ARTICLE 50

WHAT TRADERS NEED TO KNOW

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Blackwell Global is a global brokerage, aiming to be the most trusted financial service provider. We are committed to transparency, integrity and service excellence.

Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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ENTERING THE UNKNOWN

FOREWORD

We're getting close to the triggering of Article 50. This will start the formal two-year notice period of the UK leaving the European Union. This is the point at which the UK will also start to negotiate its future relationship with the EU post-Brexit.

These negotiations will cause volatility on the financial markets, particularly the pound. The purpose of this eBook is to look at how these negotiations might influence price movement over the coming months.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

THE BRITISH ECONOMY

HAS BREXIT HELPED?

Firstly, let's take a look at the current state of the UK economy. As most traders will know, the price of the pound sterling has dropped dramatically since last year's referendum. We've even seen it fall to decade record lows against the US dollar (1.204) at the start of 2017.

However, a weaker pound has done something quite interesting to the UK economy in that it has made British exports more competitive. In other words, it's now cheaper for other countries to import goods from the UK. As result, British exports have rallied since the referendum result.

Other parts of the UK economy have proven resilient to the Brexit vote too. Unemployment remains historically low at 1.6 million (January 2017), while economic for 2017 as a whole has been revised upwards to 2%. Inflation (January 2017) currently stands at 1.8% - its highest rate since June 2014. This is also close to the

Bank of England's inflation target of 2% inflation year-on-year. Interestingly, wages are also rising faster than inflation at a rate of 2.6% (the last quarter of 2016).

So with this data in mind, you'd be forgiven for thinking that the UK has actually benefitted from the Brexit vote so far. But in truth, the formal process of the UK leaving the European Union hasn't started yet - so its full economic impact has yet to be felt.

THE EUROPEAN SINGLE MARKET

WHAT WE KNOW

The full impact of Brexit will become clearer once we know the nature of Britain's future trading relationship with the European Union.

On Tuesday 17 January, British Prime Minister Theresa May announced that the UK does not intend to retain its membership of the European single market after Brexit is complete. Instead, it wants to negotiate a comprehensive free trade deal with the European Union.

In the run-up to this speech, there was widespread speculation in the press that Theresa May would confirm the above approach. This caused significant downward pressure on the pound against its major counterparts.

The uncertainty surrounding Britain's future trading relationship spread anxiety within the markets. Curiously, once the speech had been made the pound stabilised, as the markets now had confirmation of Britain's intentions.

Considering the above scenario, much volatility lies ahead for the pound regarding trade deals. Single market access is absolutely key to many British businesses - particularly financial services and the automotive industry.

Trade deals a notoriously complex. Britain's negotiations with the European Union will attract constant commentary from both the international press, influential businesses and world leaders. This commentary on the positive or negative aspects of any prospective trade deal will cause price volatility in the corresponding direction.


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CAN BRITAIN NEGOTIATE TRADE DEALS?

VOLATILITY LIES AHEAD

There remains scepticism about a post-Brexit Britain's ability to negotiate favourable free trade deals with bigger trading blocs and nations. Modern trade deals rely heavily on market size. This is one of the advantages of the European Union. With a market size of over 500 million, the European Union has the ability to negotiate on an equal footing with the world's biggest countries. The recently ratified free trade deal with Canada is an example of this.

Britain's market size is just over 60 million. Trading experts have cast doubt on the quality of the trade deals that an independent UK could acquire with the likes of the European Union, the United States and China. But market size isn't the only dynamic at play here. Let's take a closer look at two examples.

EUROPEAN UNION

The European Union is Britain's most important trading partner, accounting for 50% of all exports. For this reason, many trade deal experts believe that the European Union will try to secure favourable terms for itself if Britain wants access to its single market. This could involve trying to penalise the UK's financial services industry with reduced market access or imposing export tariffs on goods that are manufactured within the UK.

Having said that, the UK does have a trade deficit with the EU. That is to say that the UK buys more from the EU than it sells to it. Supporters of Brexit say that this fact means that the EU cannot be too aggressive in the terms it demands in any new trading arrangement.

The truth is we don't know what any prospective trade deal will look like until it's actually complete. But we know that the European Union is under pressure to keep nationalism across its member states in check. Therefore, it's in the realms of possibility that the European Union will insist on tough terms for Britain, in an effort to discourage further referendums.

UNITED STATES

Britain has been quick to get on good terms with newly elected President Trump. Theresa May was the first world leader to visit the new administration - and talk of a quick UK/US trade deal was rife.

This represents a reversal of the Obama administration's trade policy. Before last year's referendum, President Obama stated that Britain would have to go to the 'back of the queue' for trade deal talks should it opt to leave the European Union.

However, many have questioned the kind of trade deal that could be achieved quickly with Trump's administration. His campaign ticket focused on creating American jobs and attracting big business to manufacture in the US. With this in mind, it's not unreasonable to suggest that Trump will pursue terms that heavily favour American workers and businesses.

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FUTURE MONETARY POLICY

RATES COULD MOVE EITHER WAY

At its last meeting, the Bank of England stated that it would be open to adjusting its monetary policy in either direction depending on the UK economy reacts to the triggering of Article 50 and the ongoing negotiations.

The central bank has two challenges ahead. The first is maintaining steady economic growth while keeping unemployment low. The second is keeping inflation close to its 2% target. If inflation starts to rise too quickly, the central bank might need to increase interest rates. Should economic growth slow, they might want to hold or cut interest rates to spark lending and stimulate the economy.

Longer-term, it's difficult to predict with any great certainty where the price of the pound sterling will settle. However, there'll be countless opportunities in the coming months to take advantage of the pound's price volatility over shorter time-frames.

VIEW OUR ECONOMIC CALENDAR

TAKE ME THERE

WHY BLACKWELL GLOBAL?

We can't pretend that is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

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