



W U T I S

Brexit's effect on third countries

31st January 2020

Historical Brexit dates

Advantages and disadvantages of being an EU-member

European Union and the United Kingdom

Brexit's impact on selected countries

- Australia
- Canada
- United States
- India

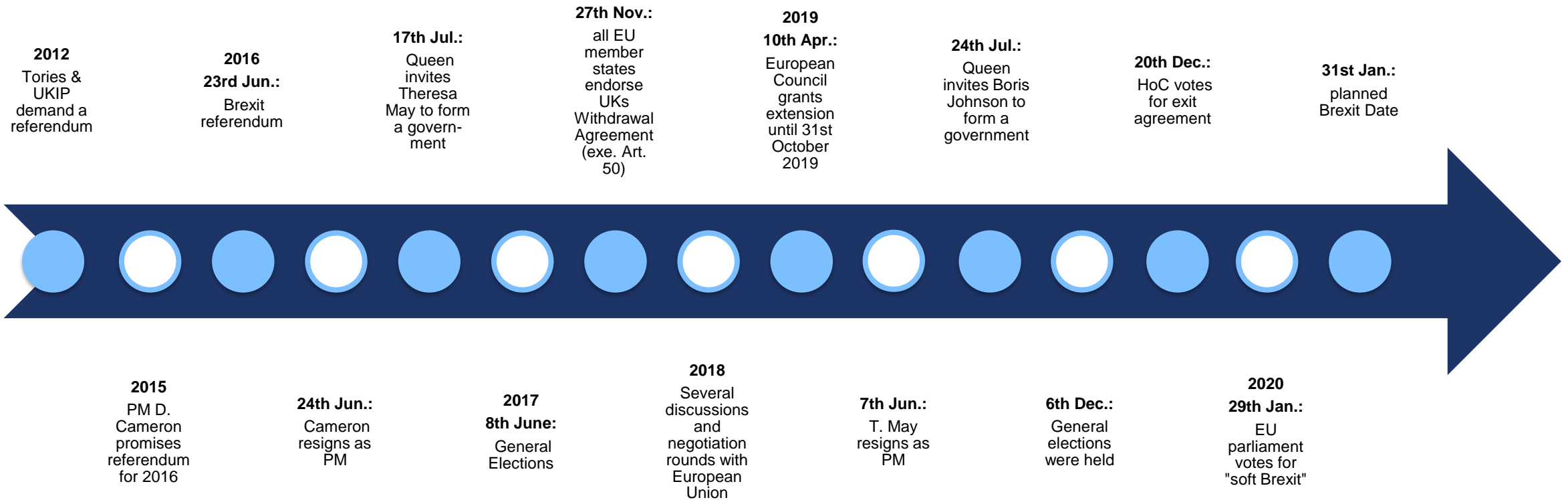
The threat of complete uncertainty

Quote from The Economist Journal

“Nobody knows what a Britain outside the EU would be like, or what sort of relationship it would have with the EU. The four biggest economic concerns are regulation, trade, foreign direct investment and migration.”

A brief history of Brexit

Important dates from the beginning to where we are now



Advantages and Disadvantages of being an EU-member

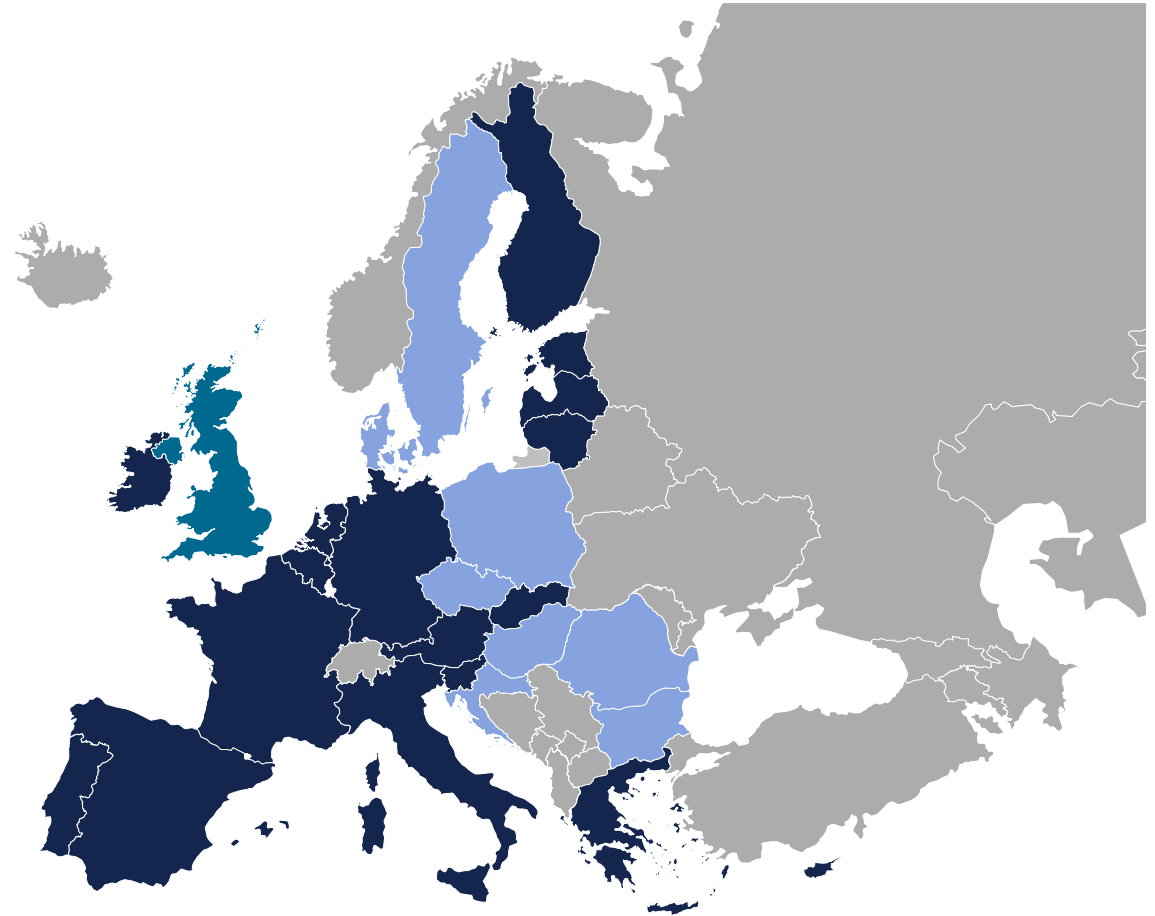
In general, the EU's single market has

Advantages

- Access to a market with 513 Million potential Consumers
- GDP of EU at \$22,042 Trillion, PPP
- GDP per Capita: \$43,187, PPP
- Therefore, negotiation power for FTA's
- Potential advantages: innovation spillovers, division of labor,...

Disadvantages

- One interest rate, 19 opinions
- There are two channels that countries can use to stay competitive:
Internal: Inflation *External:* currency exchange rates
- In theory, member countries should outbalance each other
- Decision making is not balanced and not effective

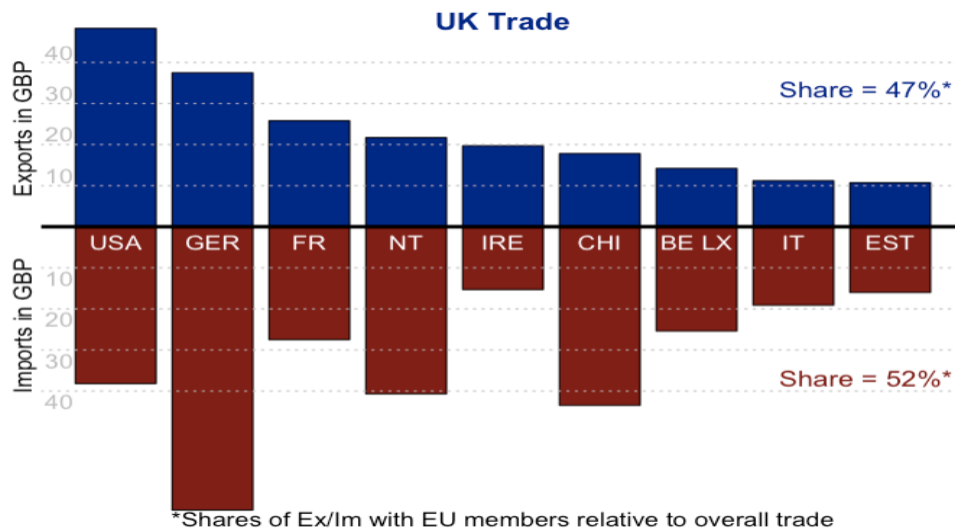
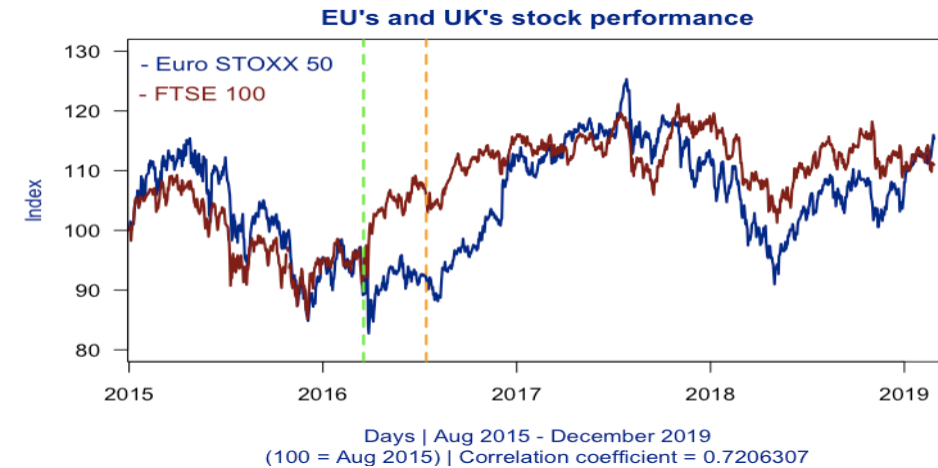


European Union and the United Kingdom

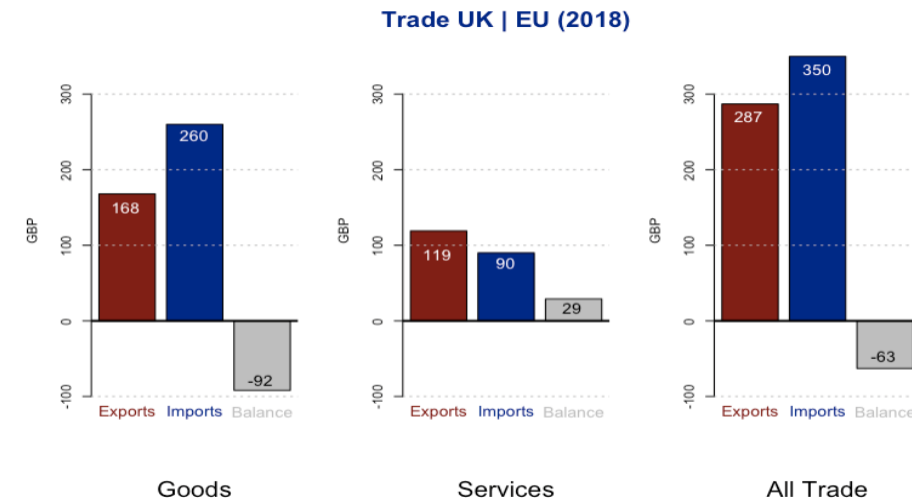
A trade-war is likely to be a lose-lose game

Summary

- Strongly correlated stock performances
- UK imports more than it exports | trade-deficit-country
 - In theory, a shock in trade flows usually has a harder impact on the country that loses exports flows
- Interlinked trade relation between EU and UK
- 47% of the exports go to EU members – constituting €300bn



Source: yahoo.finance



Summarized effects on UK/EU

It's all about investments and trade

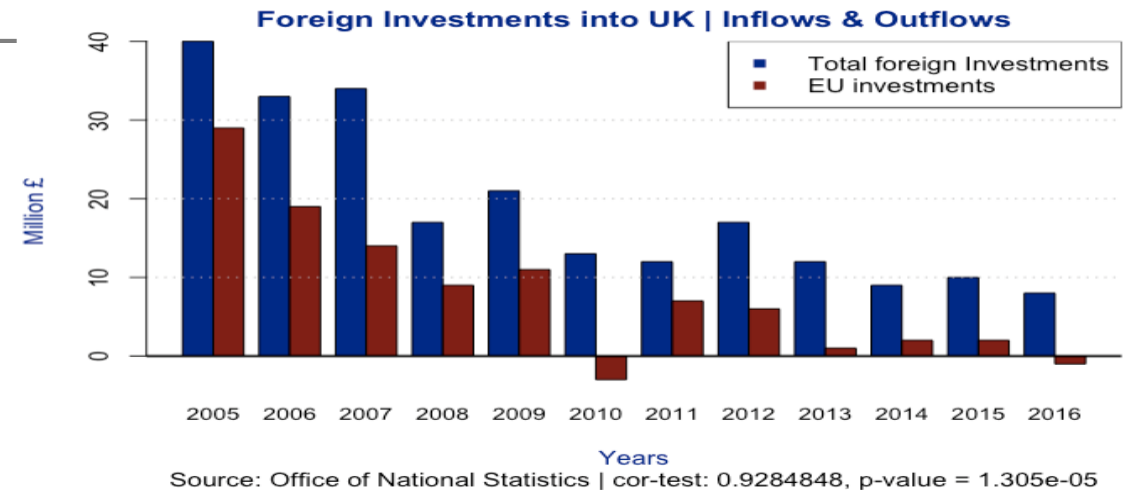
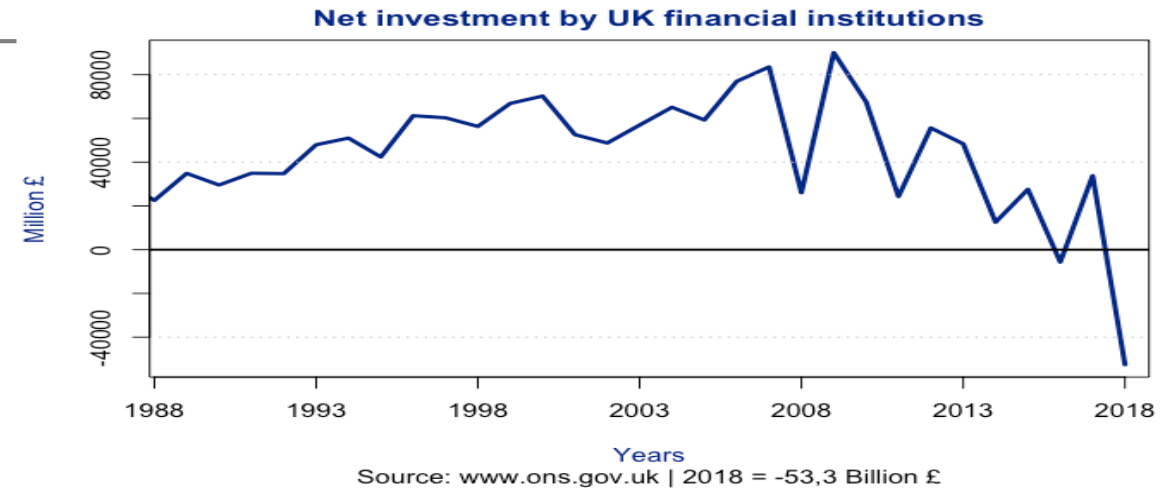
Effects in UK

- UK institutions will lose investment opportunities
- Institutional investments have already fallen (insurance, pension funds,...)
- UK does not depend on EU investments
- Public debts are expected to rise significantly
- Johnson's promises to leave the EU without increasing public debt will not hold

Effects for EU

- Brexit is equivalent to an exit of the 15 smallest EU-members (in terms of GDP)
- Loses London as an important partner for financial services
- A trade war would only produce losers on each side
- Is that just the beginning of the crumbling?
- No EU bank in global Top-Ten-Ranking after Brexit | HSBC
- In summary, Brexit is a call for changes within the EU

Source: ons.gov.org



The Commonwealth members

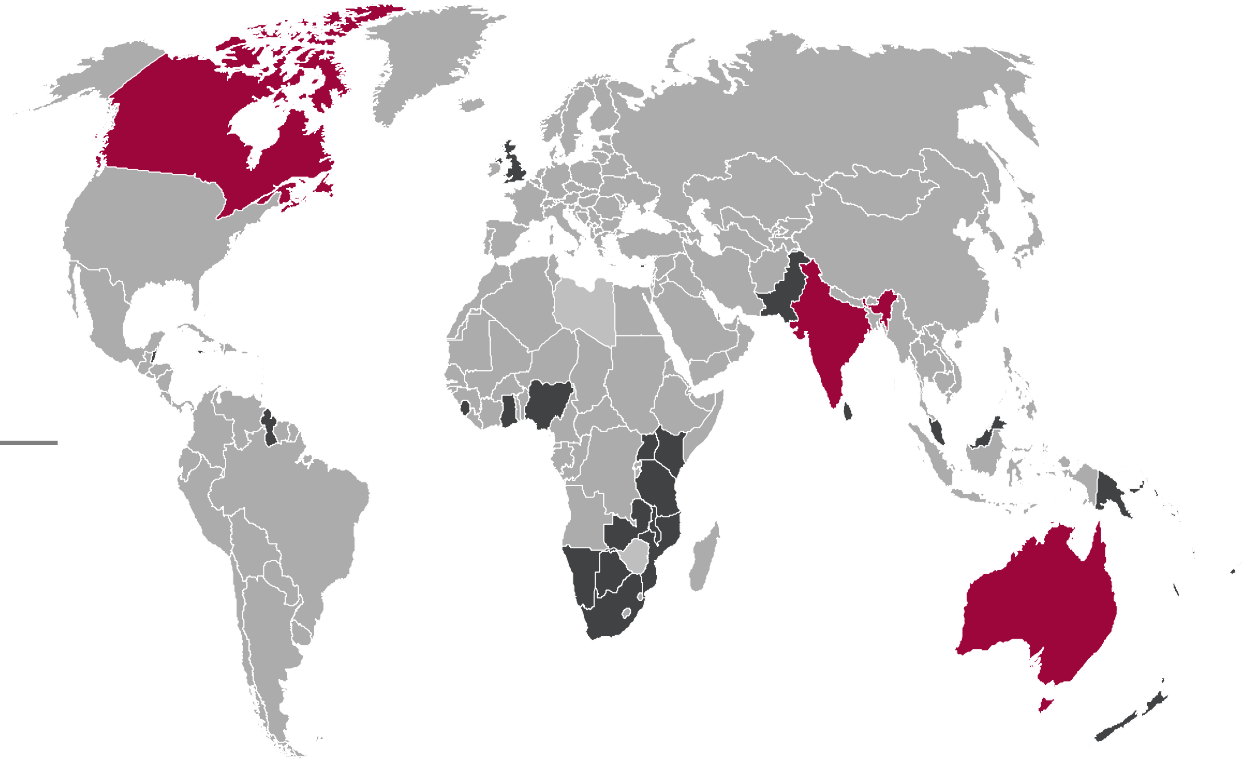
The alternative market for UK goods and services

Important members

- **India**
- **Canada**
- **Australia**
- New Zealand
- Pakistan
- Malaysia
- South Africa
- Nigeria
- Bahamas
- Cyprus

Macroeconomic Keynotes

- 53 independent countries
- Combined population is 2.4 billion, of which more than 60 percent is aged 29 or under.
- GDP: \$10.4 Trillion in 2017
- But, GDP per Capita at \$4,333, PPP



Impact of Brexit on Australia

Before the UK joined the EU, Australia enjoyed comfortable trading conditions

Current EU – Australia relations

- The trading blocs are currently trading under WTO rules
- A framework agreement was reached in 2017 fostering cooperation between the two entities
- The EU launched FTA negotiations in 2018
- The aim is to significantly lower tariffs on goods (especially industry and agricultural goods), ease access for service exports and to remove obstacles for FDI

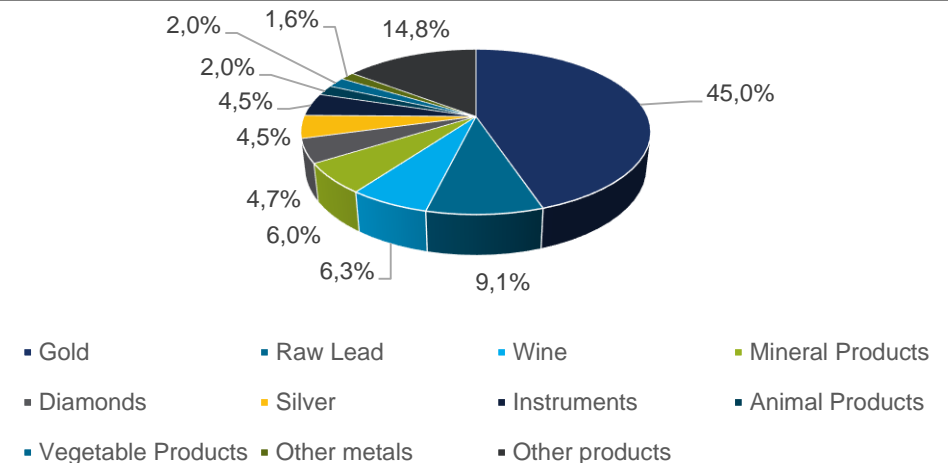
Impacts of Brexit

- The UK was a key country for relationships between the EU and the Australia – the Brexit might delay trade talks between EU and AUS
- AUS and the UK are eager to start talks on a FTA deal, however AUS does not want to jeopardize its current negotiations with the EU
- Neither government (AUS/UK) aims for a free movement of people between the two entities

UK – Australia Trade

- UK is Australia's 8th largest trading partner - the trade deficit accounts for almost GBP 6bn (~ EUR 7.1bn). In other words, **Australia makes up for UK's largest trade surplus** out of all common wealth countries
- 45% of all exports to the UK are gold products – the UK acts as an intermediary
- Total exports to the UK: AUD 5bn (~ EUR 3.1bn)

AUS exports to the UK by product



Impact of Brexit on Australia

Gold stocks outperformed the market due to overall uncertainties caused by the Brexit referendum

Top 5 largest Australian gold mining companies

- **Newcrest Mining** (market cap. AU\$14.57 billion)
- **Northern Star Resources** (market cap. AU\$5.01 billion)
- **Evolution Mining** (market cap. AU\$4.69 billion)
- **AngloGold Ashanti** (market cap. AU\$4.43 billion)
- **OceanaGold** (market cap. AU\$2.48 billion)

Their combined market cap. Is equivalent to 2.5% of the AUS GDP

Impact of Brexit events on AUS stocks

- The Australian stock index SPDR S&P/ASX 200 fell by 3.2% on the day after the Brexit referendum, however recovered within two weeks
- On the contrary, gold mining companies' stocks jumped up. This was the result of the turmoil in the UK that led people to seek for safe haven investments
- EU tariffs on Gold (including gold plated with platinum), unwrought or in semi-manufactured forms, or in powder form are at 0%

SPDR S&P/ASX 200



Source: yahoo.finance

Impact of Brexit on Canada

CETA will lose its applicability regarding bilateral trade between UK/CAN

Current EU – Canada relations

- EU and Canada signed the Comprehensive Economic and Trade Agreement that started on Sept 21st 2017
- Benefits of the agreement include:
 - Abolishment of tariffs on 98% of traded goods
 - Cut of red tape benefitting small business
 - Uphold of EU-standard for products entering the EU

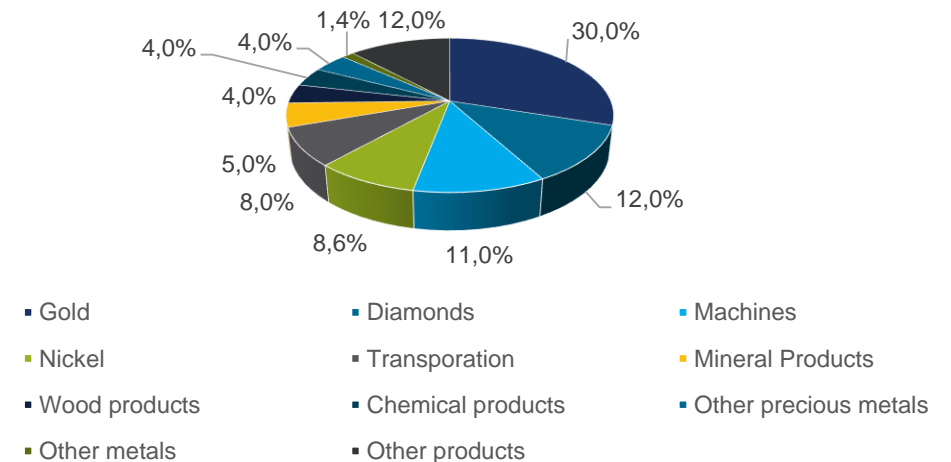
Impacts of Brexit

- The UK would drop out of the CETA, hence Canada would lose its favorable trading conditions in respect to the UK – this only becomes reality after the transition period
- Both countries are eager to start negotiations on a new FTA

UK – Canada Trade

- The UK is Canada's 3rd largest trading partner. However, exports to the UK declined by 7.4% in 2018 (especially due to falling gold exports – a 7% decline from the previous year)
- 30% of all exports to the UK are gold products
- Total exports to the UK: USD 12.6bn (~ EUR 11.4bn)

Canada exports to the UK by product



Impact of Brexit on the USA

A bilateral trade deal between the US and UK seems likely, however, using favorable terms for the US

Current EU – US relations

- The US imposed tariffs of \$7.5 billion on European goods in 2019
- The US has a trade deficit of USD 169bn (~ EUR 152.5bn) in respect to the EU
- Roughly 19% of US exports go into the EU, making it the single most important export market
- Former negotiations on a FTA (TTIP) were put on hold after Trump took office

Impacts of Brexit

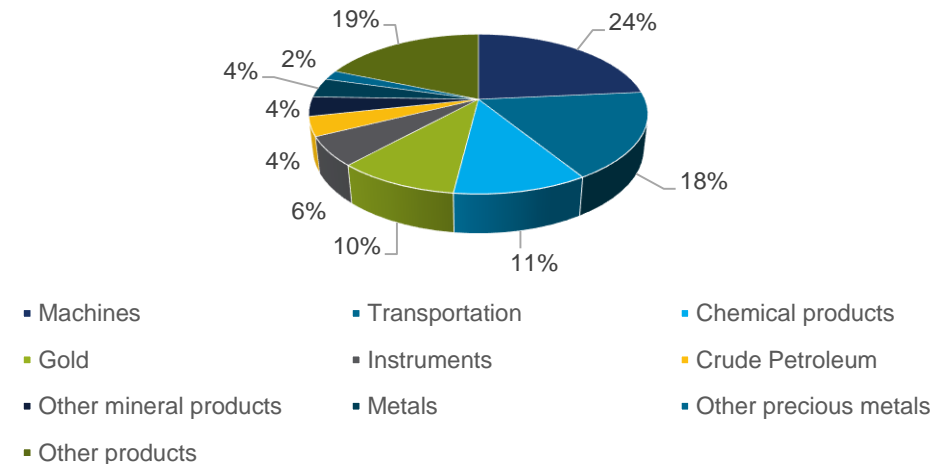
- Donald Trump offered to start **trade talks** with the UK, however, following the “America First” approach
- **New York** as a **financial hub** might profit due to the turmoil in the London hub. This may result in the appreciation of the USD against the GBP, making the US exports less competitive. Hence, the US trade surplus could shift towards a trade deficit

Source: ustr.gov, oec.world

UK – US Trade

- The UK is US's 7th largest trading partner, creating a trade surplus of USD 5.5bn (~ EUR 5bn).
- Machines, transportation and chemical products account for more than half of all exports from the US to the UK.
- Total exports to the UK: USD 66.3bn (~ EUR 59.8bn)

US exports to the UK by product



Impact of Brexit on India

No significant effect on economy, is Ireland a potential backdoor?

Current EU – Indian relations

- EU is India's largest trading partner
- India is EU's 9th largest trading partner
- 6,000 EU companies in India provide 1.5+ million jobs
- There is no free trade agreement (FTA) between EU and India
- There is expanded cooperation in nuclear energy & environmental protection between EU and India

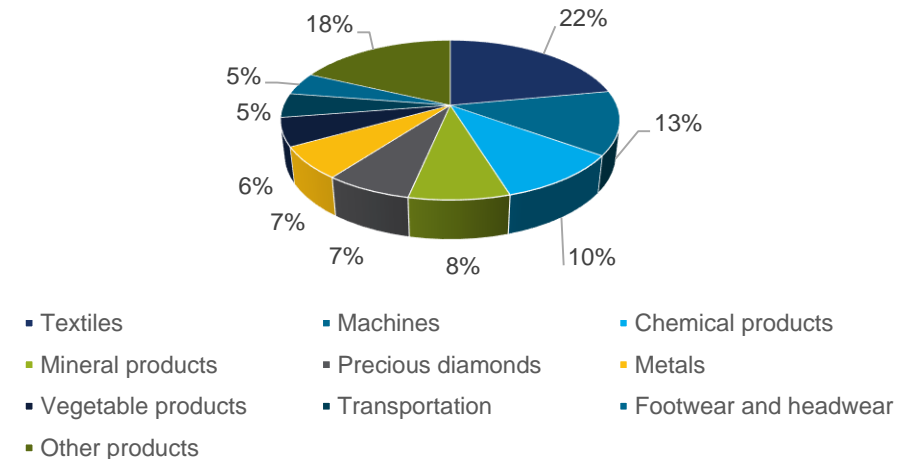
Impacts of Brexit on India

Pros	Cons
<ul style="list-style-type: none">▪ Boost of trade ties between India and UK because they can fully focus on each other	<ul style="list-style-type: none">▪ Increase of petrol & diesel prices due to depreciation of Indian rupees
<ul style="list-style-type: none">▪ Importers from Britain gain due to depreciation of Pound sterling	<ul style="list-style-type: none">▪ Increase of gold & electronic goods due to depreciation of Indian rupees
<ul style="list-style-type: none">▪ Help in macro fundamentals due to lower commodity prices	<ul style="list-style-type: none">▪ India faces huge loss of market power in Europe because UK loses its European importance

UK – India Trade

- UK is the 4th largest investor in India
- India is the 3rd largest investor in the UK
- There are 100,000+ jobs in the UK for Indian companies
- The trading volume is \$14bn
- India claims that Ireland might be a potential backdoor to enter the European market when Britain is not a part of the EU anymore

Indian exports to UK by product



Source: oec.world, clearias.com, economictimes.indiatimes.com

Impact of the Brexit on third countries

Before the UK joined the EU, Australia enjoyed comfortable trading conditions

Impact: Low



Impact: Medium



Impact: Low - Medium

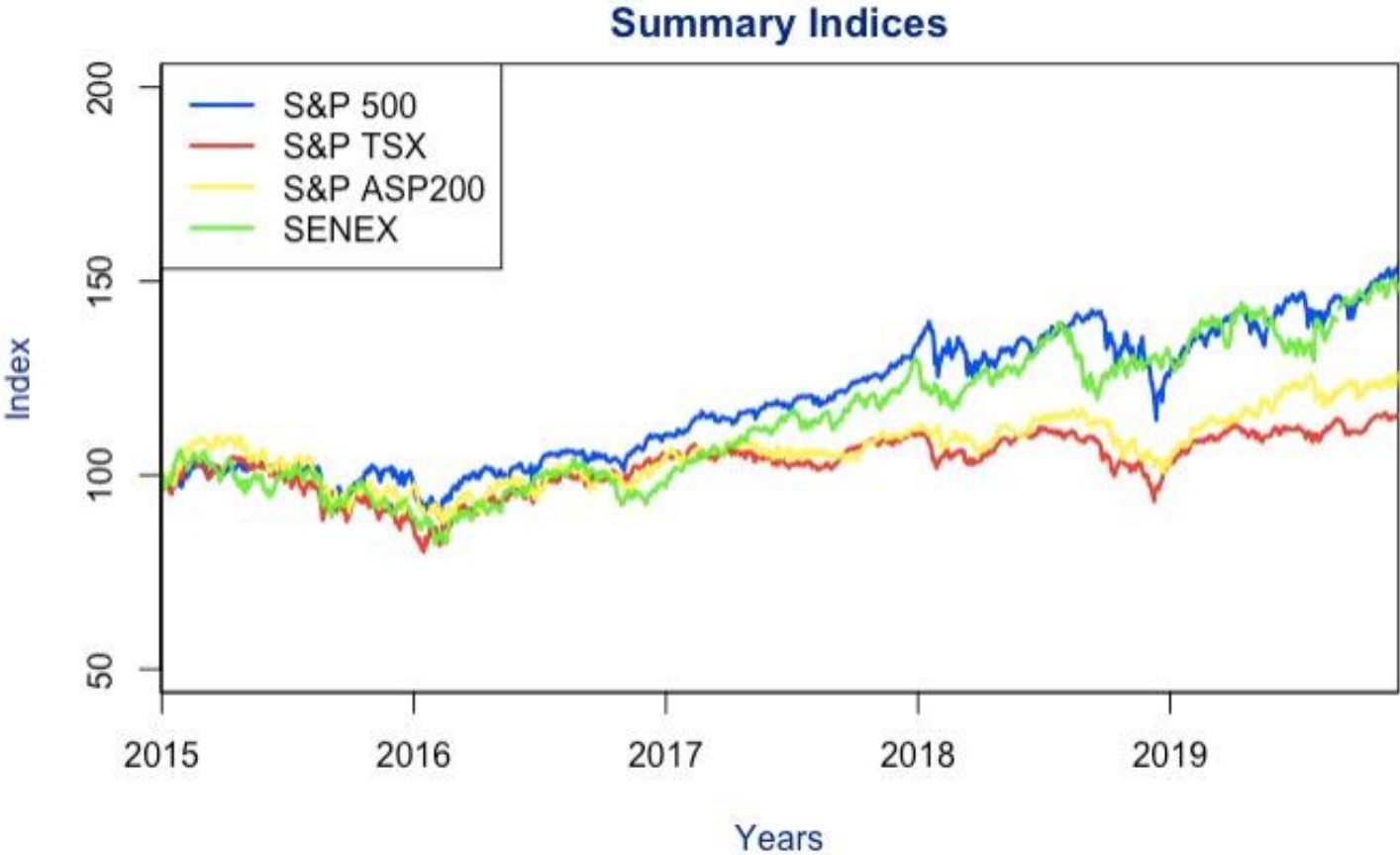


Impact: Low



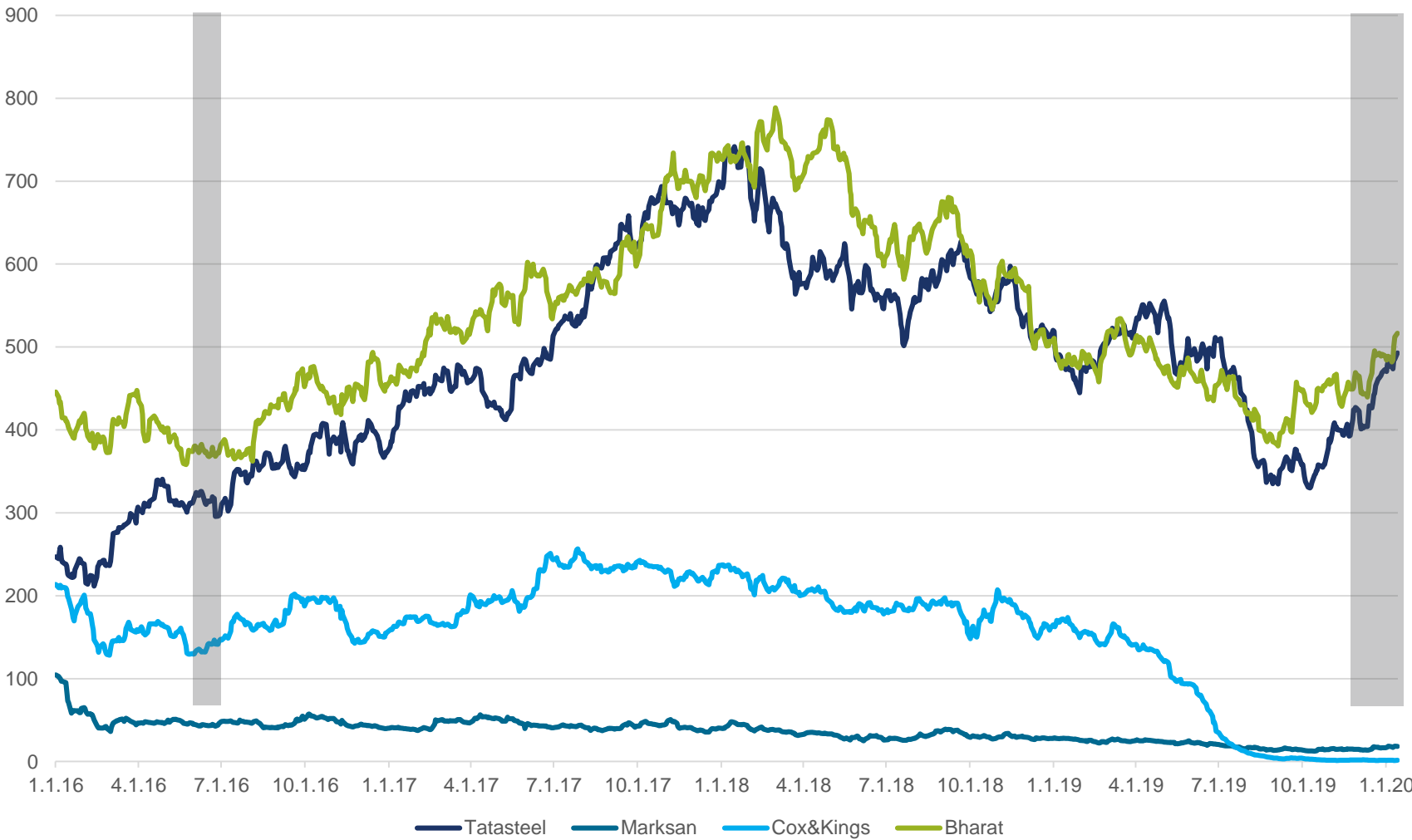
Appendix

S&P 500, S&P TSX, S&P ASP200, SENEX



Appendix

Performance of Indian companies with largest revenues exposed to Europe – 2016 to 2020



Source: yahoo.finance

Performance of BSE SENSEX – 2016 to 2020



Source: yahoo.finance

Appendix

GBP vs. INR – 2016 to 2020

