“Smart Brexit”

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It’s fitting that Theresa May had to address her letter to Donald Tusk.

Not on an official level – she had no real choice on that front. Unless there’s a WhatsApp group with all 27 s of state in it she could use to say, “We’re off” – like a friend leaving a party early who doesn’t want to say goodbye and messages you from a taxi. Tusk was the official choice.

But symbolically, EU Council president Donald Tusk is a great person to deliver the letter to. Why? Because he sums up precisely what’s *wrong* with the EU. He’s the poster child of the politically-elite, Deep State-representing, democratically-bankrupt generation that has bastardised the EU from a trading bloc to a powerful political union.

Keep in mind, Tusk is the man who, a of last year’s referendum, said Brexit would cause “the end of Western political civilisation”. Really? Did you see any signs of that on Wednesday? Unless I missed the part where a bunch of barbarians stormed the stage and took him hostage, it all seemed pretty civilised to me.

Tusk is also a man without any real democratic mandate for his power. He’s “elected” (appointed is a better word) by EU s of state. That’s a pretty small electorate. He probably *does* have access to a WhatsApp group with all relevant parties in it. He doesn’t have to talk to too many people to finagle the support he needs to stay in power.

At least most s of state have to answer to their electorates. Tusk doesn’t. He’s answerable to a group of people smaller than the average primary school class. No wonder he loves democracy so much!

As a symbol of why people don’t like the EU, he’s the best we have. So it was apt he received Theresa May’s letter, which means formal negotiations can now begin.

How did the markets react?

There were no dramatic moves. That’s probably because everyone knew it was coming. There were no nasty surprises. The pound fell a little. The FTSE 100 nudged higher.

Perhaps the more interesting moves this month have been in Europe. Both the euro and the Euro Stoxx 50 index are up in March. In fact, this month could be the first time for a year that both the currency and the stockmarket climb 1%.

That’s the opposite of what’s happening here in Britain. For the most part, the pound and the stockmarket are moving in opposite directions. The pound acts as a pressure valve – when it falls and makes exporters more competitive, and foreign earnings more valuable. That’s what’s fuelling the stockmarket, for the large part.

In short, the pound is doing exactly what it’s supposed to. It’s helping to rebalance and offset the effects of political uncertainty.

According to Bank of England deputy governor Ben Broadbent, that might not last. We’re in a “sweet spot” now. The pound has made exports more competitive. But trading rules with the EU remain unchanged. When and if trade barriers come up, that advantage will evaporate.

Hmmm. We’ll see. There’s certainly logic to the argument. But you have to take forecasts like that with a pinch of salt – remember the forecasts that the very *idea* of Brexit would push the economy into recession? How did they pan out?

Exactly. They didn’t.

The biggest Brexit mistake – and how to turn it to your advantage

If Broadbent is wrong, I think we can forgive him. He’s only human. We’re all guilty of letting our emotions bias our worldview. And I think that’s what’s happening with Brexit across the board.

It’s such an emotional subject that our ability to make objective decisions and judgements is impaired. I mean that on all sides. Brexit delights some people. It angers others. It confuses still more. And I know that plenty of people are already disillusioned with it.

The camp you fall into is none of my business. But I will say this. Such an emotional and divisive subject makes the Brexit process an absolute *paradise* for speculators.

If you can step back and be dispassionate about things, you'll see that Brexit is a highly market-moving event. A "smart Brexit" for most of us would be to realise just what a trading opportunity it is. It changes the way people think. And it's going to change the conditions of business for companies across the economy in all sorts of different ways.

The pound is just the start of that process. It's what you'd call a "first-order" effect: it's obvious and easy to spot. But the second- and third-order effects – the implications of the move in the pound – are far harder to understand. But that's what trading is all about!

To put it another way, one action doesn't just have one consequence. It has multiple. Brexit is a great example of that. The lines might have focused on the pound. But there are hundreds, thousands even, of second- and third-order effects that are tradable off the back of it.

That's only going to become more true as the nitty-gritty of negotiations kicks off. There are going to be trading opportunities everywhere, if you're able to be rational rather than emotional, and see Brexit for what it is, rather than how people *feel* about it.

For instance, a report published by legal firm Allen %26 Overy earlier in the week outlined 339 different Brexit negotiating points. They ranged across everything from defence policy to financial funds passporting, to trading regulations to food and farming policy.

To be honest, 339 is probably on the shy side. There'll be far more than that up for negotiation. But the point is, all of it is going to be material for business here and in the EU. It's going to create winners and losers. It's where the macro picture becomes micro to the company level. And it's going to create opportunity.

Best,

Nick O'Connor

Nick O'Connor
Associate Publisher, *Capital %26 Conflict*