

Research Report

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PM Theresa May finally sets out plan

Barely days in office, the PM stated in Parliament that she would not provide a “running commentary” on the “Brexit” process, because it might prejudice the negotiations (that have not started yet). The May government then lost a High Court case (3rd November 2016) where judges ruled it could not trigger Article 50 of the Lisbon Treaty on its own. That case is on appeal with a ruling from the Supreme Court expected in February. The court ruling, as it stands means, an Act of Parliament is required (hence a vote) to trigger Article 50 and likely introduce the repeal of the EU enabling legislation, the 1972 European Communities Act.

Under pressure from the EU Council for a timetable, the UK agreed to trigger Article 50 by 31st March 2017. The EU has rightly refused to begin negotiations ahead of the Article 50 trigger. This was contrary to UK efforts to “sound out” individual countries positions on “Brexit” in advance.

Since the “Brexit” result, debate has raged on its precise form, “hard” or “soft”. A “**hard**” **Brexit** would entail control over the UK borders and immigration and a loss of access to the EU single market. UK passport holders are likely to lose the right to live and work in the EU. A “**soft**” “**Brexit**” would introduce restrictions on EU immigrants but retain access to the EU single market based on a Norwegian or Swiss type system. A “**clean**” “**Brexit**” apparently devised by Boris Johnson implies leaving the customs union. The PM has repeatedly said she does not recognize these labels, “Brexit means Brexit”.

However the UK government has given precise assurances to Japanese investors, specifically Nissan, that UK manufactured cars would retain EU single market access. Other areas contain contradictions, the government keeps the pressure on NHS GPs and junior doctors insisting they work longer hours for lower pay, yet wants a “Britain that works for everybody”. The May government has refused to accept informed opinion on worsening NHS problems.

The PM prepared the ground ahead of this speech. The UK could not expect to keep “bits of the EU.” Following an immediate slump in sterling, the PM retracted the comment saying she wanted the UK to “operate within” the single market as part of a new relationship. Following a very negative front cover assessment by the *Economist* “*Theresa Maybe*” the PM has today, come forward with clarity.

The PM’s plan; it was a good speech with clarity

“We are leaving the EU but not leaving Europe” this was a substantial discourse that set out with some clarity the approach the UK government wants to take. The UK wants its own deal with the EU on its own terms not anything resembling a Norwegian or Swiss approach.

“Not partial membership or anything that leaves us half in or half out, we are not holding on to bits of the EU.”

Please note the risk warnings and disclaimers

12 point plan “Brexit” – a new positive and constructive partnership

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on the last page of this document.

- 1) Certainty and clarity; the UK will provide certainty where it can, it is going into a negotiation (it will not disclose sensitive areas). The Government will put the final deal before both Houses of Parliament.
- 2) End the jurisdiction of the European Court of Justice.
- 3) Secure the Union (of the UK) the devolved parliaments will have a full say and be involved. (However this does not mean Scotland retaining EU market access)
- 4) Maintain current border arrangements with Ireland
- 5) Control of EU immigration. The UK will attempt to encourage those people from the EU that it needs in key areas. The PM recognized that uncontrolled immigration has stretched resources, and depressed pay in the last decade.
- 6) Guarantee the rights of EU nationals already in the UK subject to reciprocal arrangements in the EU.
- 7) Protect and maintain worker rights; existing rights under EU law will be retained but can be amended by the UK parliament at a later stage.
- 8) Build a truly global Britain ; aim to build free trade deals on a country by country basis around the world
- 9) Bold new free trade deal with the EU, it will mean coming out of both the UK single market and the customs union (though the UK remains open to a new associate membership of the customs union).
- 10) Science & Innovation; UK should remain at the forefront of this.
- 11) Security & Terrorism; generally the UK wants to continue to provide forces to protect the EU borders, in the Baltics and elsewhere.
- 12) Transitional phase; The PM has said there is likely to be phased implementation in some areas to provide business time to plan for new arrangements. "the UK has no interest in a cliff edge for business or security".

Four guiding principles

Certainty & Clarity :- as described above

Stronger:- A unified approach that takes onboard the views of Northern Ireland Scotland and Wales.

Fairer:- A fairer Britain will control immigration from EU, but remain open to international talent via a properly managed process. The record levels of net migration stretched infrastructure and put downward pressure on wages.

Global:- The PM wants to reach out and have the UK become a free trade actor globally. This starts with a bold and ambitious EU free trade agreement, allowing for max freedom to operate in EU; not membership of EU single market (which would mean complying with EU regulations). This free trade deal would take similar form in some areas (cars, finance) to existing arrangements. But once outside of the single market and customs union, the UK will not be required to contribute to the EU budget.

The UK needs to increase trade which as a ratio of GDP has broadly stagnated; the UK needs to "get out in the world" to China, India and the Gulf States

The UK "stick"; security & defence

The PM made clear that the EU needs the UK due to its commitment to Europe's security, she made the point only Britain and France are permanent members of the UN Security Council and the only nuclear armed powers. Repeatedly she

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offered reassurance on the benefits of UK intelligence sharing on areas of terrorism, cross border crime and hostile states. She intimated that this could be in jeopardy if the UK did not get what it wants i.e. a free trade deal.

The UK will no longer make payments to the EU on an annual basis. It will consider contributing in some areas on their individual merits. The withdrawal of UK payments will increase the costs of the EU for Germany and France.

The PM made clear that EU leaders who wanted a punitive deal would potentially result in no free trade deal that would endanger £290bn of EU exports to the UK, create new barriers to trade and potentially result in corporate taxes in the UK coming down creating a new problem for the EU. It was implied that the UK might abandon its commitment to EU defence/ security if the EU employed this approach.

The problem with this threat is the EU is unlikely to agree a free trade deal with the UK that is on better terms than EU member states enjoy.

Market assessment ; GBP up/ UK100 down, UK 250 slightly down

Ahead of the PM's statement, GBP was up after inflation data showed a spike in November to 1.6% (+0.4%) hence the weak currency is creating inflationary pressures (necessitating higher Base Rate in due course?)

Post the PM's statement at 11:45am GBP moved very sharply higher, presumably on the thinking that the EU was more likely to agree a deal with the UK now the formal objectives have been forthcoming.



Source; www.xe.com

UK blue chips are broadly lower with significant fallers among the USD earners. Leading decliners are oil & gas and miners, BP (-6p) , RD Shell (-30p), BHP Billiton (-35p). The UK250 is far more muted as the speech appears to de-risk Brexit a bit.

Both Easyjet and Wizz Air are higher benefiting from the UK positive approach to transitional/ phased arrangements as relevant to the EU "Open Skies" policy that benefits UK budget airlines. Investors have marked up Easyjet (+37p) and Wizz (+49p) in response. Sterling's moved up 1.7 cents to €1.1540 a benefit for companies with Euro expenses.

Standard Chartered is up sharply after its corporate broker, Merrill Lynch raised the stock to "buy" from "neutral" with a 900p price target, the implication being Merrill was being guided to expect a better outcome after new guidance from

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Standard Chartered.

President-Elect Donald Trump comes riding to the UK's rescue

Incoming US President Donald Trump “tweeted” his commitment to a new free trade deal with the UK. Whilst a UK-US treaty would require Congressional approval and oversight, and take some years to achieve, a free trade deal with America sounds great. But again as with Donald Trump there is little detail behind the soundbite.

The President-elect appears very keen on a strong US-UK relationship partly due to his Mum's apparent affinity for the Queen, his heritage, investments in Scotland and so forth. There has yet to be however meetings between heads of state.

Other countries have been pro-active in voicing support for specific tailored free trade deals, though obviously on their terms. An Australian initiative was forthcoming but based on improved working access / immigration access for Australians. This sounds like replacing EU immigration with Australian immigration!

Conclusion

For almost seven months we have been in the dark. The PM's speech does move things forward in key areas.

* There is now a blueprint for the EU27 (the EU member states ex UK) and a clear approach. There is some comfort to be drawn from the UK's apparent willingness to maintain a close, mutually beneficial relationship that could resemble in key industries the existing arrangements.

* The description of this new relationship will certainly please “hardline Brexiteers” though there is precious little new in the offer to the EU. We can see what the UK gains (savings from the EU budget) however we cannot see what the EU gains (monetarily or elsewhere, beyond what it has already got). It does amount to a problem for the EU in allowing very beneficial terms to a non-Member (and allowing a UK cherry picking effort to restart).

* Does this speech de-risk “Brexit” as an issue going forward? That is the big question and we have to say, it does appear that the issue could diminish a bit if the EU gives the UK approach a positive reception.

* The US approach is a positive tailwind for “Brexit” and possible tailwind for a free trade bandwagon. Its early days though.

* The main gainers are the thousands of consultants, lawyers, negotiators that the UK government will require to execute and supervise all of these deals.

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