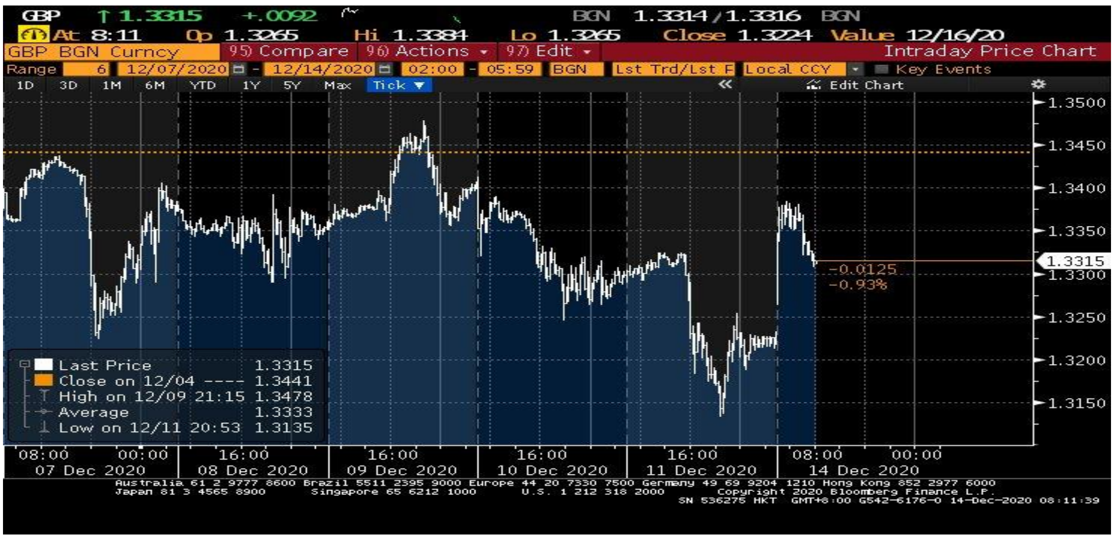
16 December, 2020

Brexit stalemate, increase the risk of ‘no-deal’

Last week, the market had different news on Brexit negotiations

Last Tuesday, British Cabinet Office Minister Michael Gove and European Commission Vice-President Maros Sefcovic have generally reached an ‘agreement in principle’ on Brexit issues, the UK said it would withdraw articles of an Internal Market Bill which would breach the Brexit Agreement. It is seen as a positive development on the long running talk.

GBP: the cable jumped to 1.3450 after the news on a deal may be reached in the Brexit negotiations



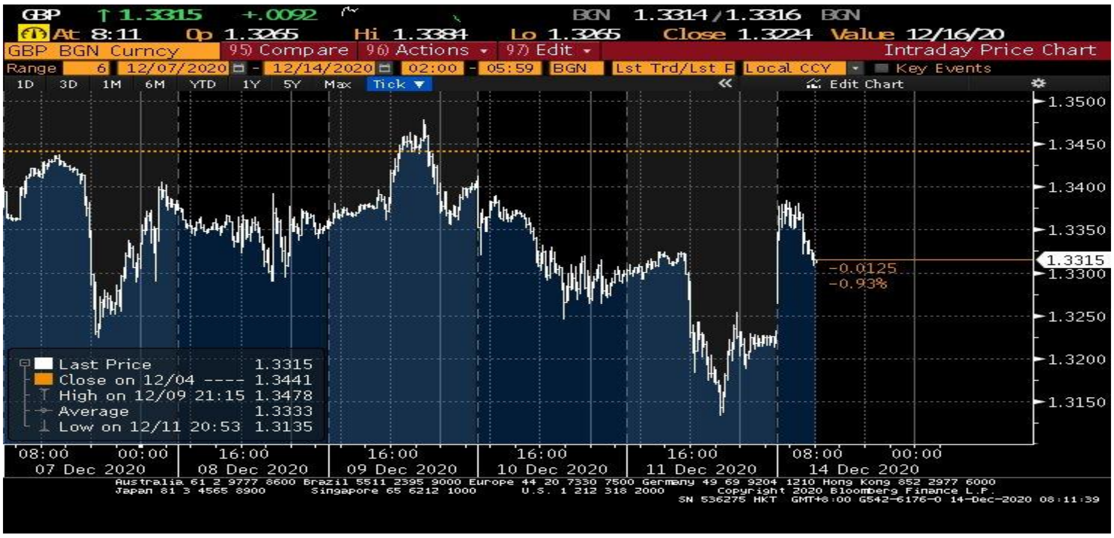
Source: Bloomberg

The Brexit stalemate continues, the risk of a no-deal Brexit is rising

Despite the talk lack of breakthrough, last Thursday, Prime Minister Boris Johnson said there is a 'strong possibility' to prepare for a no-deal Brexit as to solve thorny issues of competition rules and fishing rights, warning that the UK risks being "locked in the EU's orbit" but wish to avoid.

Later, the European Union also stated that the EU has to be ready for no-deal Brexit after failing to strike a post-Brexit trade deal with the UK.

GBP: Cable plummeted to 1.3150 after British Prime Minister Boris Johnson claimed that UK should prepare for a no-deal Brexit and 'strong possibility' that UK-EU talks would fail



Source: Bloomberg

Talks to determine the two sides' future trading relationship would continue

UK prime minister, Boris Johnson, and European Commission president and Ursula von der Leyen continued with talks beyond Sunday deadline came. Two sides agreed to 'go extra mile' to discuss the 'major unsolved topics', designing a system for fair business competition and fishing rights. But no deadline was set for the conclusion of the talks, which British officials admit could drag on until Christmas. A deal must be in place before Britain's transition deal ends on January 1 2021.

The pound met renewed selling in Asia, then rebounded to 1.3408 against dollar on the news that both sides would resume to the talk

Source: Bloomberg

Possible outcomes

The official transaction period is set to expire at the end of the month, with no agreement, the UK will trade with the bloc on World Trade Organization (WTO) terms, which means the tariffs and barriers that would bring. The two sides also likely to result in increased chaos in financial markets tumbling and huge economic costs.

To the UK, it attaches greater importance to free trade status after leaving EU as EU accounted for more than 40% exports from the UK. Britain Office for Budget Responsibility said that Brexit would slash 2% of UK GDP in 2021, also with the damage caused by pandemic. Companies could face higher costs for business and consumers could pay more for goods, with 85% foods are imported from the EU expected to rise by 5%, these are just iceberg of the outcomes. This explains why the United Kingdom had threatened several times to withdraw from the negotiations, but has remained at the negotiating table.

From the beginning, we believe there were only two possible ways for the Brexit talks

1. The UK accepts the requirements of EU and complies with some EU regulations, for example, the UK accepts the strict 'level playing field' guarantees in exchange of free access to the EU markets).
2. Persisting in maintaining autonomy in terms of economically and sovereignty, end up with a no-deal scenario, the UK may not be able to maintain its free trade status, in terms of trade and economy will be greatly damaged

Both sides say they want a deal, but their views of what that means are fundamentally at odds

The EU's position is relatively clear

- EU does not want a no-deal. With no-deal taken off the table, this could hamper the EU's economy as well though not as much as the UK
- EU will not give in to some aspects, it is not only about economic interests but also about the dignity of the EU (if the UK can leave the EU unconditionally and continue to enjoy EU's free trade status, it's

hard to ensure the remaining members will still comply with the EU regulations).

Source: Financial Times, Reuters, Bloomberg, BBC News

For any comments, please send email to us at info@asset-mg.com.

Asset Management Group
Unit 02, 40/F, 118 Connaught Road West, Hong Kong
Telephone: (852) 3970 9595 Facsimile: (852) 3107 0932