FINANCIAL MARKETS

WILL THE BREXIT FOG CLEAR?

BLACKWELL GLOBAL

THE BLACKWELL ADVANTAGE

BLACKWELL GLOBAL

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.

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.

To find out more about Blackwell Global, please visit:
www.blackwellglobal.com

ROOM FOR MANOEUVRE?

FOREWORD

After its February meeting, the Bank Of England's governor, Mark Carney, referenced the "fog of Brexit".

It's a useful analogy. The ongoing Brexit uncertainty clearly has policymakers at the Bank Of England concerned.

The purpose of the eBook is to analyse the central bank's monetary policy guidance from the meeting - and what it means for GBP.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

COULD THERE BE A RECESSION?

THE BIG HEADLINE

At its February meeting, the Bank Of England unanimously decided to keep its benchmark interest rate unchanged at 0.75%. This move was anticipated by the markets.

What the markets didn't anticipate was the downbeat tone the central bank struck in its accompanying statement. Specifically, policymakers downgraded GDP growth forecasts for 2019 to 1.2%. This would be the weakest growth rate since the aftermath of the global financial crisis in 2009.

In Q4 of 2018, GDP growth for 2019 was as high as 1.7%. It makes February's revision the largest since the UK's EU referendum in 2016.

BREXIT

There are two primary reasons for the revision. Unsurprisingly, the first reason is Brexit. At the time of writing, there's still uncertainty on how Brexit will look on Friday 29th March. In simple terms, investors and businesses are worried that the UK will leave the EU without a Withdrawal Agreement.

In such a scenario, the UK economy would likely feel a shock, as UK businesses would face international supply chain uncertainty. According to policymakers, this prospect has already seen businesses reduce UK investment.

The central bank forecasts that UK business investment will fall by 2.75% in 2019. This figure represents another sharp downward revision, as business investment was forecast to grow by 2% back in November 2018.

Governor of the Bank Of England, Mark Carney, also warned that a "No Deal" Brexit would increase the chances of the UK entering recession. Conversely, he also emphasised that the economy could outperform forecasts should the UK secure a smooth transition arrangement with the EU.

SLOWING GLOBAL ECONOMY

The Bank Of England also referenced a slowing global economy as a reason for weak growth forecasts. Despite rhetoric cooling - trade tensions between the US and China still continue to spook the markets. Falling oil prices were also cited as a primary reason why inflation would fall below the Bank Of England's 2% target.

BLACKWELL GLOBAL

WHAT DOES THIS MEAN FOR INTEREST RATES?

Ahead of its February meeting, the Bank Of England anticipated multiple, albeit very gradual, interest rate rises over the course of 2019.

For now, that picture has changed. In its statement, the central bank communicated that multiple interest rates are much less likely. A quarter point interest increase is likely to the extent of any hike in the foreseeable future, if at all.

Remember - interest rate adjustments matter a great deal in Forex. Higher interest rates can act to strengthen a central bank's currency, while lower interest rates can do the opposite.

WHAT'S THE OUTLOOK FOR GBP?

Uniquely, GBP is pretty much pinned to Brexit developments - and whether the UK will secure a Withdrawal Agreement.

So while the Bank Of England's monetary policy moves are important, they should also be weighted against the progress of Prime Minister Theresa May's efforts to renegotiate the Withdrawal Agreement.

In other words, at least over the coming weeks, traders should focus their attention on what format Brexit is likely to take.

It's worth reminding ourselves of where the UK currently stands with Brexit. The default legal position come Friday 29th March is a "No Deal" Brexit. The closer we get to that date without a

Withdrawal Agreement, the more pressure GBP will face.

What the markets really want is some form of certainty with Brexit. So if Prime Minister Theresa May manages to successfully re-negotiate her Withdrawal Agreement and get it through the British parliament, GBP volatility will stabilise.

Certainty is what investors and businesses want to. Companies that trade closely with the EU are understandably making "No Deal" preparations, as the UK would, by default, trade on WTO rules without a Withdrawal Agreement.

But whether this can be done is another matter altogether. The British Prime Minister is currently attempting to secure changes to the controversial Irish backstop that saw the British parliament reject her Withdrawal Agreement draft.

At the time of writing, leaders from the EU have ruled out revisions to the Withdrawal Agreement. However, they have stated a willingness to amend the political declaration. This is unlikely to convince the British parliament to support the Withdrawal Agreement.

Should negotiations reach an impasse, there have been suggestions that the UK could request an extension to Article 50, giving itself more time to strike an agreement with the EU.

While this would avoid a "No Deal" Brexit, it doesn't resolve the uncertainty that currently grips investors, businesses and the markets. In this scenario, GBP would likely experience high volatility as negotiations beyond Friday 29th March unfold.

However, keep in mind that the UK government has expressed a desire not to delay Brexit - and any extension to Article 50 would have to be agreed by the EU.

Traders should monitor EU leaders closely for indications that they are willing to compromise on the Irish backstop. If this issue is resolved, the “fog of Brexit” will start to clear.


READ
OUR FREE
TRADING
GUIDES
TAKE ME THERE

BLACKWELL GLOBAL

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. To find out more about Blackwell Global please go to: www.blackwellglobal.com

Or contact Customer Support:

Tel: +44 (0)20 7397 3781
Email: cs@blackwellglobal.com