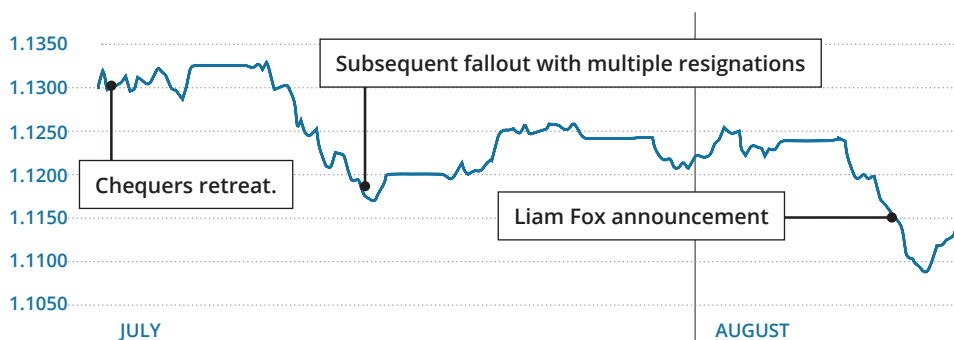


Potential Brexit Trade Scenarios

Renewed Brexit uncertainties, particularly fears of a no-deal scenario, combined with softer economic data have kept the pound under pressure recently and UK businesses wondering what type of Brexit we can expect. Recently, British Trade Secretary Liam Fox said that the odds of a no-deal exit were 60-40. But, what does this mean?

What do businesses need to know?

As the UK and EU continue their Brexit negotiations, we explore some of the possible outcomes, these range from a 'no deal' to a 'Norway' type scenario and how this could impact sterling.



"In the current economic environment, if you're not hedging you may be speculating"

Rehan Ansari, Head of Options

Brexit fallout

As predicted by many political observers, Brexit has led to deep divisions within the government, between "Brexiters" and "Remainers". Following a very volatile few months, not just in the FX markets but politically, UK businesses can expect further volatility as we lead up to the October 2018 so-called trade deadline with the EU.



Soft Brexit

Positive impact to sterling: imports cheaper, exports more expensive



Hard Brexit

Sterling initially under pressure but post March 2019 it could strengthen



Norway-style

Positive outcome for businesses and sterling



No deal

Negative impact to sterling, potentially down to parity

OUTCOME	TRADING SCENARIO	SHORT TERM IMPACT TO STERLING
<p>SOFT BREXIT is looking more unlikely, however should a soft Brexit materialise then this would be more positive for UK businesses.</p>	<p>Goods and services would continue to flow under a 'frictionless' trade system, similar to what we have today.</p>	<p>The outlook for sterling could be positive making imports cheaper, but exports more expensive.</p> 
<p>HARD BREXIT, the second most likely outcome, could be a combination of agreements between the UK and EU that aligns the single market flow of goods and services today.</p>	<p>Outcomes vary based on negotiations between the two parties for goods only market vs goods and services that see restrictions on services including financial.</p>	<p>In the short-term sterling would expect to come under pressure but likely post March 2019 we could see it strengthen as the UK and EU stabilise their borders.</p> 
<p>Under a NORWAY-STYLE BREXIT, Britain would leave the European Union, join EFTA, and then become the 31st full member of the EEA.</p>	<p>Being an EFTA-EEA country would allow the UK to maintain full, tariff-free access to the single market. Including services, which currently account for around 80% of Britain's economy.</p>	<p>Some analysts would see this as a positive outcome for businesses and also sterling. If such an agreement is signed then sterling might potentially strengthen.</p> 
<p>NO DEAL - WTO TARIFFS UK could well be heading for a no-deal, which would likely default to WTO trade policies which some analysts say could be negative for UK and also EU businesses.</p>	<p>Worst possible outcome for importing or exporting goods. UK borders would be in potential meltdown as they grapple with the new tariffs and customs controls.</p>	<p>This is expected to have a very negative impact on sterling, sending sterling down to potential parity with the Euro and new lows against the USD</p> 

Being Brexit ready

No matter what type of Brexit we achieve, companies must be prepared for any trade eventuality.

At Caxton FX, we already help customers be Brexit ready by building a simple currency plan using forwards and/or currency options to protect themselves against adverse movements in the FX markets.

Speak to us today to help you be Brexit ready. **For more information call +44 (0) 207 042 7629**

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