – or what happens to EU nationals already living in the UK.

Both sides are hopeful rights will be clarified and secured quickly, but details about residency may take a while to resolve. For as long as these remain undefined, faltering confidence in UK companies will quickly and starkly be reflected in the FTSE 250.

The FTSE 100, boasting a broad international footing, is on steadier ground – and like its mid-cap cousin, its biggest gains have been reserved for resource stocks like Glencore, which has benefitted from a weak pound and strong commodities market. Of course, questions still hover over the intentions of its constituent companies: will they choose to remain based in the UK with hopes of a Geneva 2.0, or will they move parts of their operations out of London as Goldman Sachs, HSBC and UBS have threatened to?

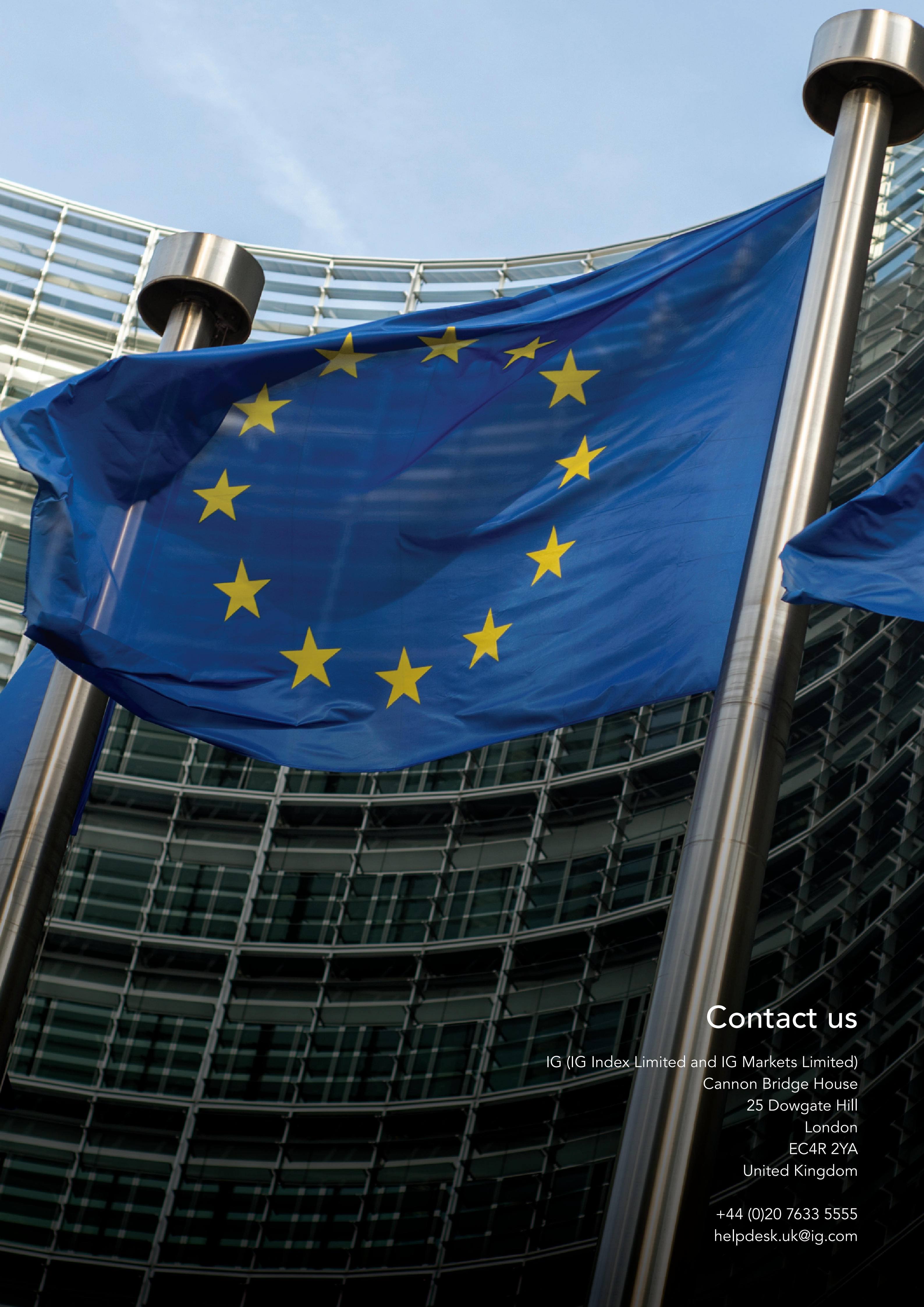
Finance and mining aren't the only sectors to watch as talks kick off. Take agriculture, for example, which could benefit from the abolition of certain unpopular EU regulations. Good news for food producers such as Cranswick and Unilever, who could in turn see a boost in investor confidence. Travel companies and airlines such as Thomas Cook and EasyJet, on the other hand, have every reason to be nervous: an end to open skies agreements could create a long-lasting headache for their shareholders.

Commodities: Gold

If the UK were to leave the EU without a new trade deal, it would fall back on World Trade Organisation (WTO) rules until new trade deals are negotiated. As this possibility approaches, investors may look towards the traditional safe haven: gold.

Gold has gradually been climbing throughout 2017, even nudging past $1250 an ounce in March ahead of article 50. And many specialists claim that, given the lack of certainty that currently exists in the markets, it could go higher still – perhaps even to levels of $1400, its highest since 2013.

Keep in mind that Trump's presidency is of greater significance to the performance of gold, which explains its drop when the Fed announced a rate rise in December 2016. But as long as the former reality star struggles to transfer rhetoric into tangible policy, Brexit could be the key driver in bullish sentiment towards the precious metal.



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