



# *Weldon* LIVE

Friday June 24, 2016

**Global**  
**MACRO** **BREXIT ... Shocker, But What Does It Mean ??**

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**Fixed**  
**INCOME** **Europe ... Divergence**

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**Foreign**  
**EXCHANGE** **UK & Europe ... Up the Down Staircase**

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**Stock**  
**INDEXES** **Europe ... UK 'Over' the EU**

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**Metals**  
**MARKETS** **Gold ... Running of the Bulls**

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**Energy**  
**MARKETS** **Crude Oil & Gasoline ... Torpedoed**

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**Agricultural**  
**COMMODITIES** **US Dollar & the CRB ... Say What ??**

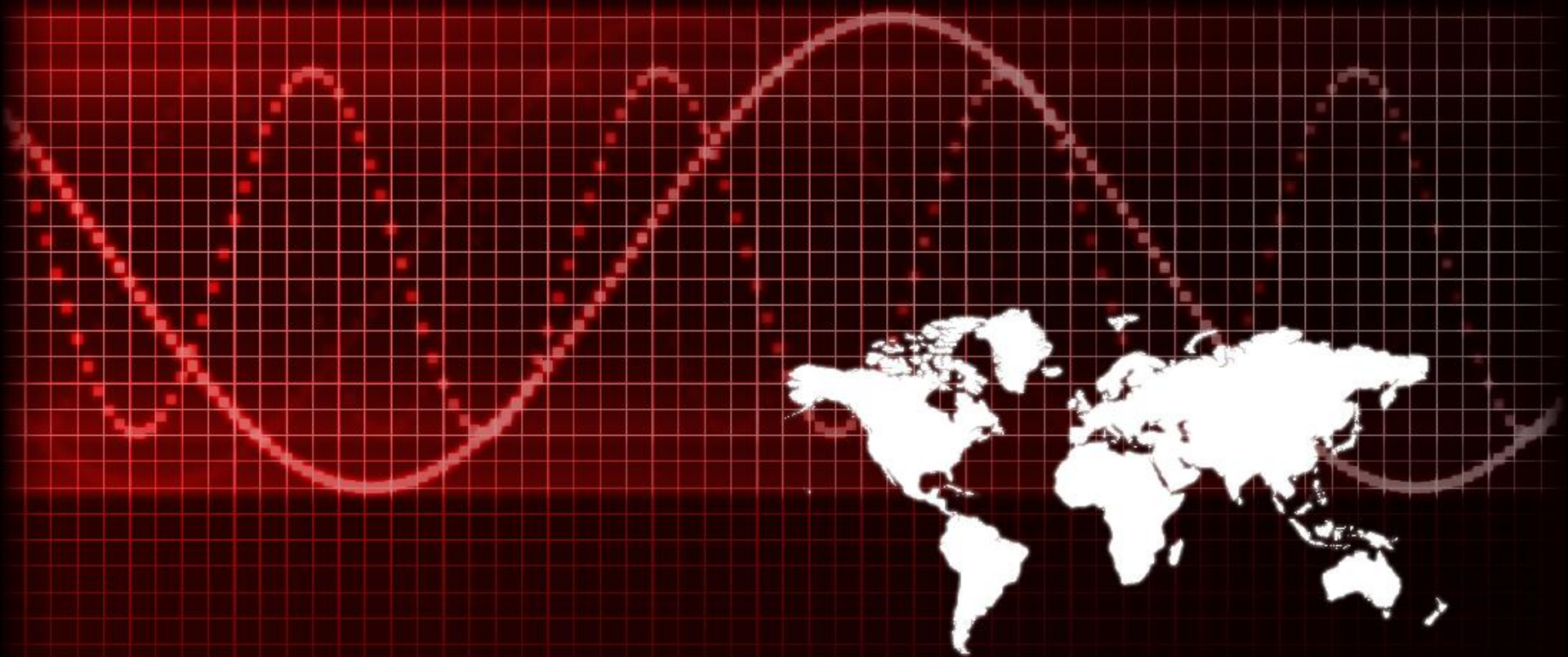
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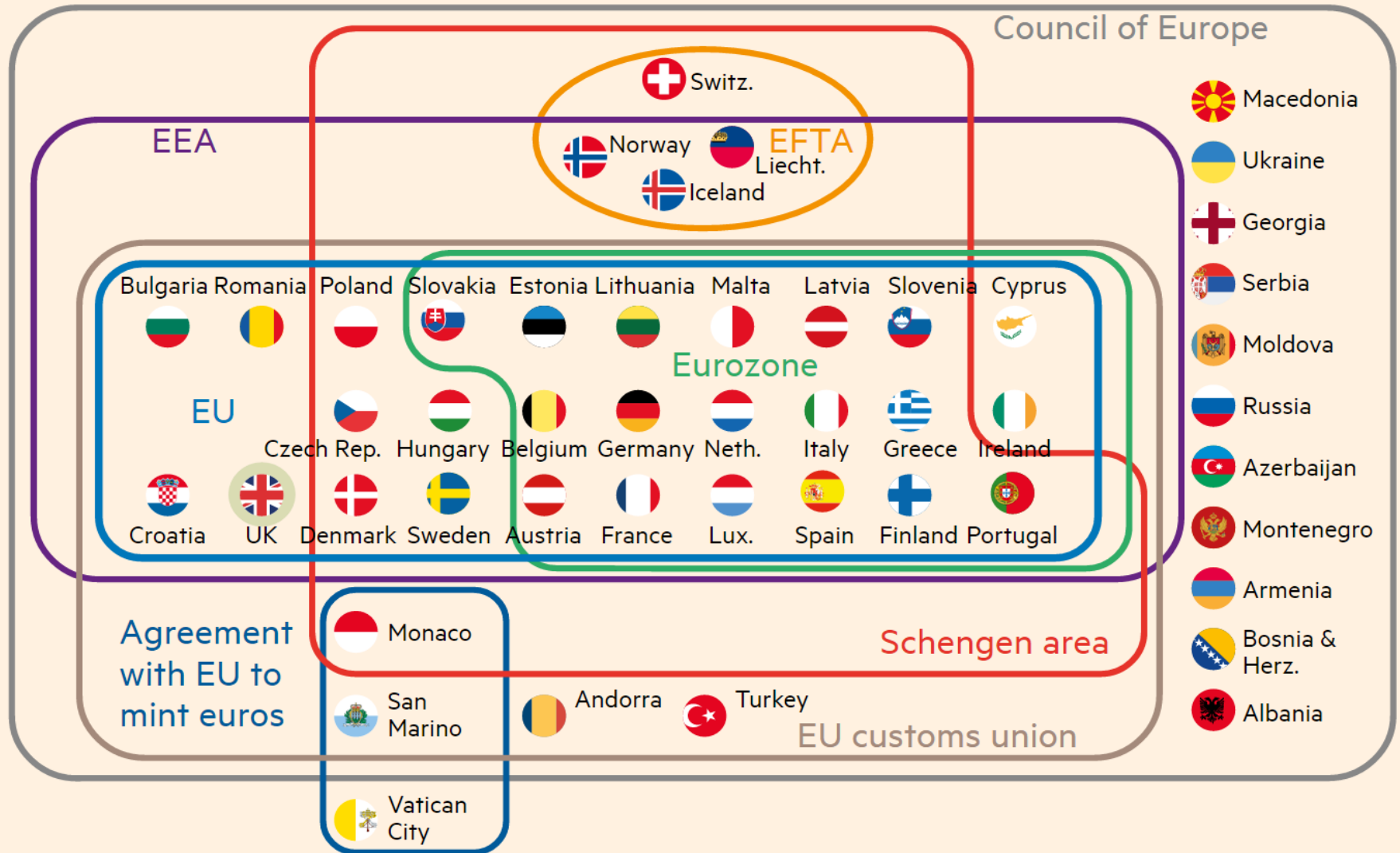
Watch the video that accompanies today's WeldonLIVE Chart-Pack, and hear Greg's color-commentary spotlighting the most important top-down global-macro investment themes and the subsequent market developments.



# *Global*MACRO



# The UK Will Need to Re-Negotiate a LOT of “Trade” Deals



# Score Card ... Mostly Negative From a Macro-Economic/Trade Perspective

## But PERHAPS MUCH WORSE for the EU, Than the UK !!!

### Brexit impact through the ten channels: summary



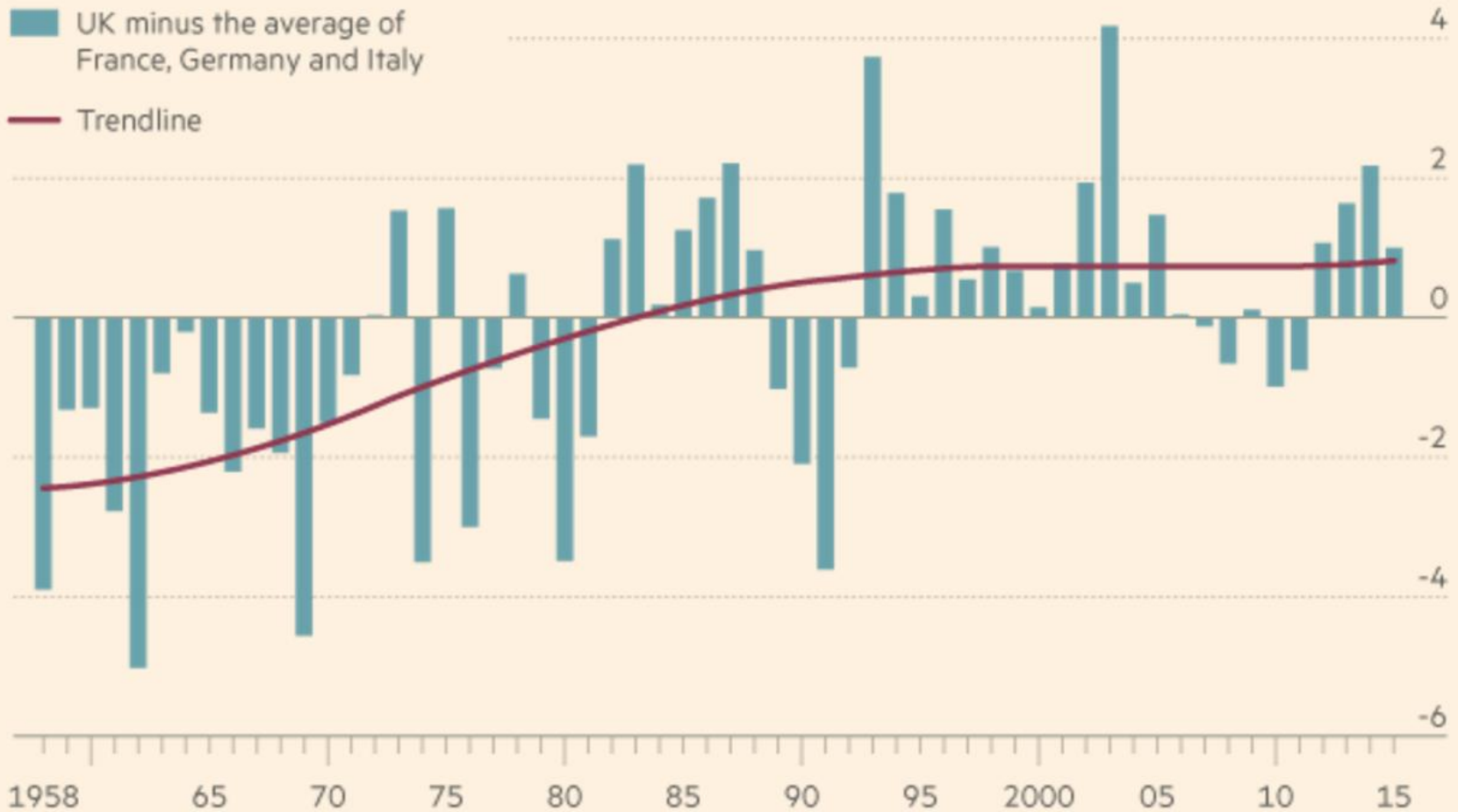
Impact scale ■ moderate ■ significant ■ severe

		Impact on the United Kingdom		Impact on the European Union	
Trade within Europe	■	Regulatory divergence grows over time increasing the cost of trade, impacting on volumes and the UK place in supply chains	EU trade matters more for the UK than UK trade for the EU, but some states with big bilateral surpluses feel a macro chill from Brexit	■	
Foreign direct investment	■	The UK is less attractive as a gateway to Europe, as a base for corporate HQs and as a location for investment from Europe	Businesses find it costly to relocate investment from the UK and there is a risk the UK attempts to undercut the EU on standards to attract FDI	■	
Liberalisation and regulation	■	The UK loses influence over EU regulation without gaining much freedom to regulate independently	The balance in the European Council shifts away from liberalisation and it becomes harder to form a blocking minority against illiberal measures	■	
Industrial policy	■	The UK gains flexibility over industrial policy, but loses the benefits from scale and influence in some areas	There could be a weakening of competition policy, looser collaboration in education and research and impacts on public procurement	■	
Immigration	■	Immigration is tightened, damaging competitiveness, particularly of London, but how much depends on the Brexit model	Some countries are affected by the impact on remittances or diverted migration, with the extent of political contagion a big unknown	■	
Financial services	■	The UK retains a strong competitive edge, but most likely loses business as it becomes harder to provide certain services to EU markets	One or two financial centres may benefit, but businesses and households suffer from the loss of liquidity and increased cost of financial services	■	
Trade policy	■	The UK has less leverage, is a lower priority partner in trade negotiations and finds it harder to resolve trade disputes	The EU is a less attractive trade partner without the UK in the deal and loses a member state that puts its political weight behind negotiations	■	
International influence	■	The UK loses the benefit from being able to influence both in and through the EU, impacting on economic and foreign policy interests	The EU loses substantial soft and hard power assets, but may be able to act more coherently externally and in international institutions	■	
Budget	■	The UK gains financially, but how much depends on the model, and variation in the net impact across the UK regions complicates Brexit politics	The EU loses a budget disciplinarian and a major net contributor, with the gap needing to be filled by higher contributions or less spending	■	
Uncertainty	■	Brexit is a protracted process lasting several years with uncertainty over the impact on businesses	Uncertainty is bad for business in the EU, but the biggest risk is political contagion from the 'proof of concept' of leaving the EU	■	

**For the Most Part, Whether Completely Causal, or Note ...  
... the UK Economy Has Benefitted, GDP Growth Wise, From Their “Union”**

## Britain's EU membership has been a good period for the economy

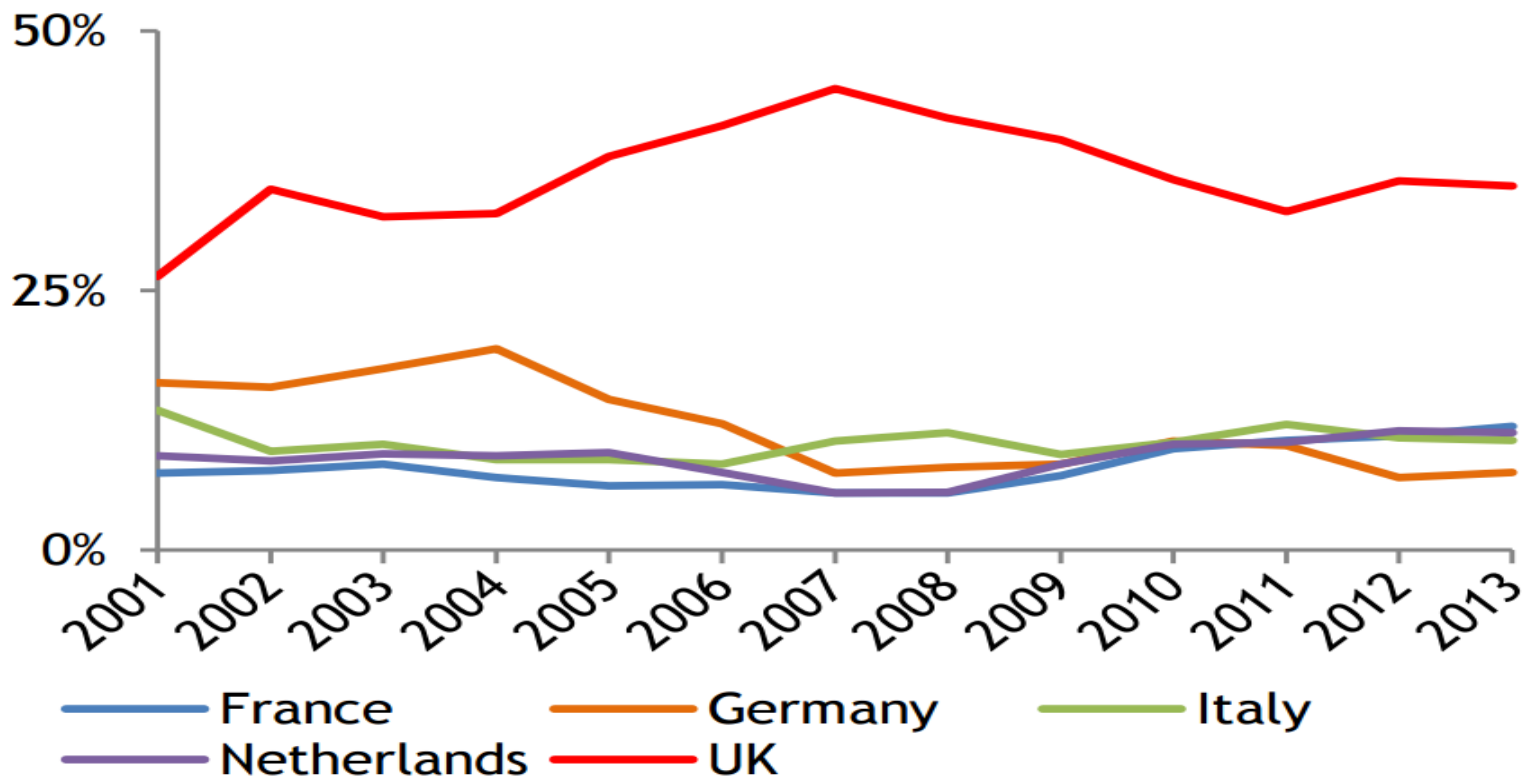
Growth in real GDP per capita (% points)



**UK Likely to Remain Dominant in the Financial Services World ...  
... But Will Also Likely Lose Some Market 'Share'**

**UK dominates wholesale financial services**

Share of EU wholesale financial services GVA



Source: London Economics, Eurostat



## **France and Germany Stand to Benefit, Slightly, From Any Movement of Financial Transactions and Market Making From London, to the EU**

### **The UK leads in most financial services**

International market share by country

	<b>UK</b>	<b>FR</b>	<b>DE</b>
Cross-border bank lending	17%	9%	9%
Foreign exchange turnover	41%	3%	2%
Exchange-trade derivatives	7%	---	8%
Interest rate OTC derivatives	49%	7%	4%
Hedge funds assets	18%	1%	---
PE investment value	10%	5%	2%
Fund management	8%	3%	2%
Marine insurance	22%	4%	5%



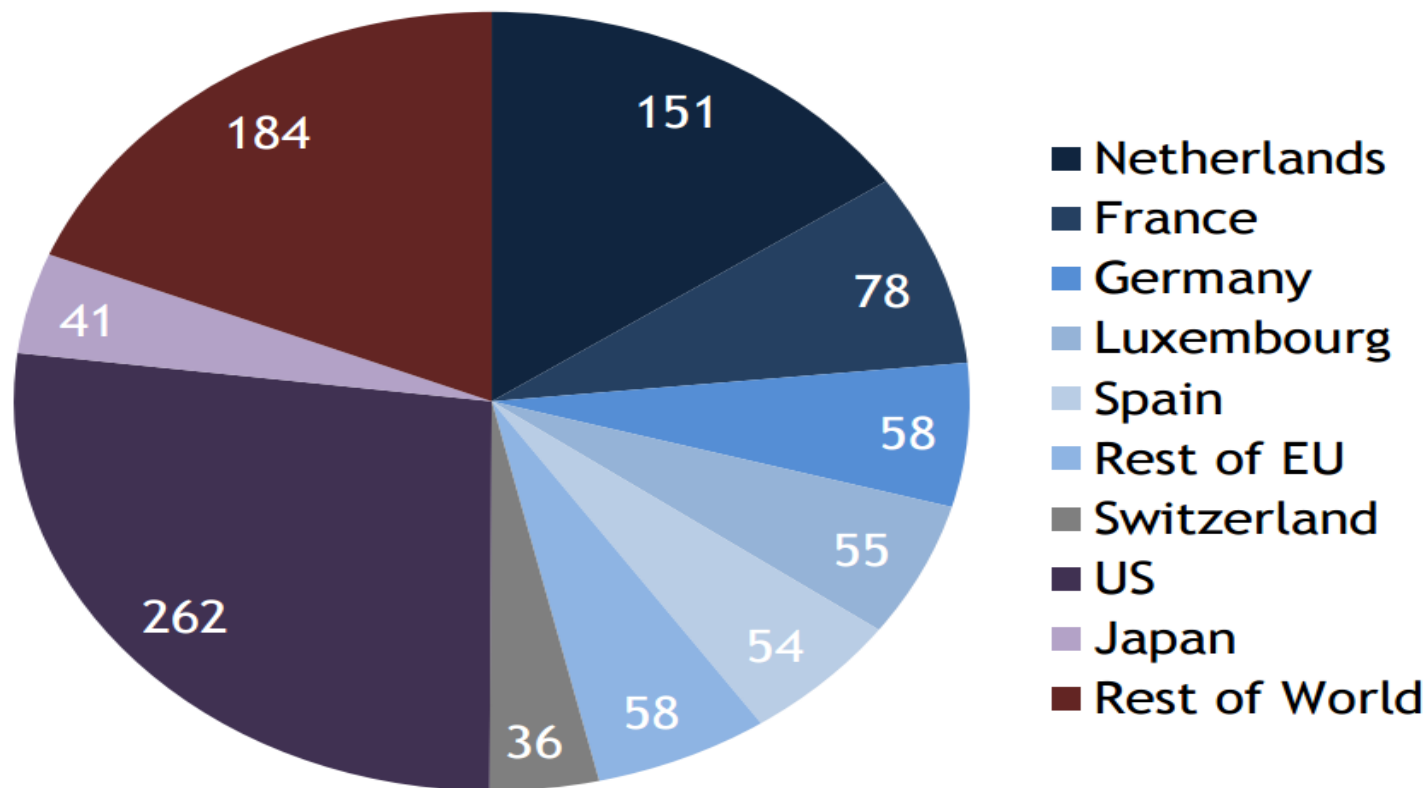
**BUT ... That Movement is NOT Likely to Be Significant,  
For Sure It Will Not Be, Immediately**

- The UK is highly integrated into the European financial system. Total UK claims on the EU15 alone are \$880bn with most of the credit to households and firms, but some also to governments and interbank lending. European bank exposure to the UK is even greater at \$1.7tn in total.<sup>(2)</sup> It would be costly for European banks to relocate wholesale banking activity away from London.
- London is not just a European financial centre - it is an international centre with a dominant position in many product areas. However, London's international position could be damaged if large amounts of European business migrate following Brexit. There is a risk that some business, particularly more mobile activity such as derivatives, may leave Europe altogether.
- The most likely beneficiaries in the EU are Paris, Frankfurt, Amsterdam and Dublin. But they cannot replicate overnight the advantages of the London 'ecosystem' supporting financial services, including skilled staff, legal services and market infrastructure. Competition between them borne out of new barriers to trade with London would be disruptive and costly. Businesses in Europe would lose due to higher charges, poorer products and less liquidity. European corporates would, for example, find it more inconvenient and costly to raise capital in London, which currently provides a one-stop shop.

## Foreign Direct Investment in the UK Stands to Be a 'Loser' in the Equation

### EU states are the biggest source of UK FDI

Inward stock of FDI in the UK (£bn, 2013)



Source: ONS

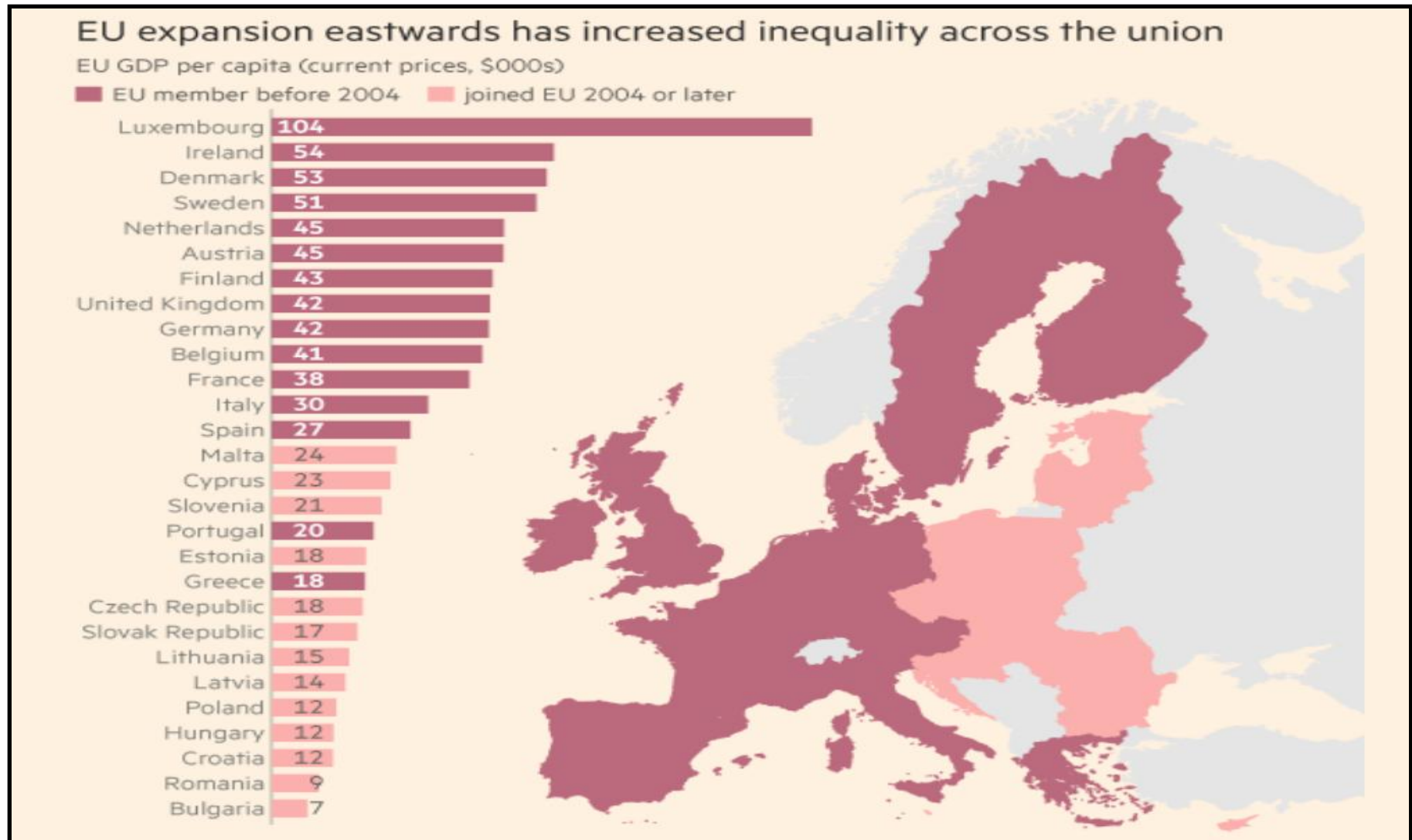
## **EU Firms Play an INTEGRAL ROLE in Several Key Industries Within the UK**

### **EU firms are invested across sectors in the UK** 2013 data

<b>Sector</b>	<b>EU FDI \$m</b>	<b>EU share</b>	<b>Biggest EU investors</b>
Retail, wholesale	66,443	62%	NE, DE, FR
Mining, quarrying	61,708	73%	n/a
Financial services	55,850	24%	NE, DE
ICT	39,190	34%	FR, DE, LU
Utilities	34,989	90%	n/a
Transportation	31,125	75%	DE, NE, ES
Food, beverages	23,555	41%	NE, FR, LU
Total	452,525	46%	NE, FR, DE

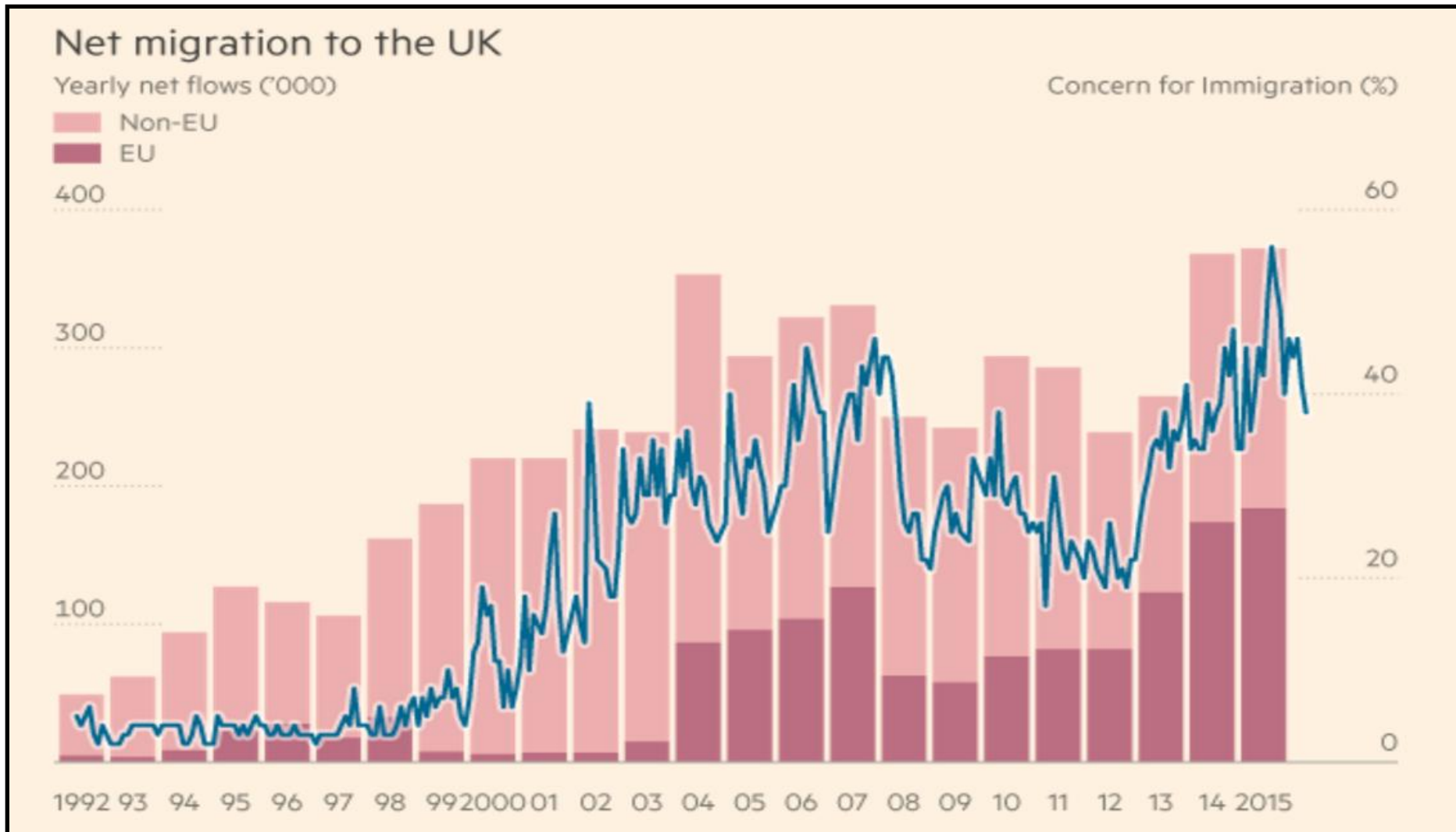
Source: ONS, GC calculations

# Immigration and a Watering Down of the EUR Emanating From EU Expansion to Less Affluent Eastern European Countries Were KEY Issues for the Leave Camp





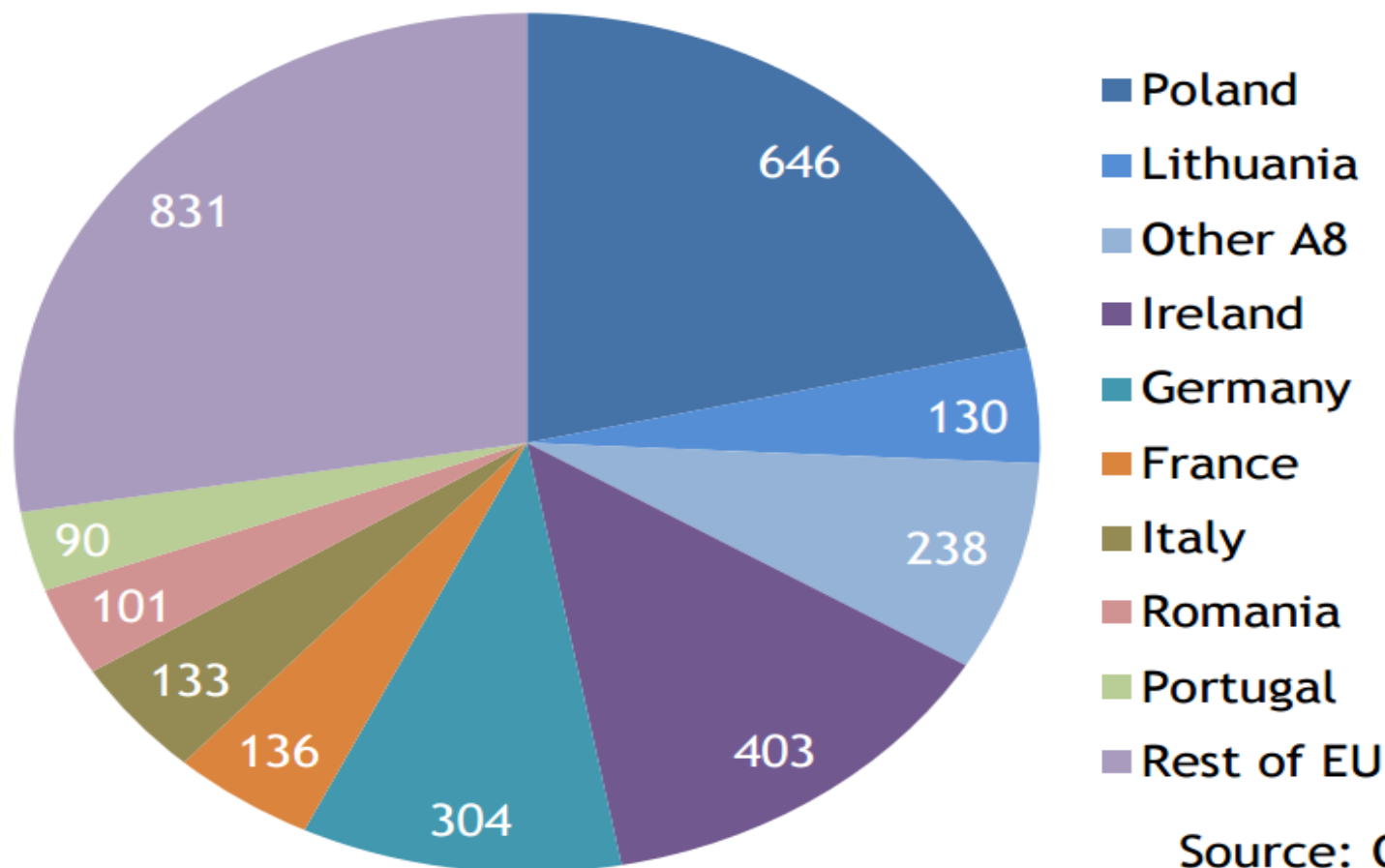
**Immigration and Unsecured EU Borders, Particularly as It Applies to the EU Expansion into Eastern Europe, a Gateway for Middle-Eastern Refugees, in Synch With Intensified Social Unrest in the UK Resulting From an Increase in Disturbing Public Protests by Muslim Militants, Likely Sealed the “Leave’ Vote**



## Eastern European Countries Were the MAIN SOURCE of Immigration Into the UK

### Poland is a major source of UK immigrants

EU immigrants to the UK by country of birth

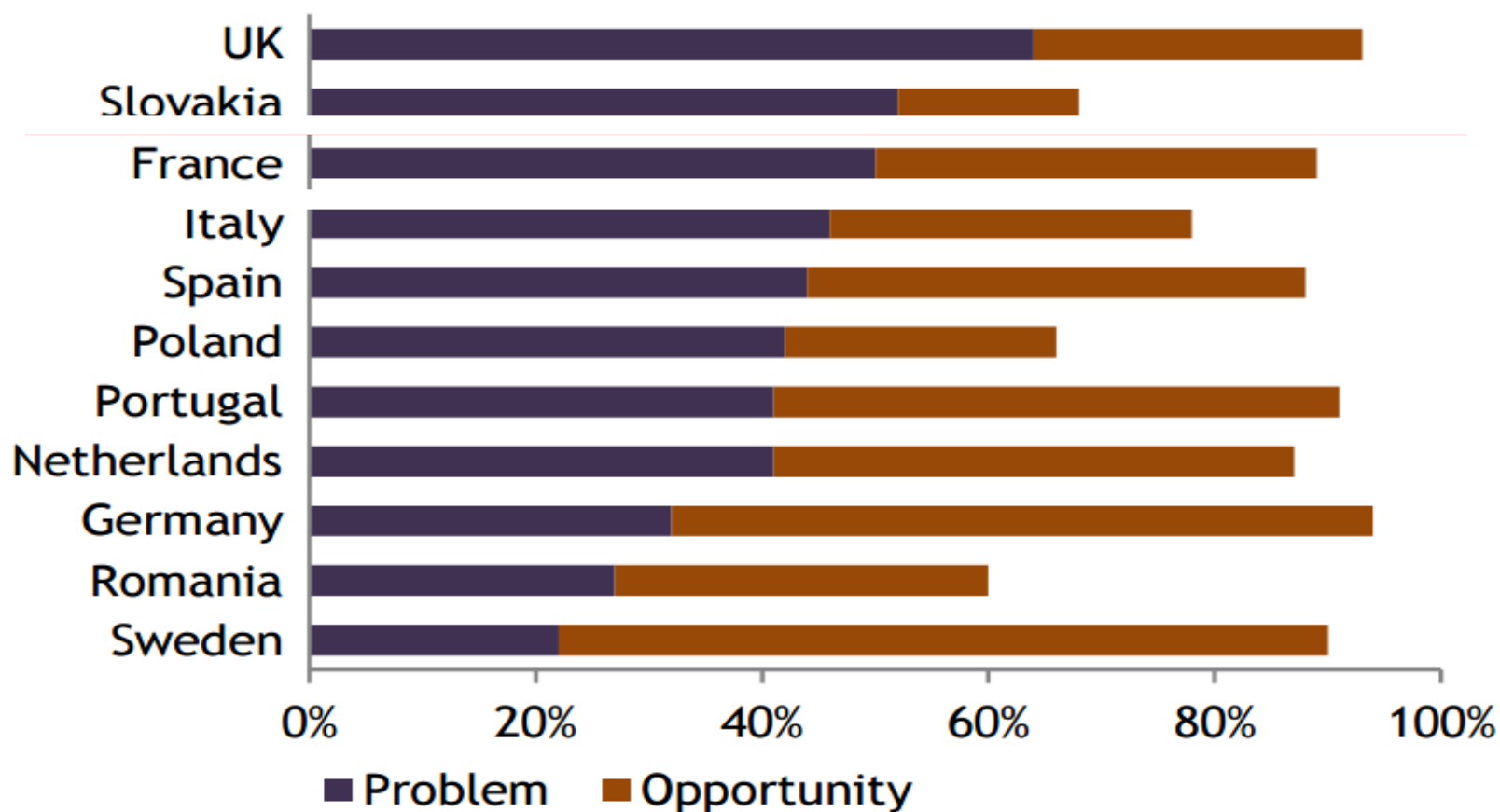


Source: ONS

## For UK Citizens, Immigration Was Cited as **MAJOR PROBLEM**, Socially

### Immigration concerns are high in other states

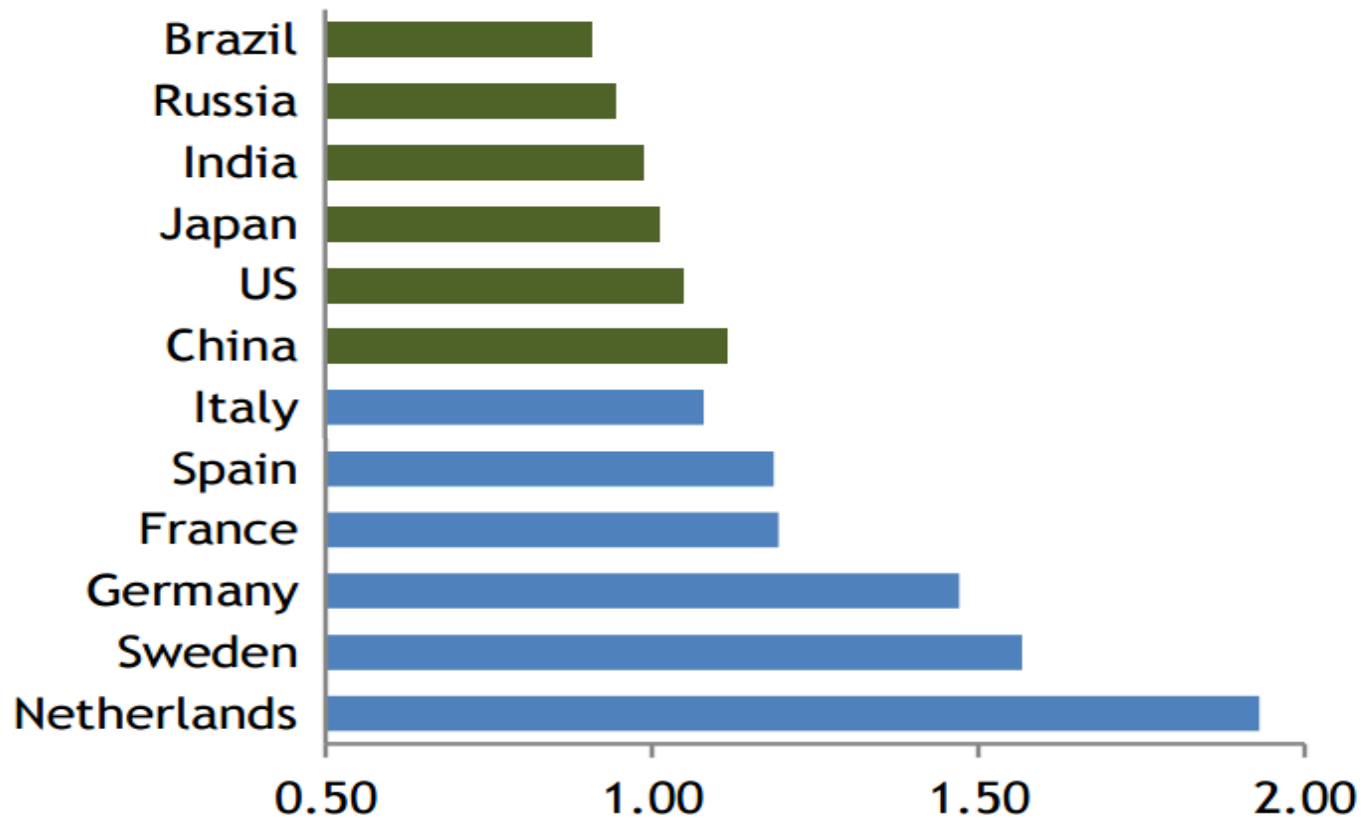
Attitudes on immigration as opportunity or problem



**Trade Negotiations Could Become TEDIOUS and Time Consuming,  
Running the Risk of Exacerbating the Uncertainty on a Near-Term Basis,  
And Potentially Inhibiting the UK Industrial Sector, Via Supply Chain Disruptions**

## EU supply chains are important to the UK

Gross exports divided by value-added exports by destination



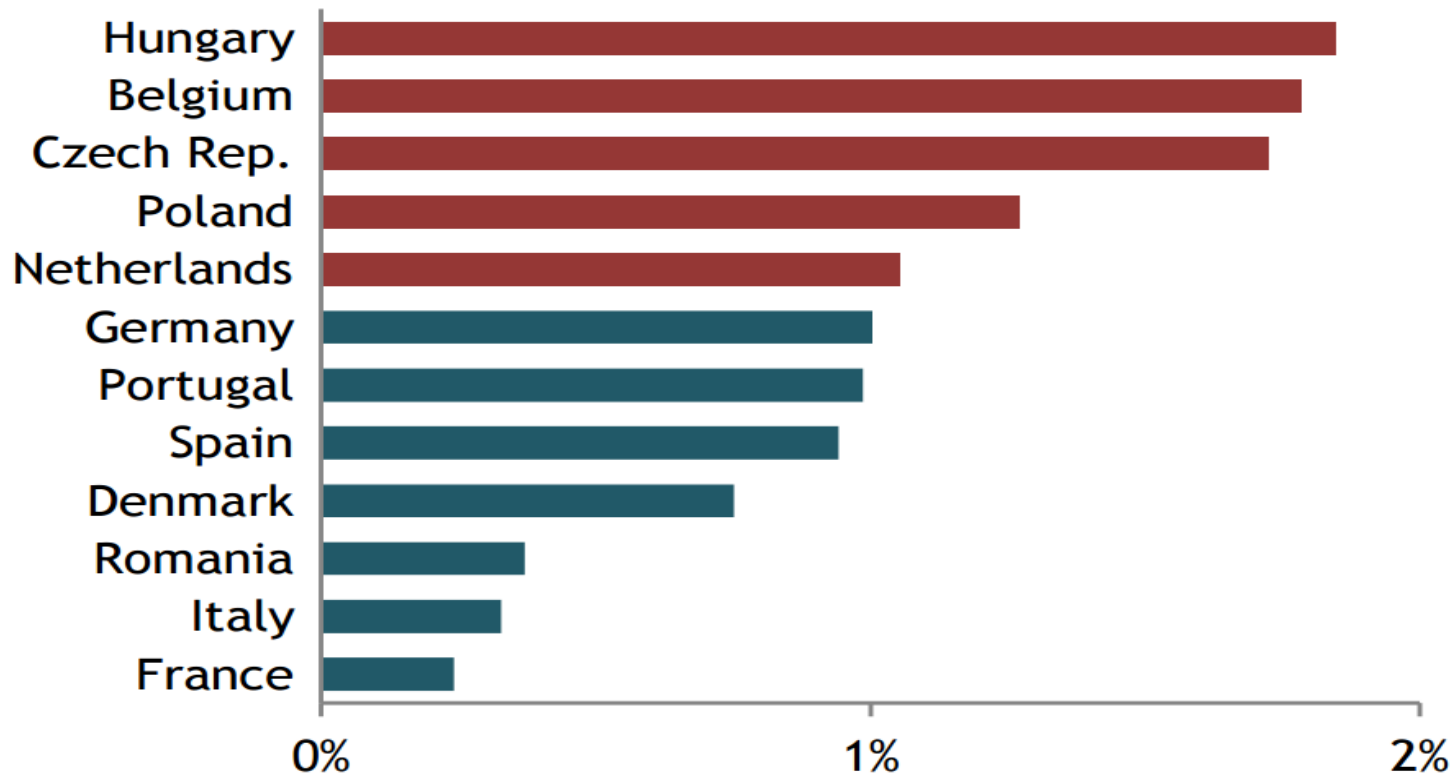
Source: OECD, GC calculations



**But the Impact on EU Nations is Likely to Be MORE PAINFUL ...  
... Than the Impact on the UK**

## **The UK is a major source of demand**

Trades surplus with the UK (% of GDP, 2013)

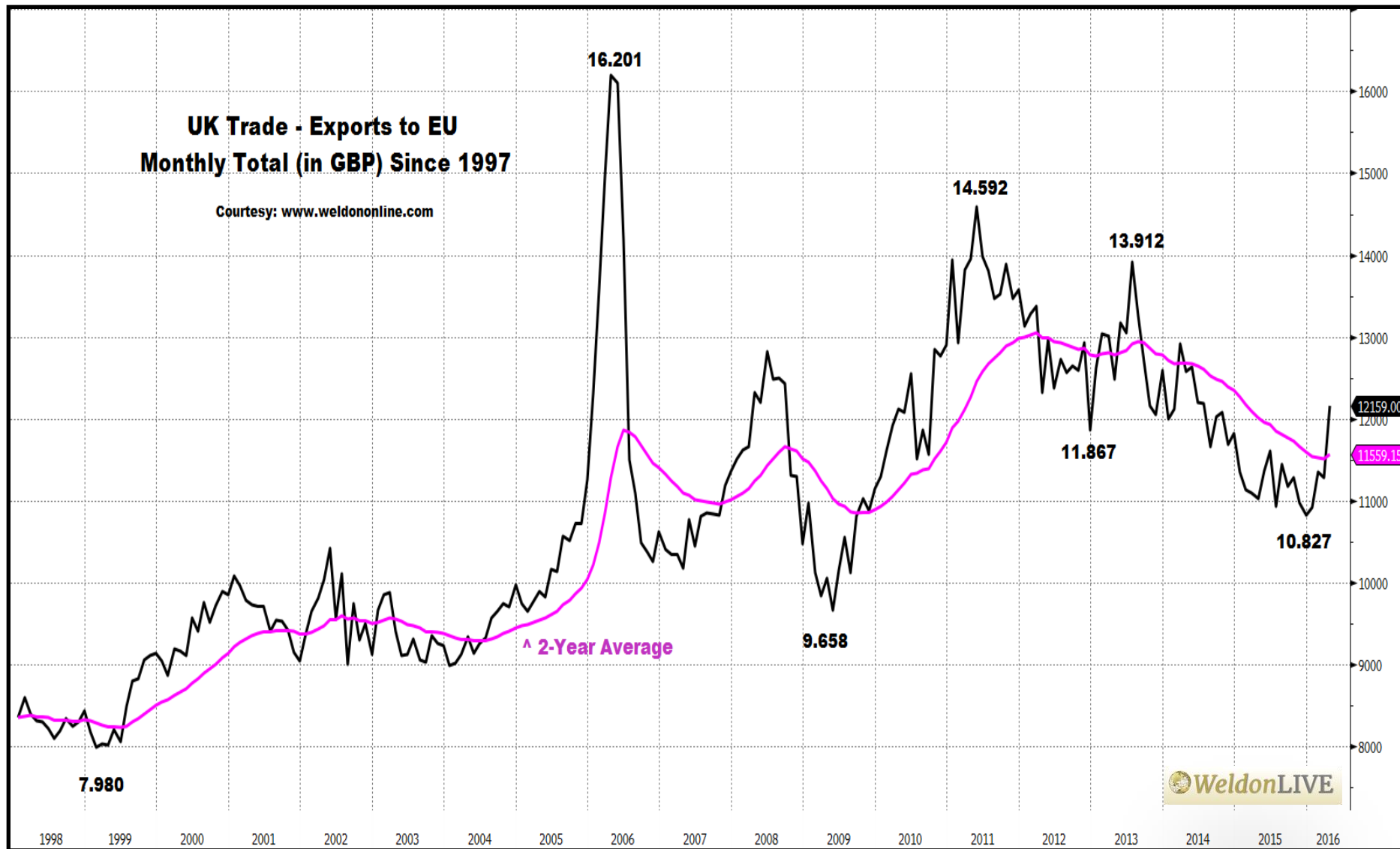


Source: ONS, Eurostat, GC calculations

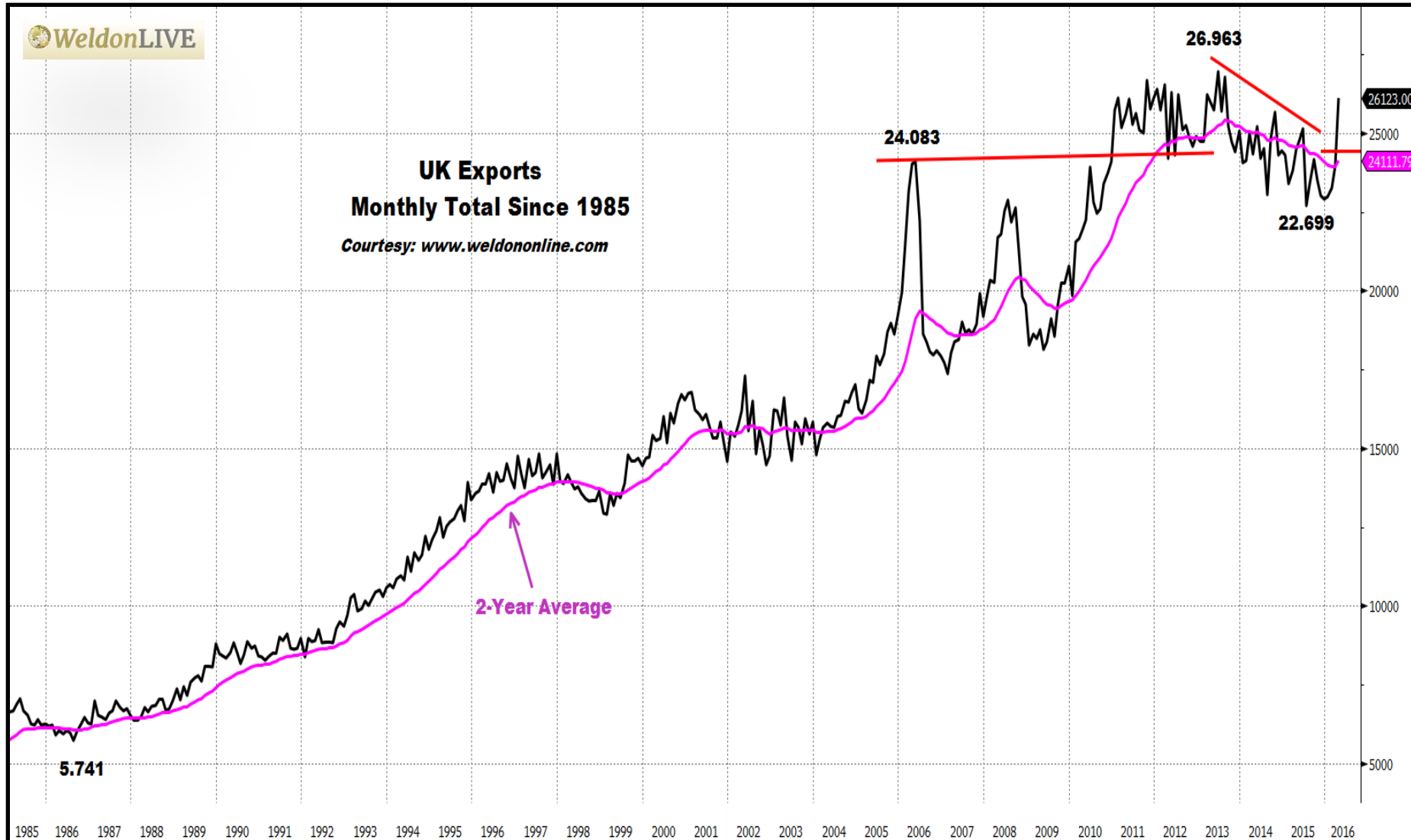
# UK Exports to the EU Have Risen of Late, But From Nominally Low Levels, on a Relative Basis

## UK Trade - Exports to EU Monthly Total (in GBP) Since 1997

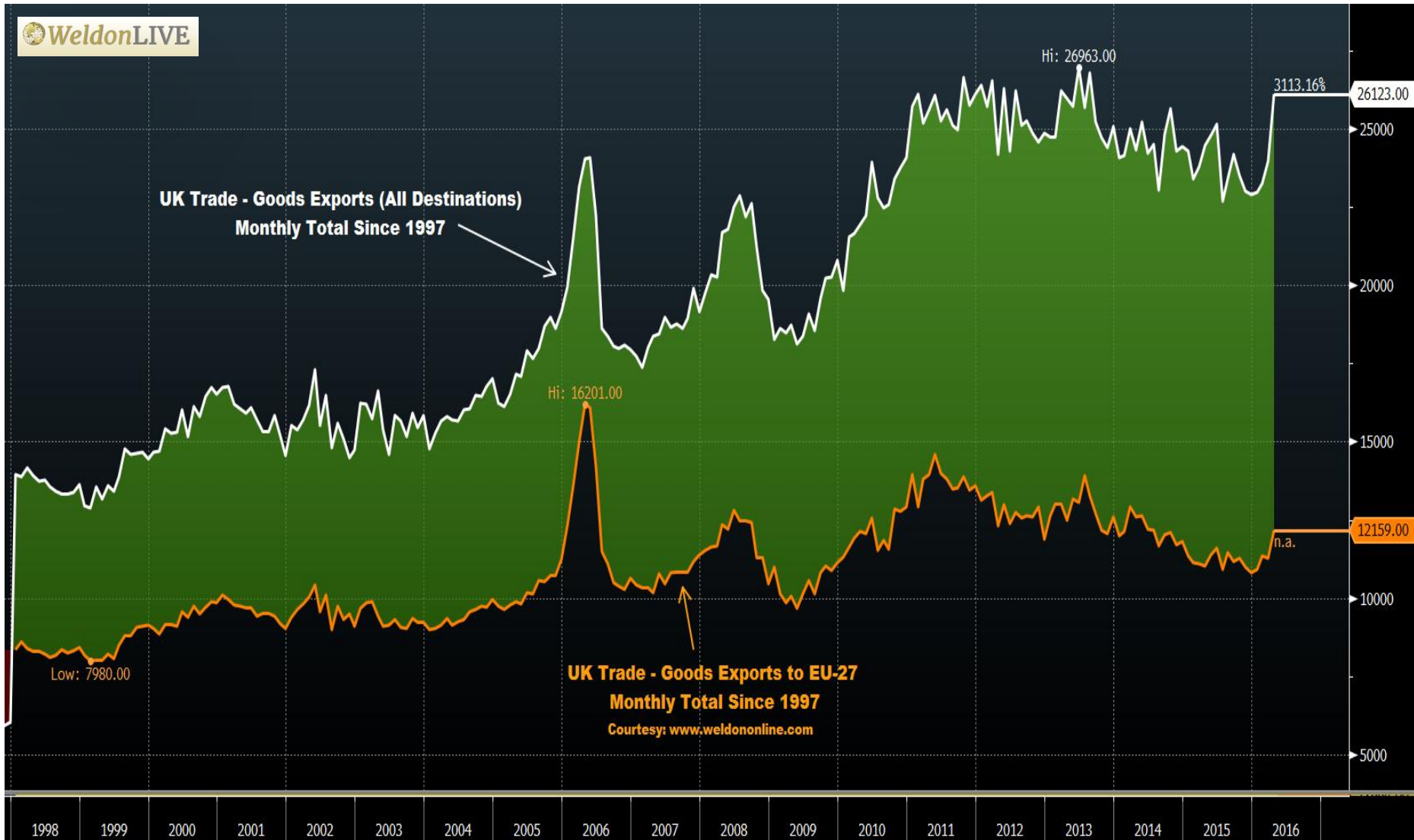
Courtesy: [www.weldononline.com](http://www.weldononline.com)



# Total UK Exports Remain Robust, Nominally Speaking, Sitting Within Reach of Their All-Time High



# Total UK Export Growth Has FAR OUTPACED the Growth, or Lack Thereof, in UK Exports to the EU





# UK Total Exports, Relative to Exports to the EU ... (Or, Non-EU Exports) ... at a NEW RECORD HIGH

Differential Between All Exports  
<vs> Exports to the EU-27  
Monthly Since 1997  
(Non-EU Export Total)

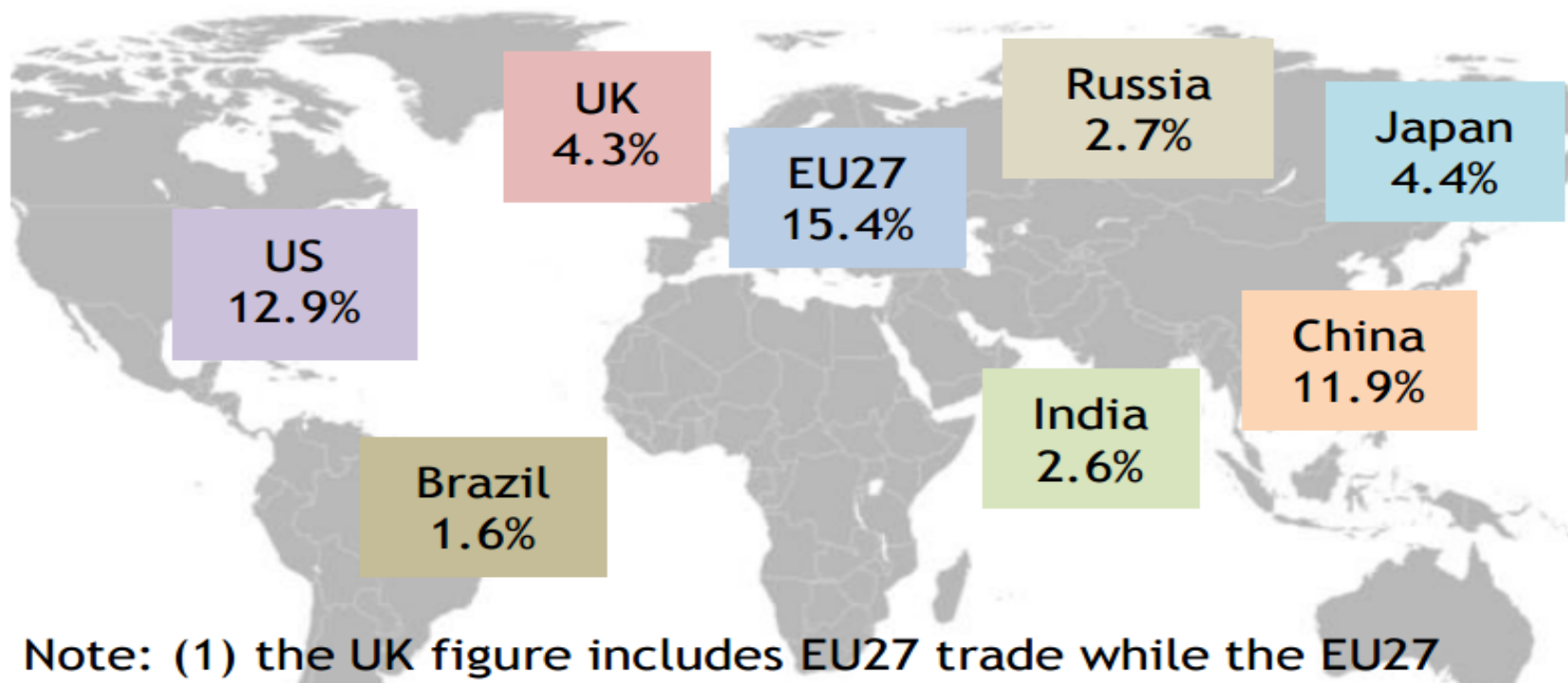
Courtesy: [www.weldononline.com](http://www.weldononline.com)



## **The EU Loses Nearly ONE-QUARTER of Their Global Market Share in Trade, by Losing the UK's Share**

### **The EU would be a diminished trade bloc**

Share of global trade by country/bloc, 2013



Note: (1) the UK figure includes EU27 trade while the EU27 figure excludes intra-EU27 trade; (2) these figures have been corrected following an error in a previous version.

Source: World Bank , Eurostat, GC calculations

# Potential Outcomes of Trade Negotiations, and a “Cheat Sheet” for the Implications of Each Possibility

The impact of Brexit depends on the relationship with the EU that follows. Five distinct models are set out below. What is most beneficial politically, in terms of policy independence, is also the most damaging economically. This is the Brexit paradox. The most likely models are the Swiss or the FTA-based approaches.

<b>Norwegian-style EEA agreement</b>	The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these. The UK still makes a substantial contribution to the EU budget and is unable to impose immigration restrictions. <b>Verdict: does not address UK political problems with the EU</b>
<b>Turkish-style customs union</b>	Internal tariff barriers are avoided, with the UK adopting many EU product market regulations, but sector coverage of the customs union is incomplete. The UK is required to implement EU external tariffs, without influence or guaranteed access to third markets. <b>Verdict: a bad compromise for the UK</b>
<b>FTA-based approach</b>	The UK is free to agree FTAs independently and the UK's relationship with the EU is itself governed by an FTA. Tariff barriers are unlikely, but as with all FTAs the UK will need to trade off depth - which means agreeing common standards and regulation - with independence. <b>Verdict: possible, but it all depends on the deal</b>
<b>Swiss-style bilateral accords</b>	The UK and the EU agree a set of bilateral accords which govern UK access to the single market in specific sectors. Concern in Brussels about cherry picking may limit the sectors. The UK becomes a follower of regulation in the sectors covered, but negotiates FTAs separately. <b>Verdict: possible, but may not be attractive to the EU</b>
<b>MFN-based approach</b>	No need to agree common standards and regulation, but at the expense of facing the EU's common external tariff, which damages UK trade with the EU in goods as well as services. Non-tariff barriers may emerge over time to damage trade in services in particular. <b>Verdict: inconsistent with the UK's liberal approach to trade</b>

## Implications of different Brexit models




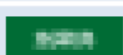




Colours indicate attractiveness from a UK policy perspective

	E E A	C U S	F T A	B I L	M F N
Nearly no tariff barriers on trade in goods	✓	✓	✓	✓	X
Dynamic agreement	✓	✓	X	✓	X
Rules of origin requirements avoided	✓	✓	X	X	X
Single set of regulations for exporting firms	✓	X	X	✓	X
Full single market access retained	✓	X	X	X	X
Passporting of banks from the UK possible	✓	X	X	X	X
Influence over EU regulations retained	?	X	X	X	X
Able to adopt own approach to regulation	X	?	?	?	✓
Freedom to pursue trade deals independently	X	X	✓	✓	✓
No contribution to the EU budget	X	✓	✓	X	✓
Freedom to impose immigration controls	X	✓	✓	?	✓

## Great Britain ... in Terms of Military Might, Loses Virtually Nothing

### Britain remains a big military spender

Military spending in 2013

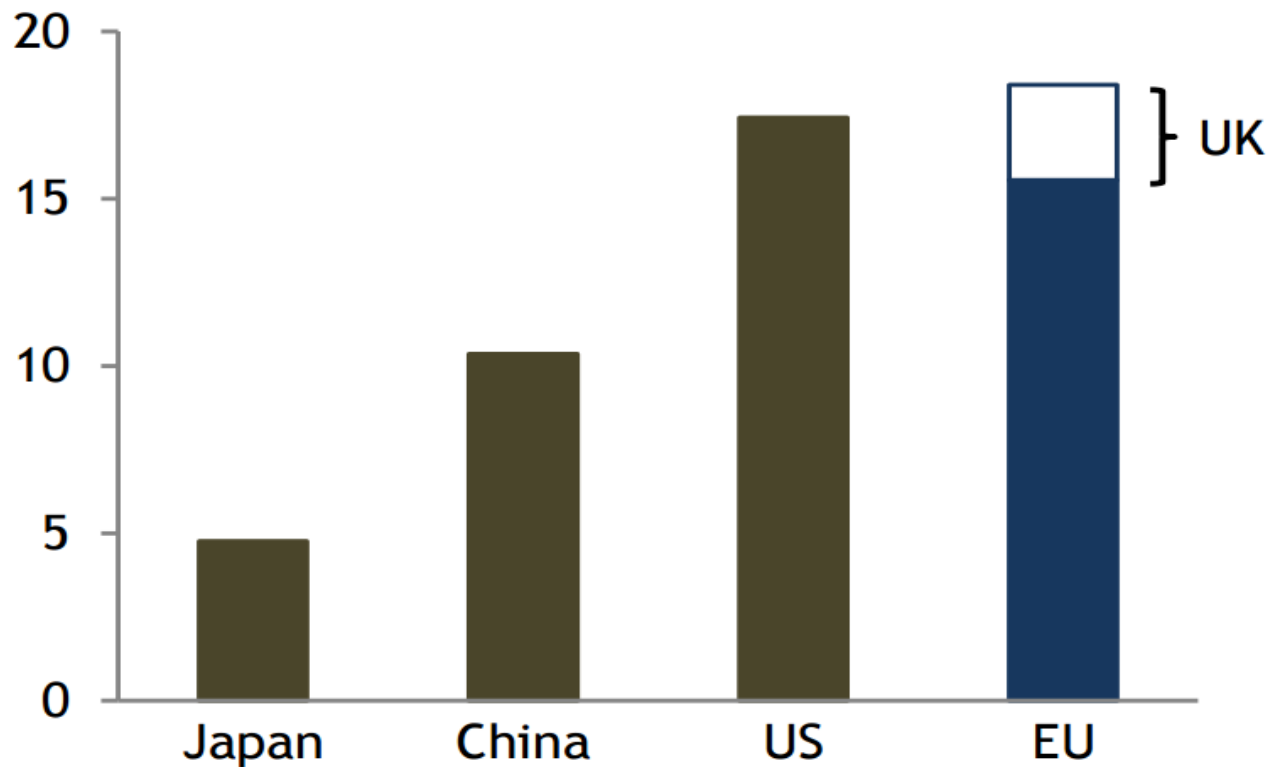
Rank		Country	\$bn	%GDP
1		United States	600	3.7
2		China	122	1.2
3		Russia	68	3.1
4		Saudi Arabia	60	8.0
5		United Kingdom	57	2.4
6		France	52	1.9
7		Japan	51	1.0
8		Germany	44	1.2

Source: International Institute for Strategic Studies



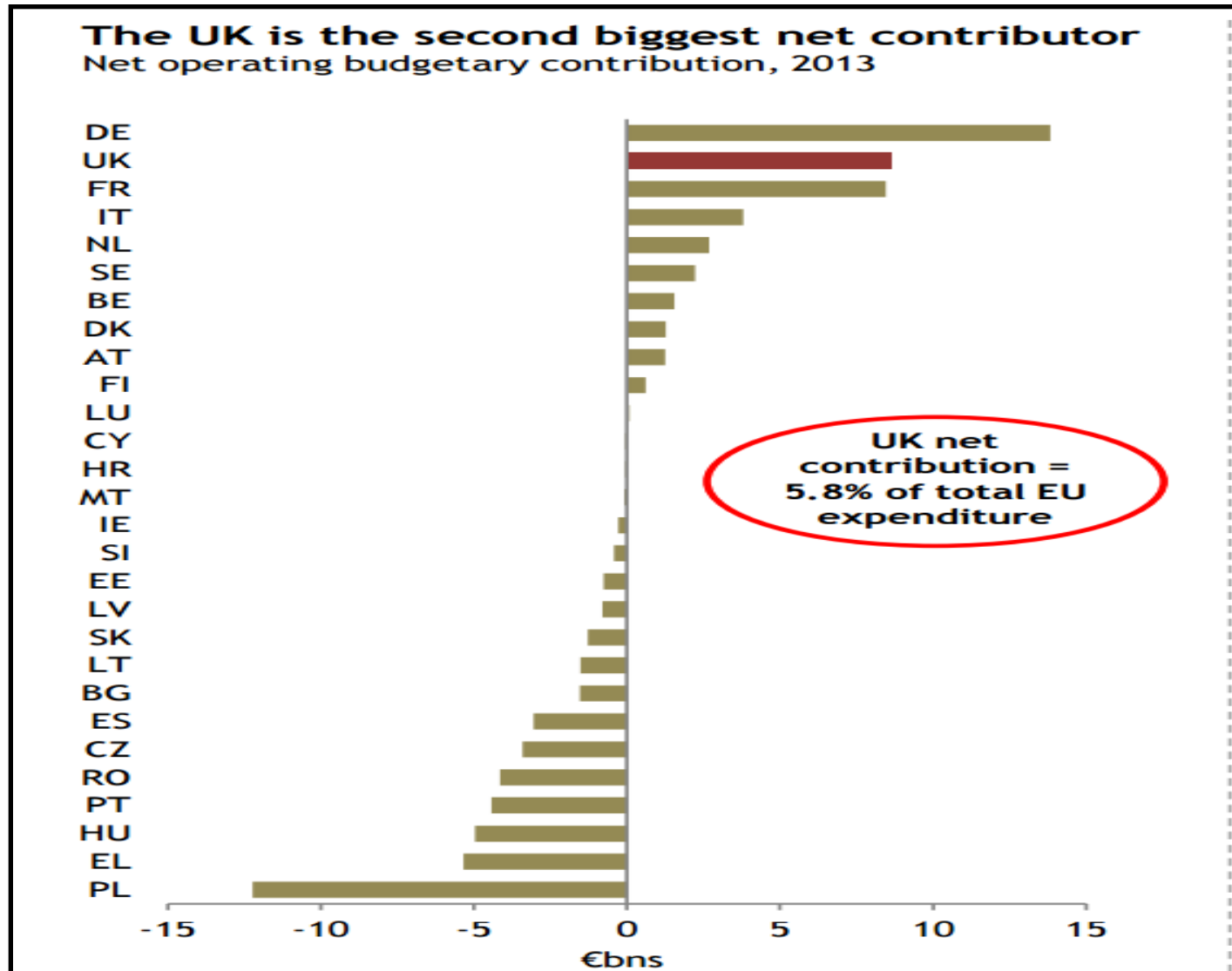
## The European Union **LOSES** Their Position as the Top 'Economic Zone' in the World

Nominal GDP in 2014, \$trillion

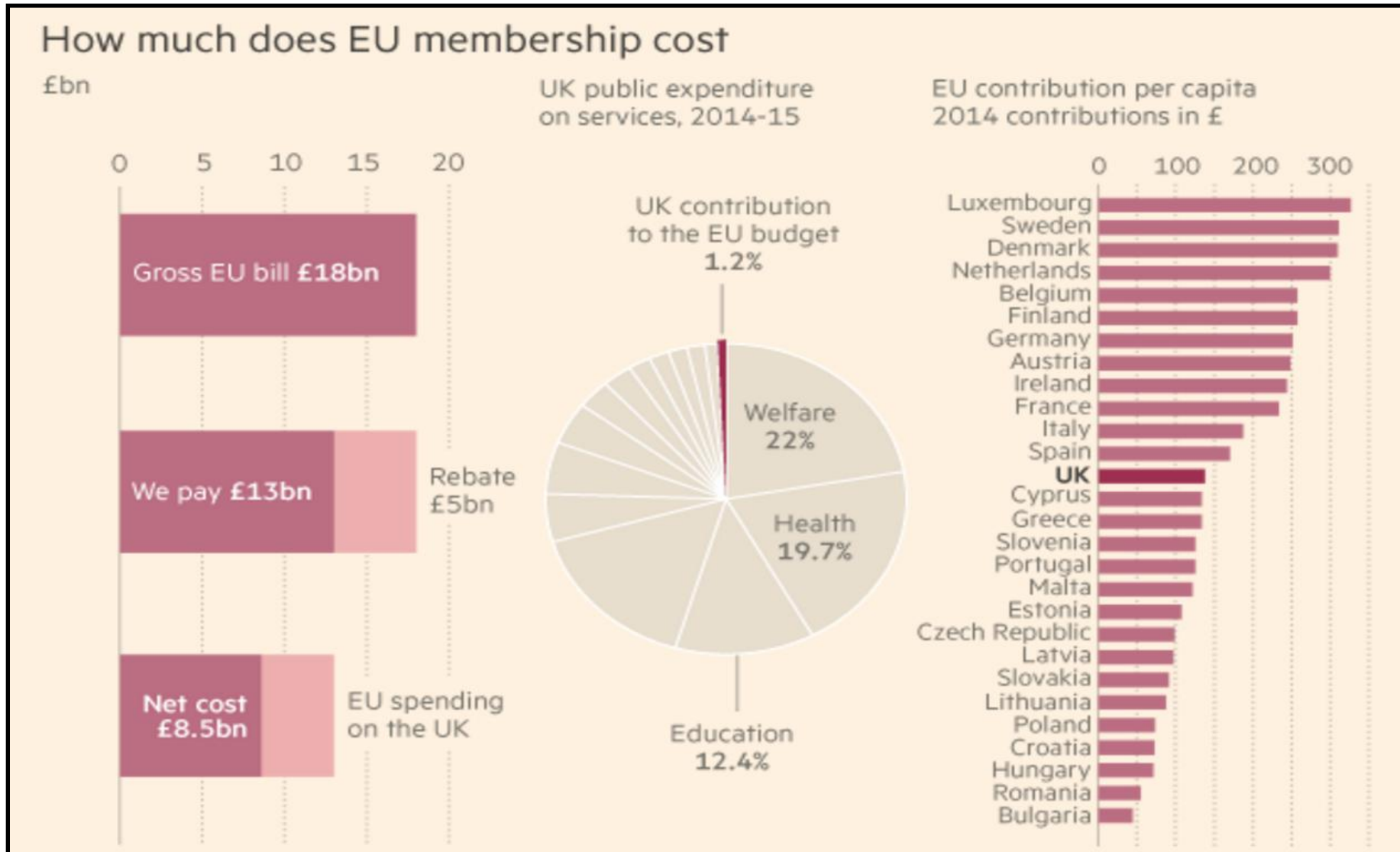


Source: IMF WEO

**Nominally, in Actual Money ... the UK is the SECOND LARGEST CONTRIBUTOR to the EU Budget ... Meaning EU Nations Will be Forced to Plug Some Level of 'Gap' Left in the Top-Down Fiscal Situation ...**



**... PARTICULARLY Given the RELATIVE, Per-Capita Contribution Math  
Where the is No Longer Ranked 2<sup>nd</sup>, But is Rather, Ranked 13<sup>th</sup> !!!  
This Puts EVEN GREATER FISCAL PRESSURE on the Rest of the EU**



**According to “Global Counsel” (See Slide #30) ...  
... the Biggest Losers on the EU Side are the Dutch, Irish,  
Portuguese and Nordic Nations**

States ranked by exposure to Brexit Score based on multiple metrics (see next page)		
Rank	Country	Score
1	Netherlands	28
2	Ireland	25
3	Cyprus	23
4	Portugal	17
5=	Greece	16
5=	Malta	16
7	Sweden	16
8	Denmark	15
9	Czech Republic	14
10=	Belgium	13
10=	Latvia	13
10=	Lithuania	13
13	Germany	13
14	Luxembourg	12
15=	Slovakia	12
15=	Spain	12
17	Finland	11
18=	Estonia	9
18=	France	9
18=	Hungary	9
21	Poland	8
22	Bulgaria	7
23	Austria	7
24	Romania	5
25	Italy	5
26=	Croatia	4
26=	Slovenia	4

## Global Counsel's Scorecard

	Exports to the UK % of GDP, 2013	FDI stock in the UK % of GDP, 2013	Regulatory policy alignment subjective	Residents in the UK % popln, 2013	UK bank links <sup>(a)</sup> % of GDP, 2014	Trade liberalising alignment subjective	Net budget contribtn. % of GNI, 2013	Output gap % potential, 2015	EU perception % negative, 2014	Overall Score <sup>(b)</sup>
Austria	1.3%	0.8%	No	0.2%	6%	Swing	0.4%	-1.1%	36%	7
Belgium	6.8%	4.9%	No	0.1%	21%	Swing	0.4%	-1.2%	22%	13
Bulgaria	1.9%	0.0%	No	0.7%	8%	Swing	-3.9%		18%	7
Croatia	1.2%	0.0%	No		6%	Swing	-0.1%		19%	4
Cyprus	7.1%	23.0%	No	4.0%	77%	Swing	-0.2%	-2.8%	38%	23
Czech Rep.	3.9%	0.0%	Swing	0.4%	3%	Swing	-2.4%		22%	14
Denmark	3.2%	1.9%	Yes	0.4%	12%	Yes	0.5%	-1.2%	18%	15
Estonia	1.5%	0.0%	Swing		1%	Swing	-4.3%	-0.6%	7%	9
Finland	1.8%	0.8%	Swing		16%	Swing	0.3%	-3.2%	17%	11
France	2.0%	4.3%	No	0.2%	25%	No	0.4%	-2.8%	23%	9
Germany	2.8%	2.4%	Swing	0.2%	19%	Swing	0.5%	0.0%	20%	13
Greece	1.7%	0.3%	No	0.4%	24%	Swing	-2.9%	-6.7%	44%	16
Hungary	3.7%	0.4%	No	0.7%	4%	Swing	-5.3%	0.0%	18%	9
Ireland	11.8%	7.5%	Yes	7.1%	174%	Swing	-0.2%	-1.4%	16%	25
Italy	1.4%	0.6%	No	0.2%	10%	No	0.2%	-4.2%	28%	5
Latvia	3.6%	0.0%	Swing	4.4%	3%	Swing	-3.4%		11%	13
Lithuania	3.4%	0.0%	Swing	5.3%	1%	Swing	-4.5%		6%	13
Luxembourg	4.1%	142.1%	No		365%	Swing	0.2%	-0.1%	16%	12
Malta	7.8%	11.8%	No		67%	Swing	-1.3%	0.3%	8%	16
Netherlands	7.6%	27.6%	Yes	0.4%	63%	Yes	0.4%	-4.0%	26%	28
Poland	2.8%	0.1%	No	1.9%	4%	No	-3.3%		6%	8
Portugal	2.6%	0.3%	No	1.3%	21%	Swing	-2.7%	-3.1%	25%	17
Romania	1.5%	0.0%	No	0.6%	2%	No	-3.0%		9%	5
Slovakia	3.2%	0.0%	Swing	1.0%	2%	Swing	-1.8%	-1.7%	19%	12
Slovenia	1.2%	0.0%	No		2%	Swing	-1.2%	-0.9%	17%	4
Spain	2.5%	6.0%	No	0.2%	8%	Swing	-0.3%	-3.5%	21%	12
Sweden	2.5%	2.2%	Yes	0.4%	14%	Yes	0.5%	-0.5%	22%	16



## **Several of the Charts and Some of the Analysis in Today's WeldonLIVE Comes to You Courtesy of "Global Counsel" Advisors**



### **About Global Counsel**

Global Counsel helps businesses across a wide range of sectors anticipate the ways in which politics, regulation and public policymaking create both risk and opportunity. We also help businesses to develop and implement strategies to meet these challenges.

The firm was founded in 2010. Our senior team are former public policymakers who have worked at the highest level in the British government and European Union institutions. They draw on decades of experience and are backed by a global network.

The author of this report is Dr Gregor Irwin, Chief Economist of Global Counsel. Dr Irwin was the Chief Economist of the Foreign and Commonwealth Office from 2008 to 2013 and a Director of the FCO from 2011 to 2013. He has previously held senior positions at the Bank of England and HM Treasury.

# FixedINCOME

German Dollar	0.47 - 0.17	0.65	
Dollar	0.45 - 0.30	0.51 - 0.36	0.5
Japanese Yen	0.18 - 0.03	0.21 - 0.06	0.34
Singapore \$	0.20 - 0.05	0.55 - 0.15	0.49

Short term rates are call for the US Dollar.

8.9  
79.2  
85.2  
97.77

## INTEREST RATES - SWAPS

	Euro-€		£ Stig.		SwFr	
May 28	Bid	Ask	Bid	Ask	Bid	Ask
1 year	1.10	1.15	0.92	0.95	0.28	0.34
2 year	1.30	1.35	1.47	1.51	0.51	0.59
3 year	1.57	1.62	1.88	1.92	0.79	0.87
4 year	1.84	1.89	2.25	2.30	1.04	1.12
5 year	2.10	2.15	2.56	2.61	1.28	1.34
6 year	2.33	2.38	2.83	2.88		
7 year	2.57	2.62	3.05	3.10		
8 year			3.24	3.29		

# Short Sterling Futures for End-2016 ... ... 'Pricing' Odds of a Rate Cut From the Bank of England



## UK 2-Year Gilt Yield ... Breakdown, Below 0.25%



# UK 10-Year Gilt Yield ... New Record Low, Flirting With One-Percent





# UK-German 10-Year Bond Yield Spread ... Breakdown, Narrowing UK Yield Premium

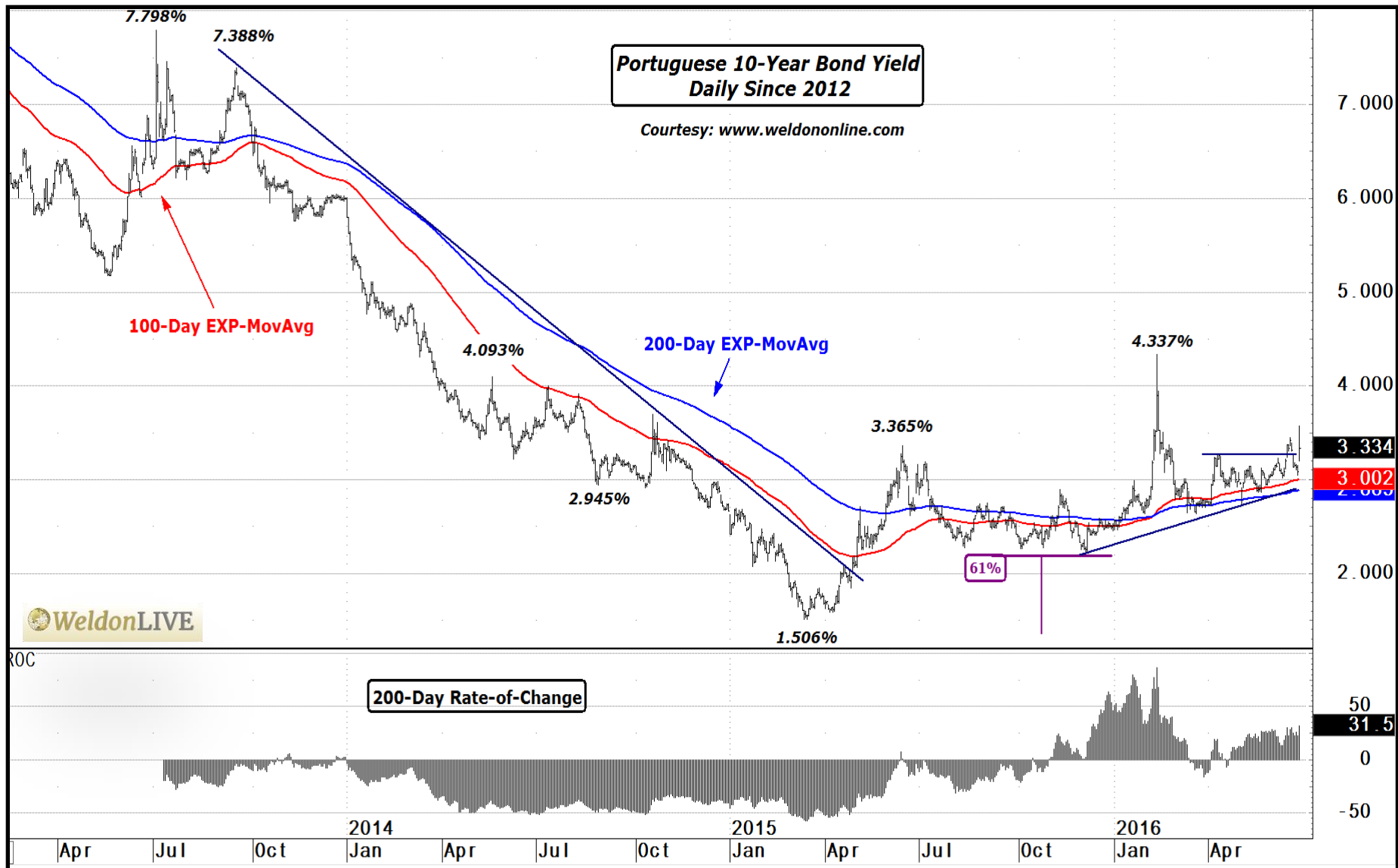




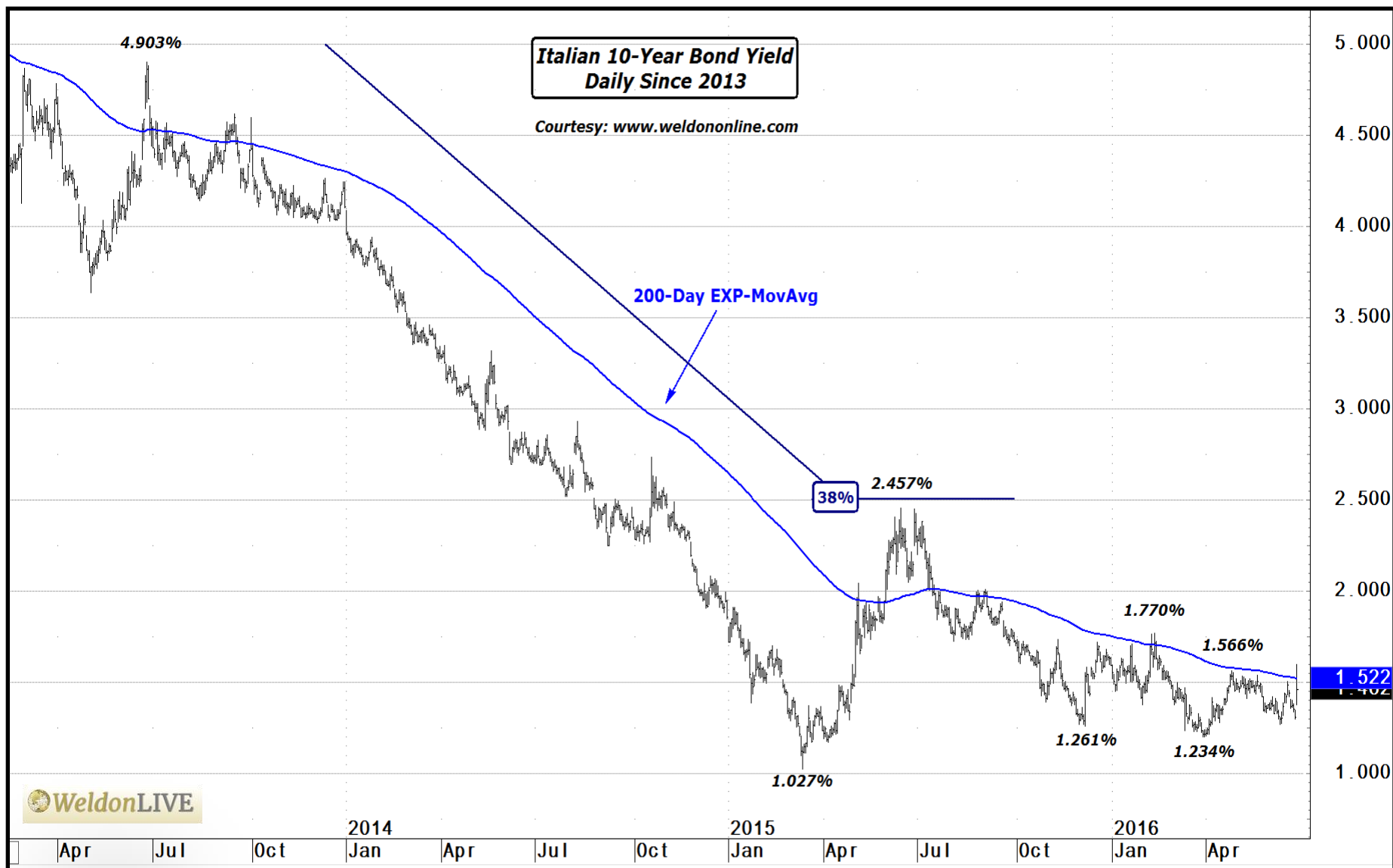
**Risk Off ... Spanish 10-Year BONO Yield ... Breaking Out ??**  
**(Re-Do of December's Failed Elections to Be Held on Sunday,**  
**Leftist UP Party (Separatists) Have Garnered Enough of the Vote to Have**  
**Blocked the Ruling Popular Party From Forming a Government,**  
**Support May Be Bolstered by Brexit Vote**



# Portugal ... at Risk, 10-Year Bond Yield Breaking Out



# Italy ... at Risk, 10-Year BTP Yield Breaking Out



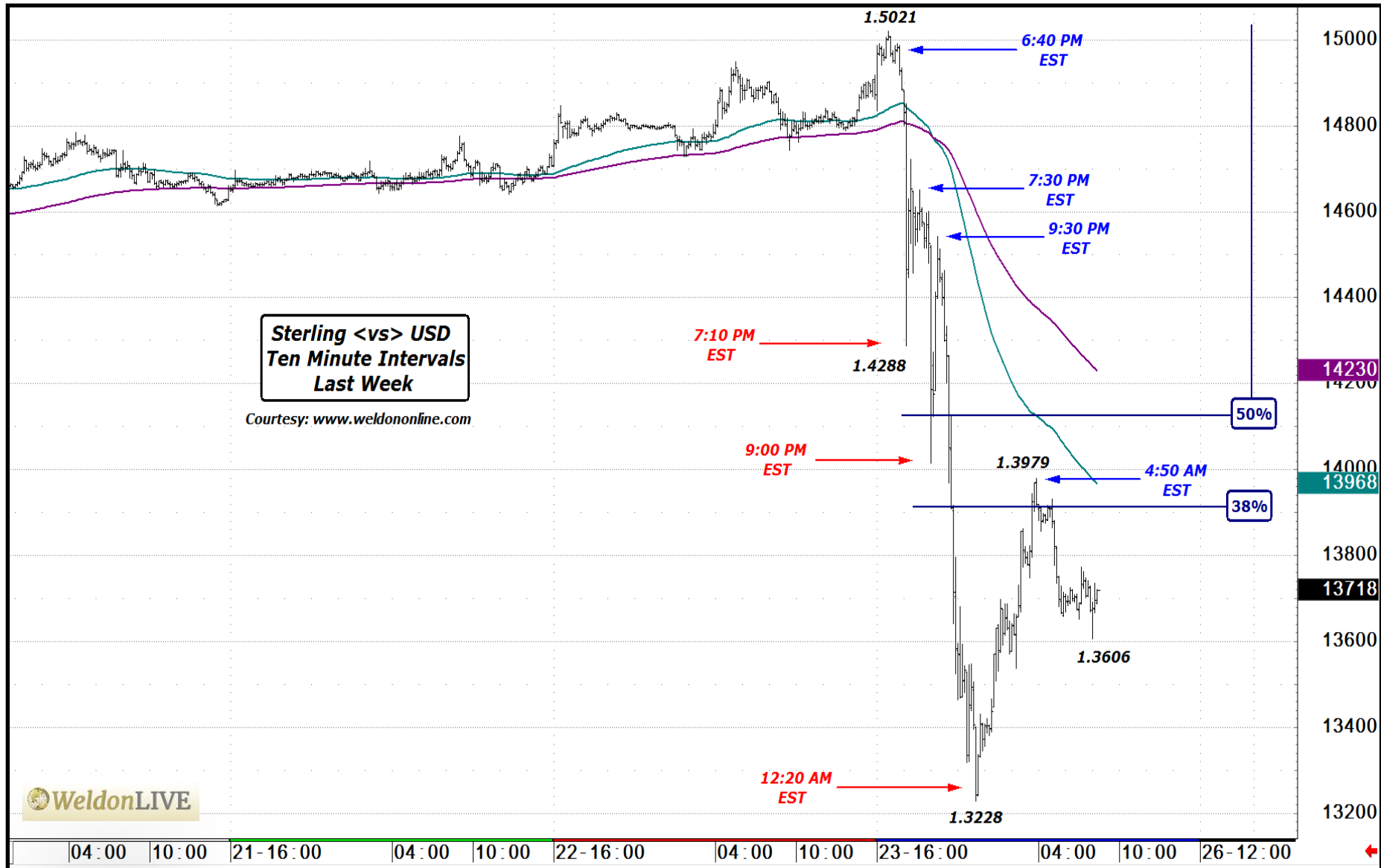


*Foreign*EXCHANGE

# British Pound Gets MAULED ... ... New Multi-Decade Low



# Sterling's Demise ... By the Clock

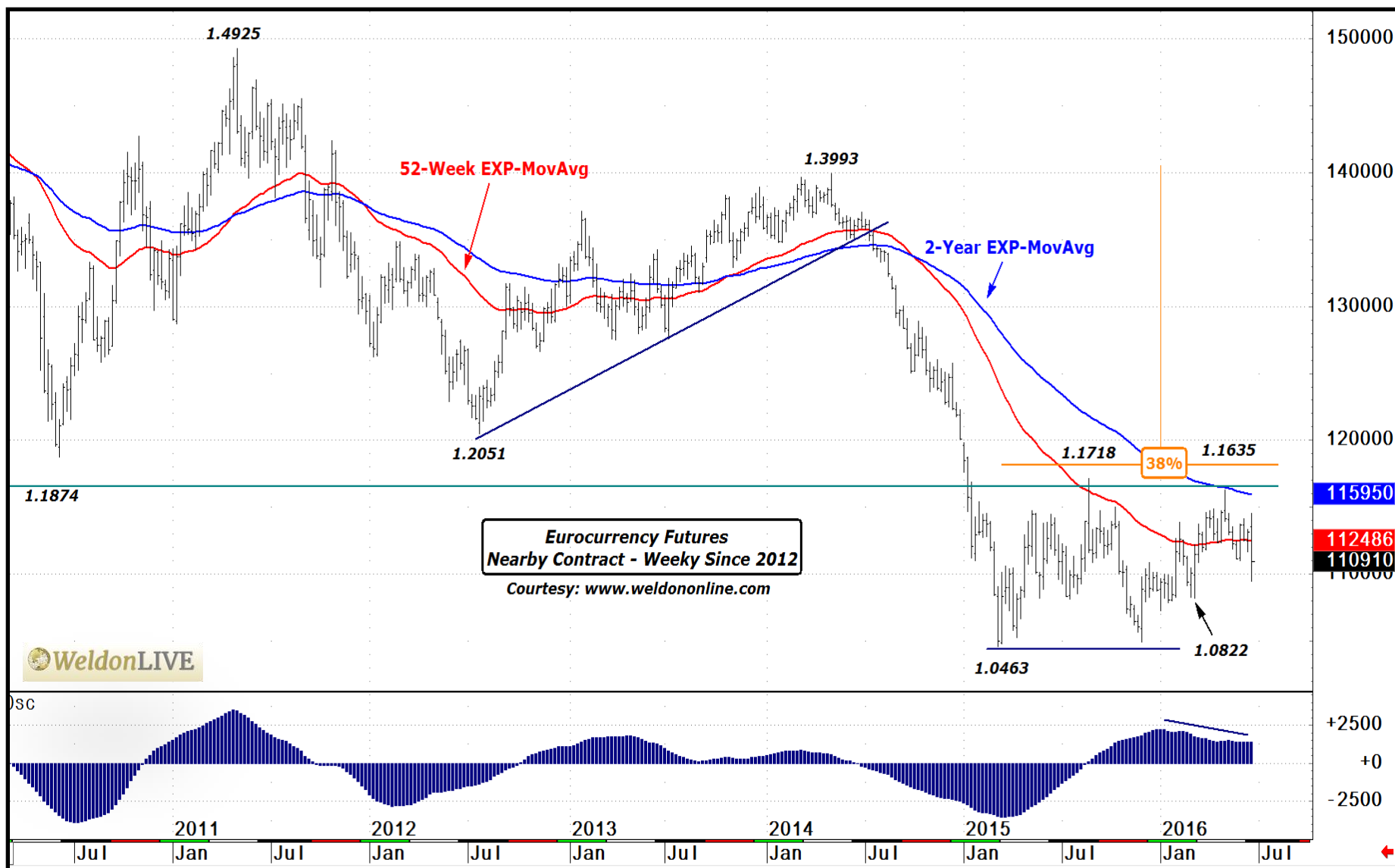




# Sterling-Euro ... Dumps, Then Recovers, Brexit is Likely WORSE for the EU, Than It Is For the UK



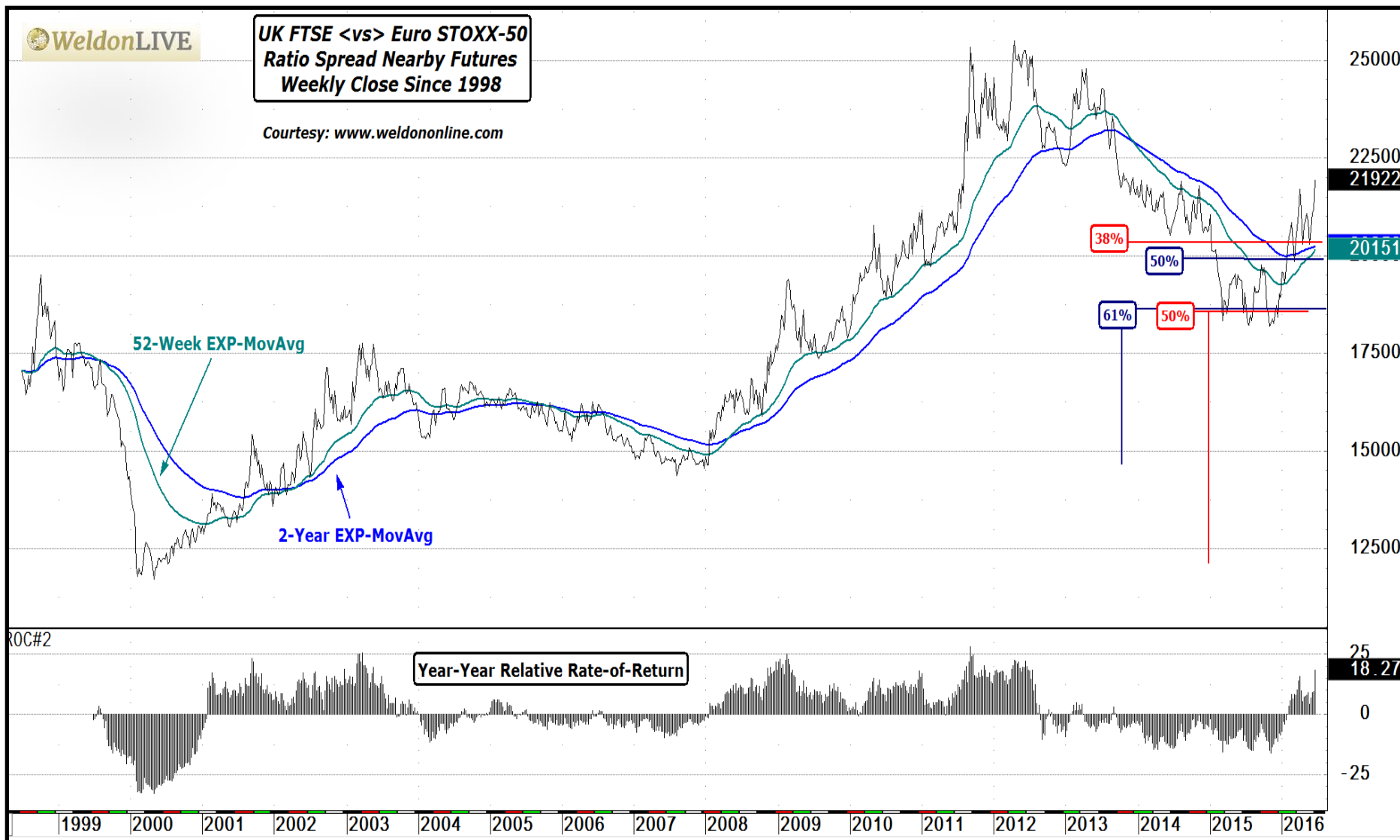
## Massive Outside-Downside Reversal in the Eurocurrency Versus the USD



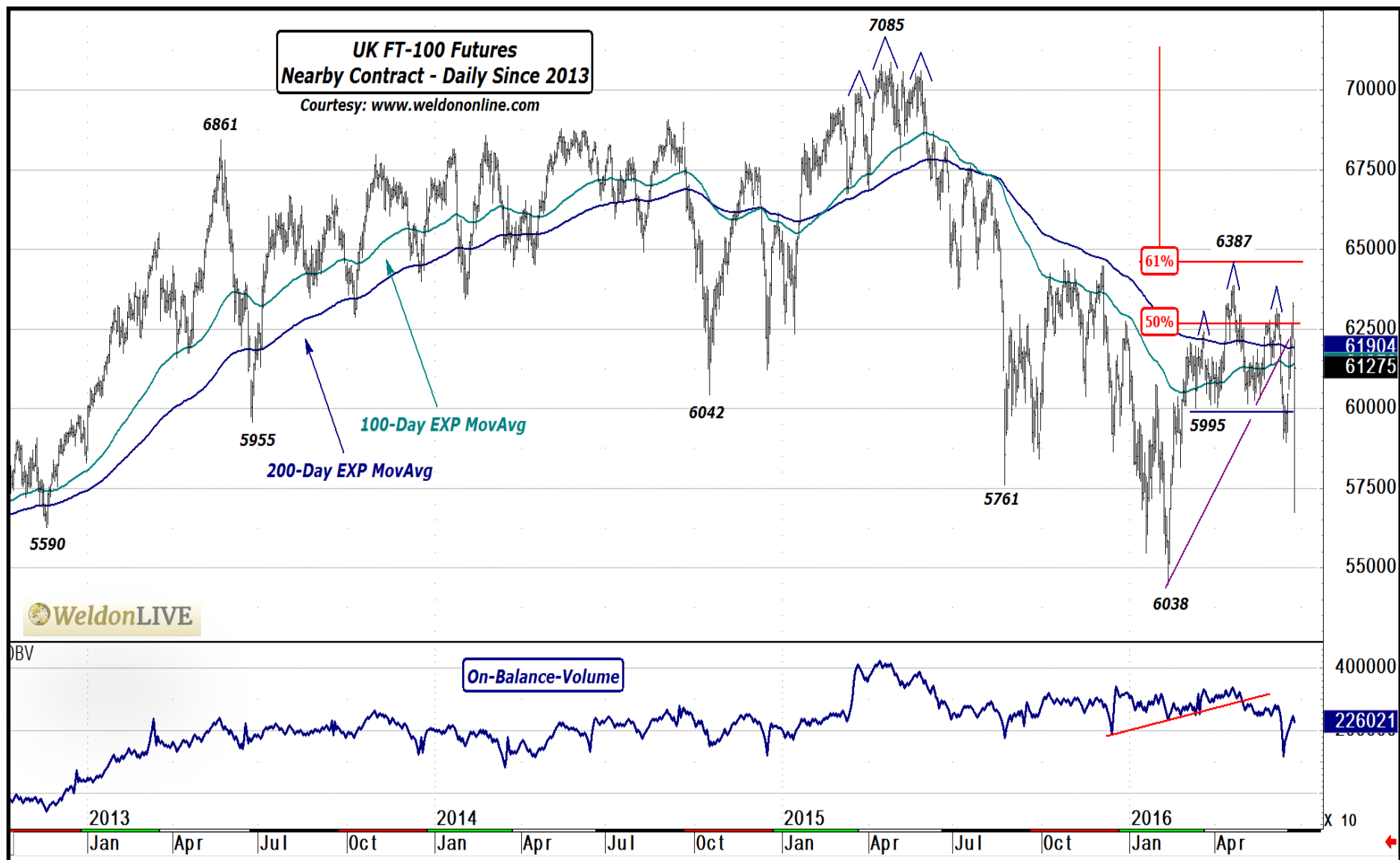
# *Stock*INDEXES



# As We Have Stated ALL WEEK ... the FTSE Stands to Benefit Relative to the Euro STOXX-50 Index, and the UK Market is Breaking Out Versus the EU



# FTSE Has Already Recouped the Bulk of Brexit Losses

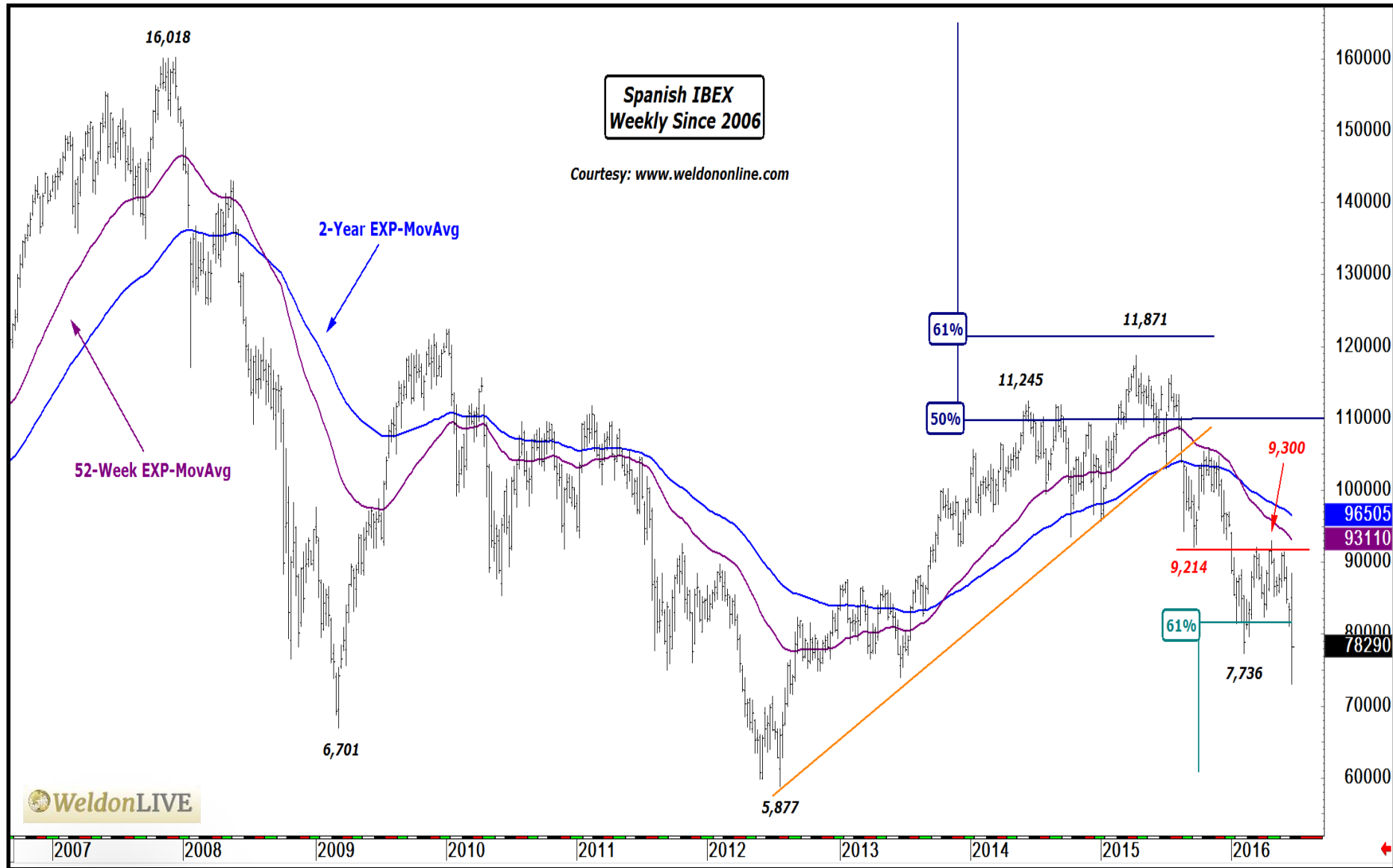




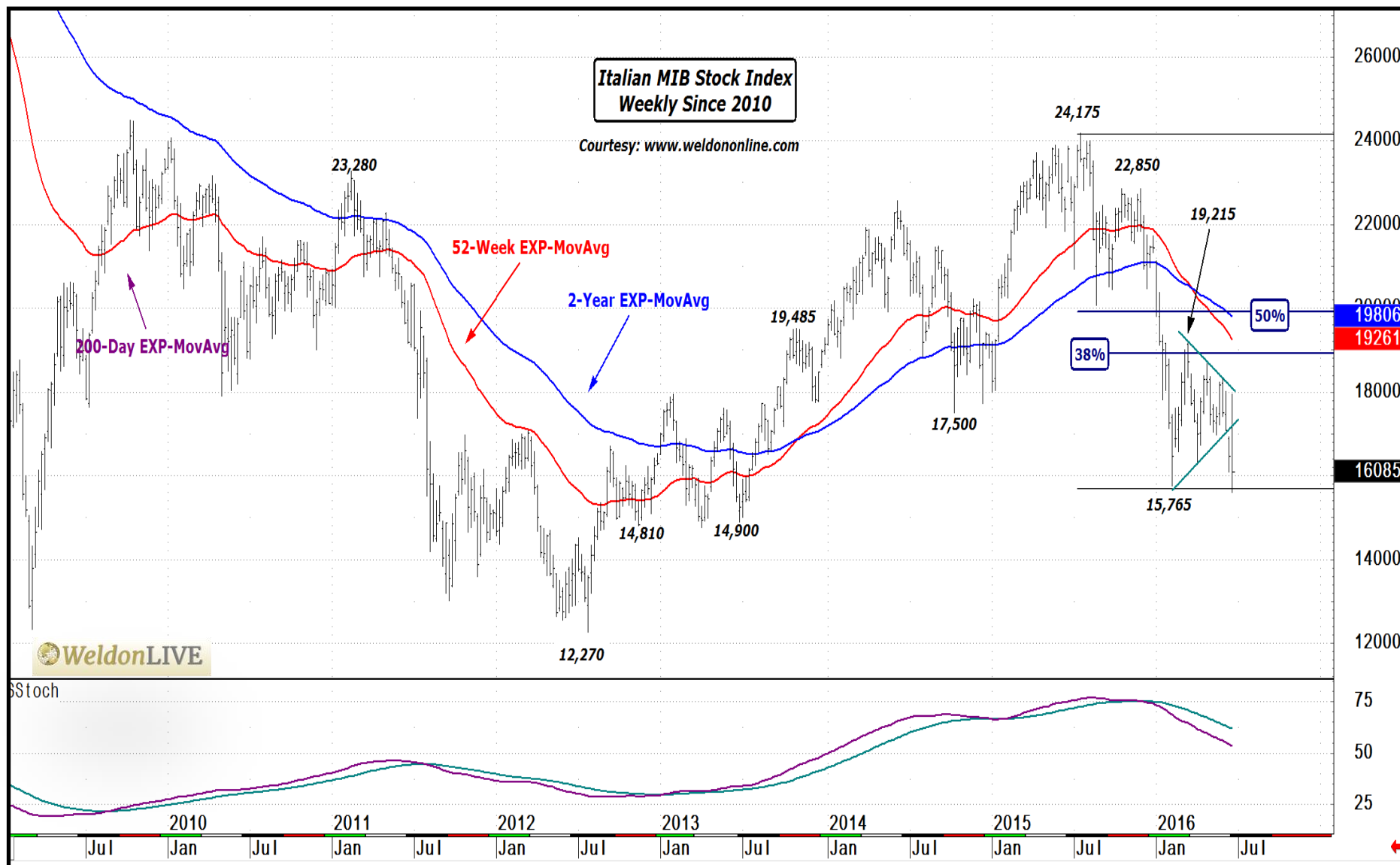
# European Bank Stock Index (Euro STOXX) ... Breakdown, New Bear Market Low



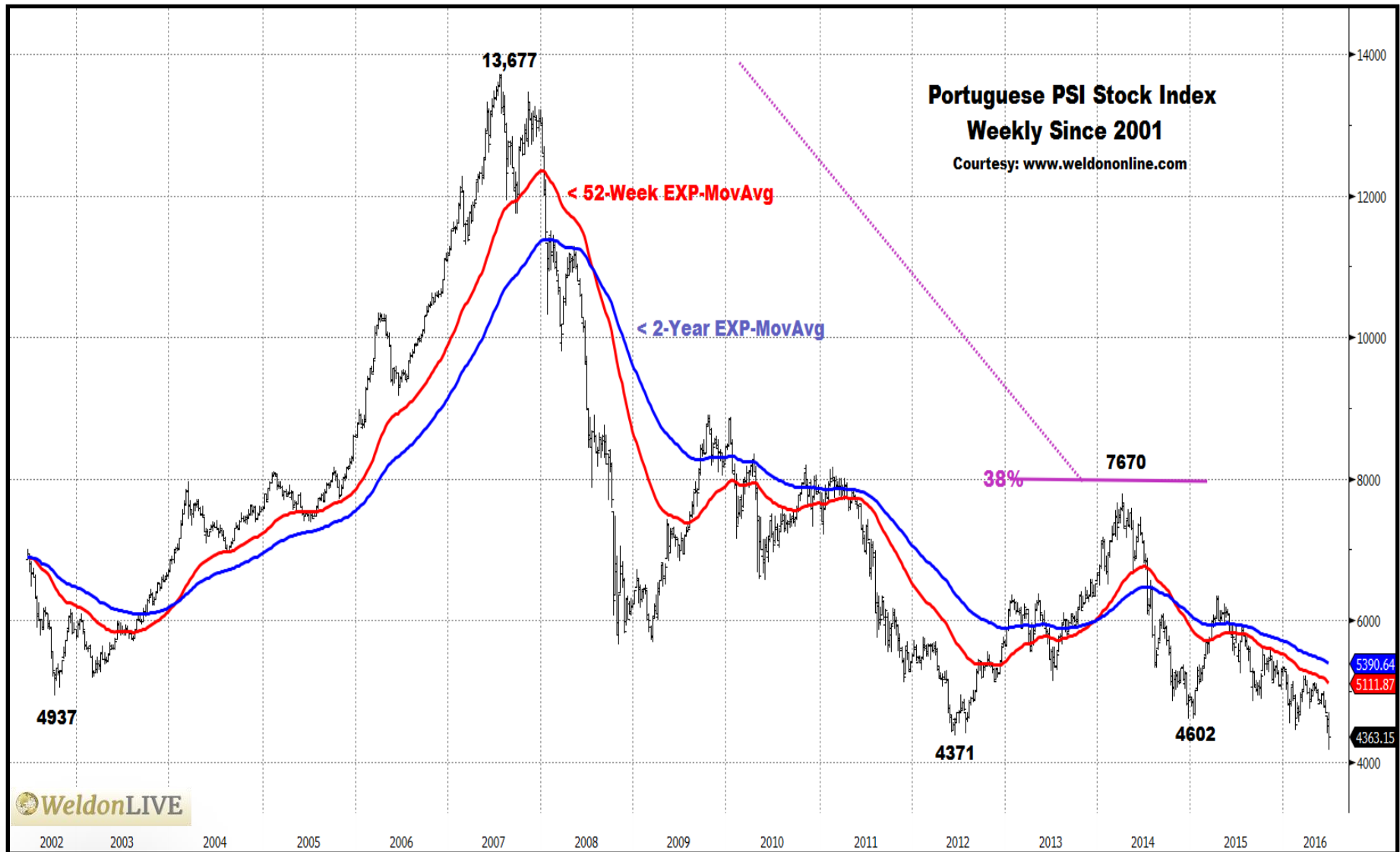
# Spanish IBEX ... a Brexit Breakdown



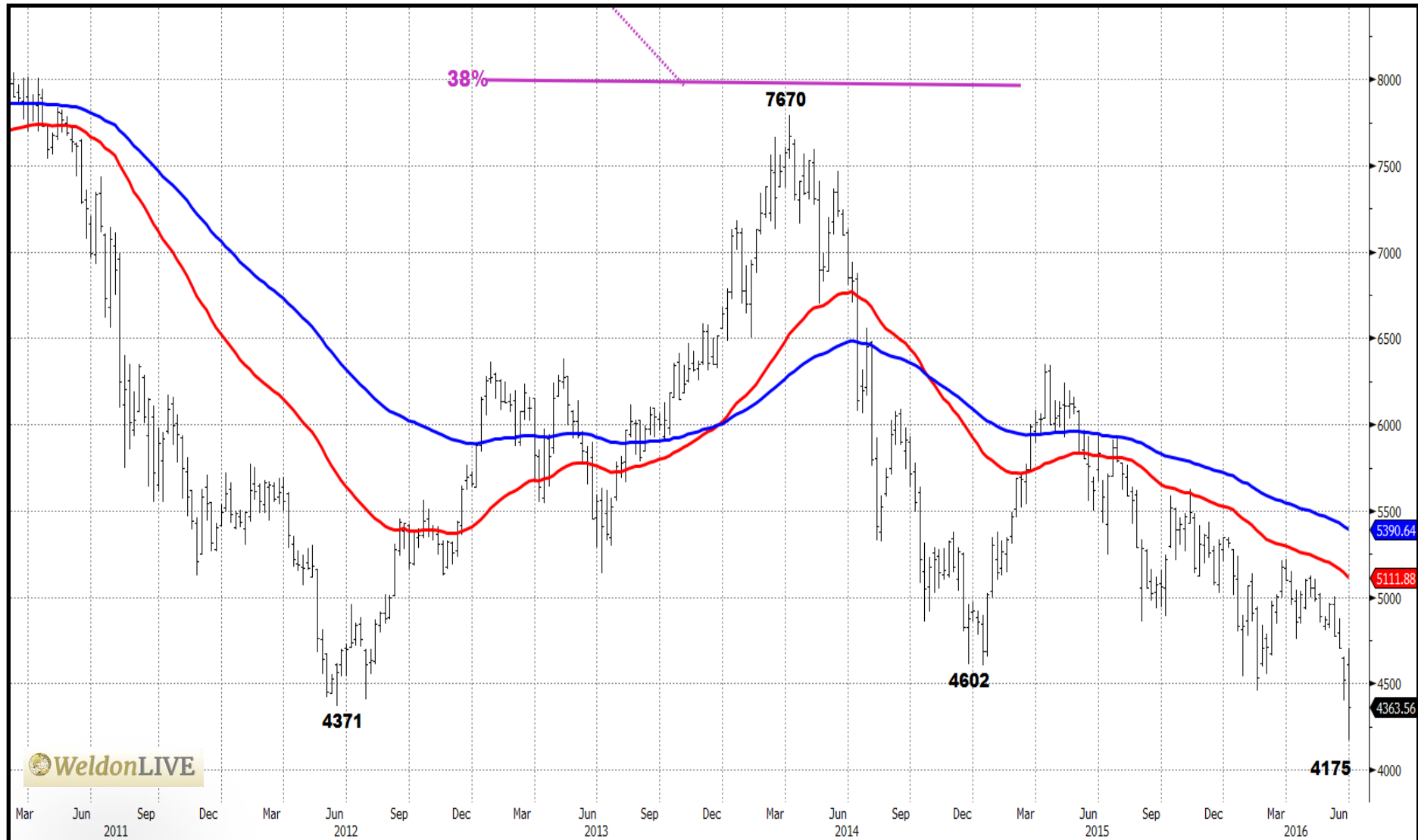
# Italian MIB ... Near Bear Market Weekly Closing Low



# Portugal ... Litmus Test ... New Multi-Decade Low on Brexit



## Close-Up: Portuguese PSI ... Outside-Downside Day, New Multi-Decade Low



# *Metals* MARKETS



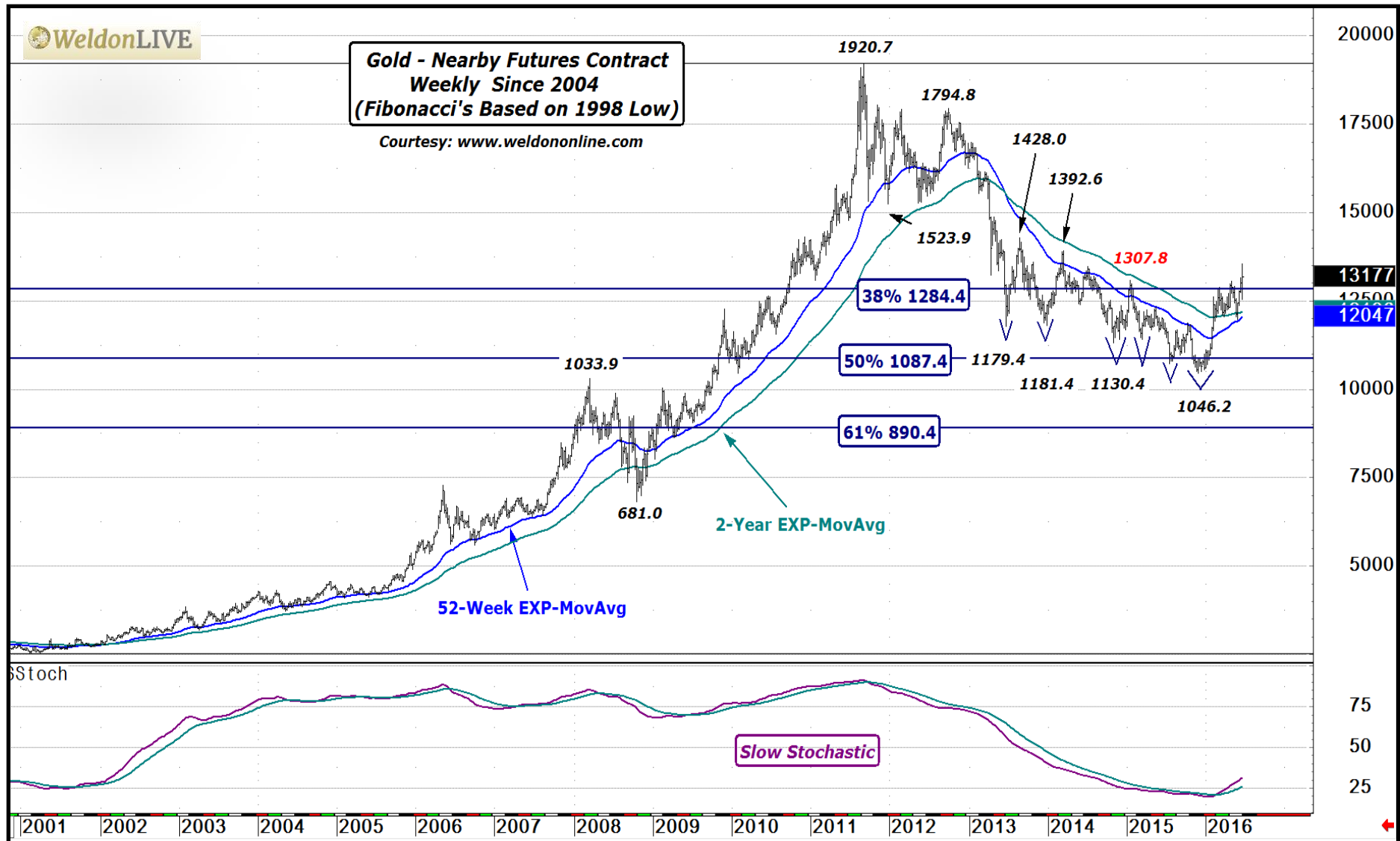


# Gold ... Solidifying Thoughts of a Secular Upside Breakout and Renewed Long-Term Bull Market

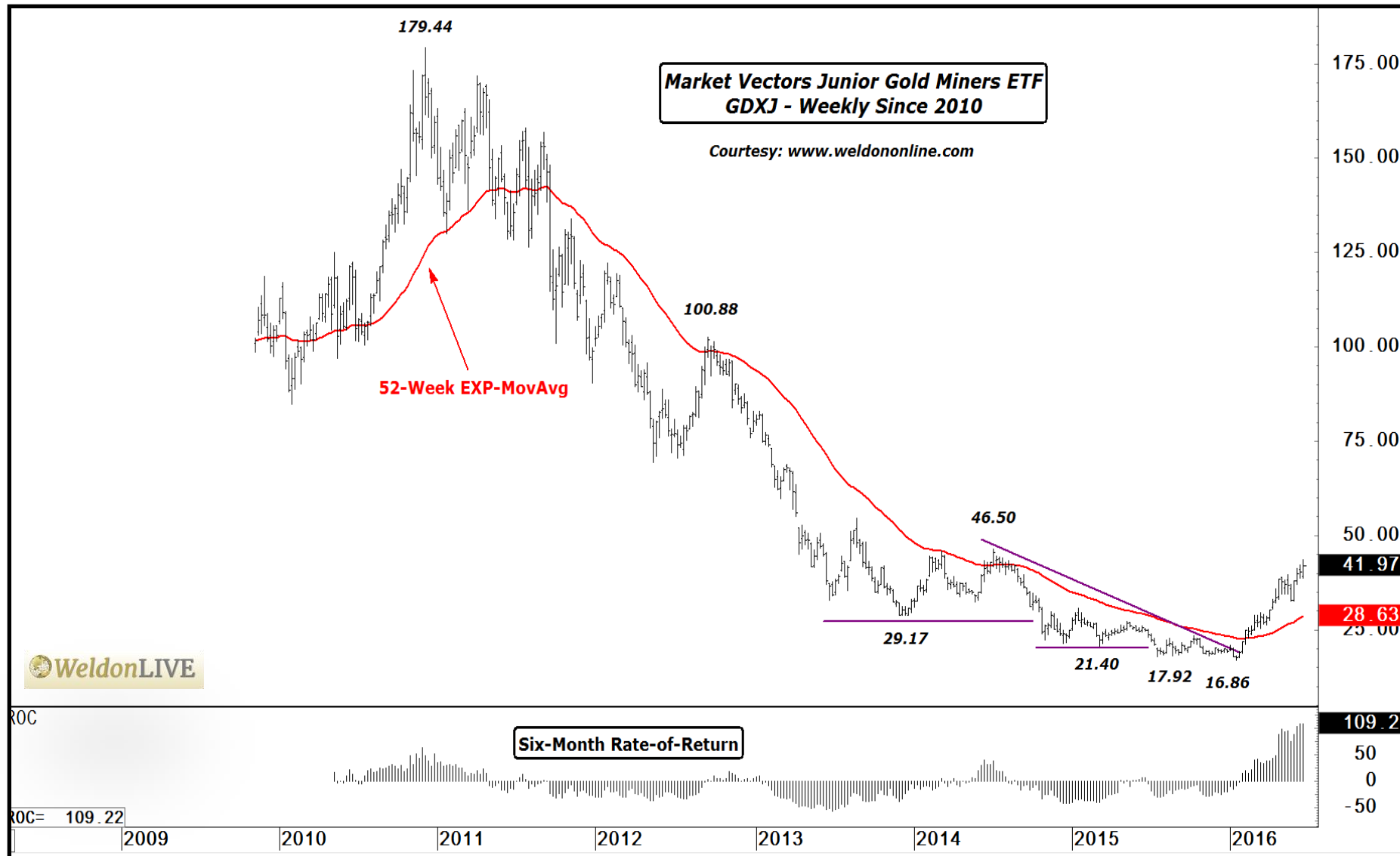
WeldonLIVE

Gold - Nearby Futures Contract  
Weekly Since 2004  
(Fibonacci's Based on 1998 Low)

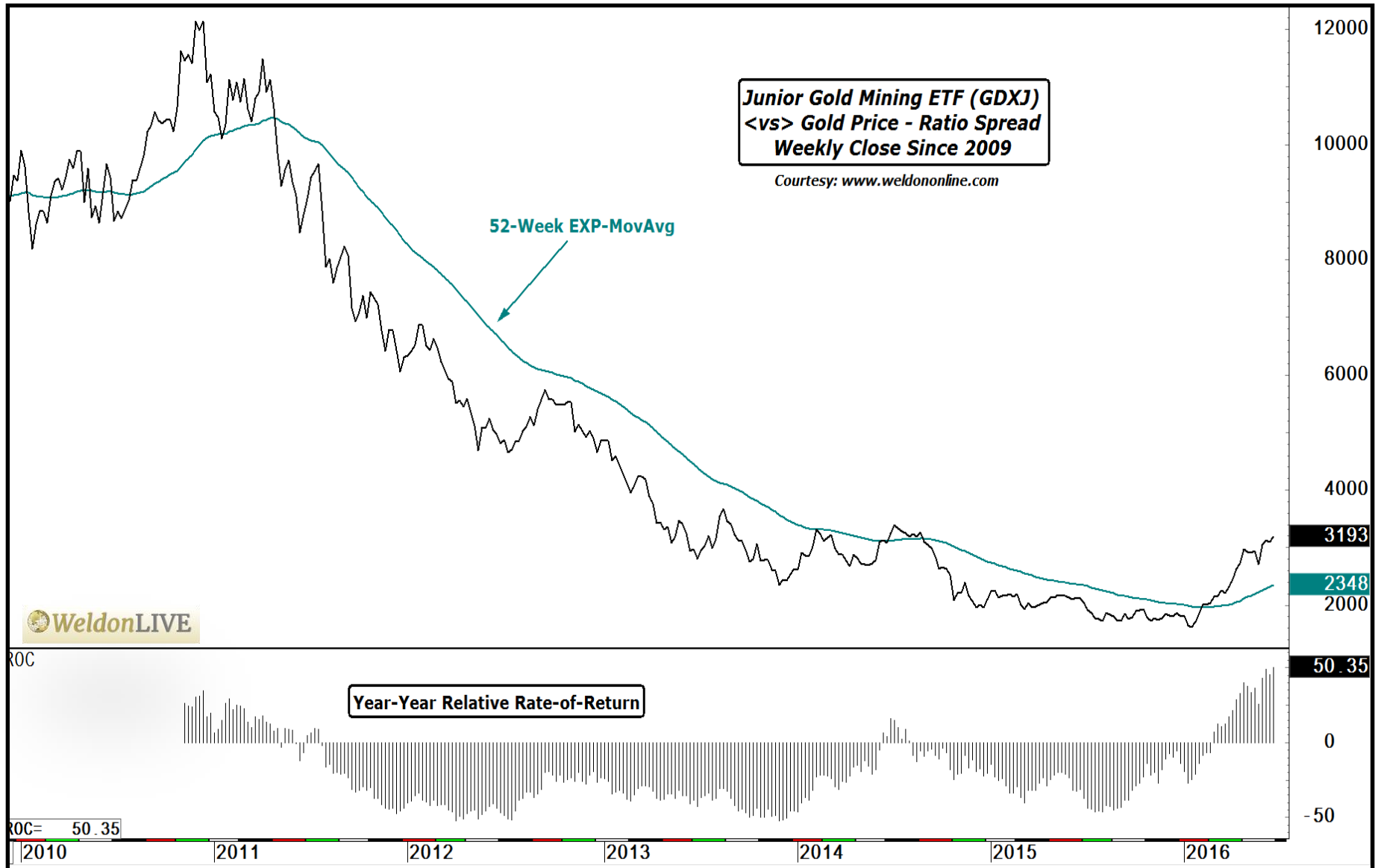
Courtesy: [www.weldononline.com](http://www.weldononline.com)



# **Junior Gold Mining ETF ... New High, Now Up +119.9% Since Our January 4<sup>th</sup> Outlook-2016, “Gold & Silver: Time to Rise and Shine**



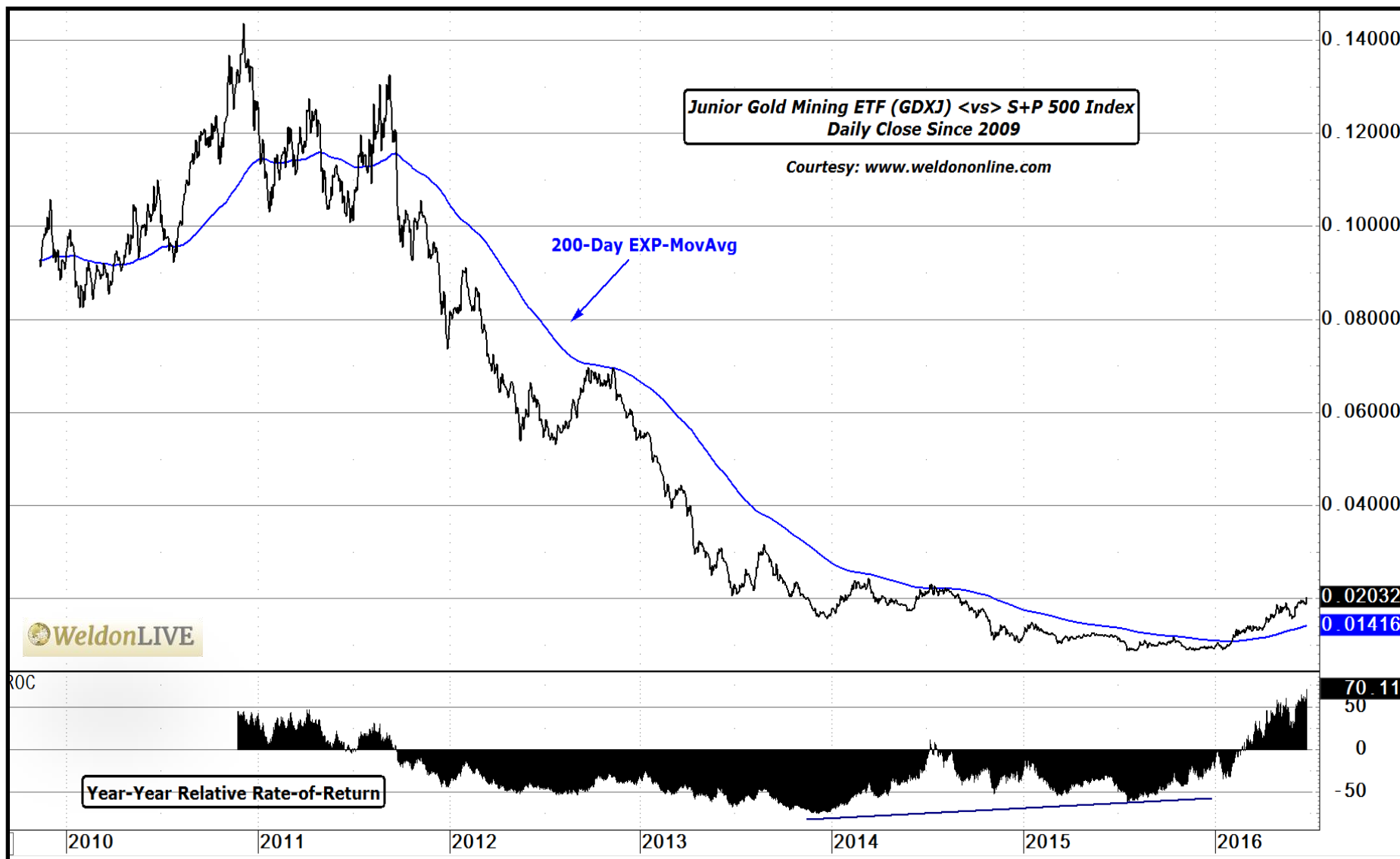
# Junior Gold Mining ETF ... Outperforming Bullion, New Bull Move High



# Junior Gold Miners Surge Versus the Broader US Stock Market (S+P 500) ...



# ... as Part of the Bigger-Picture, Secular Upside Breakout in the Precious Metals Sector, Relative to the US Stock Market, and a Reversal of the Five-Year Downtrend

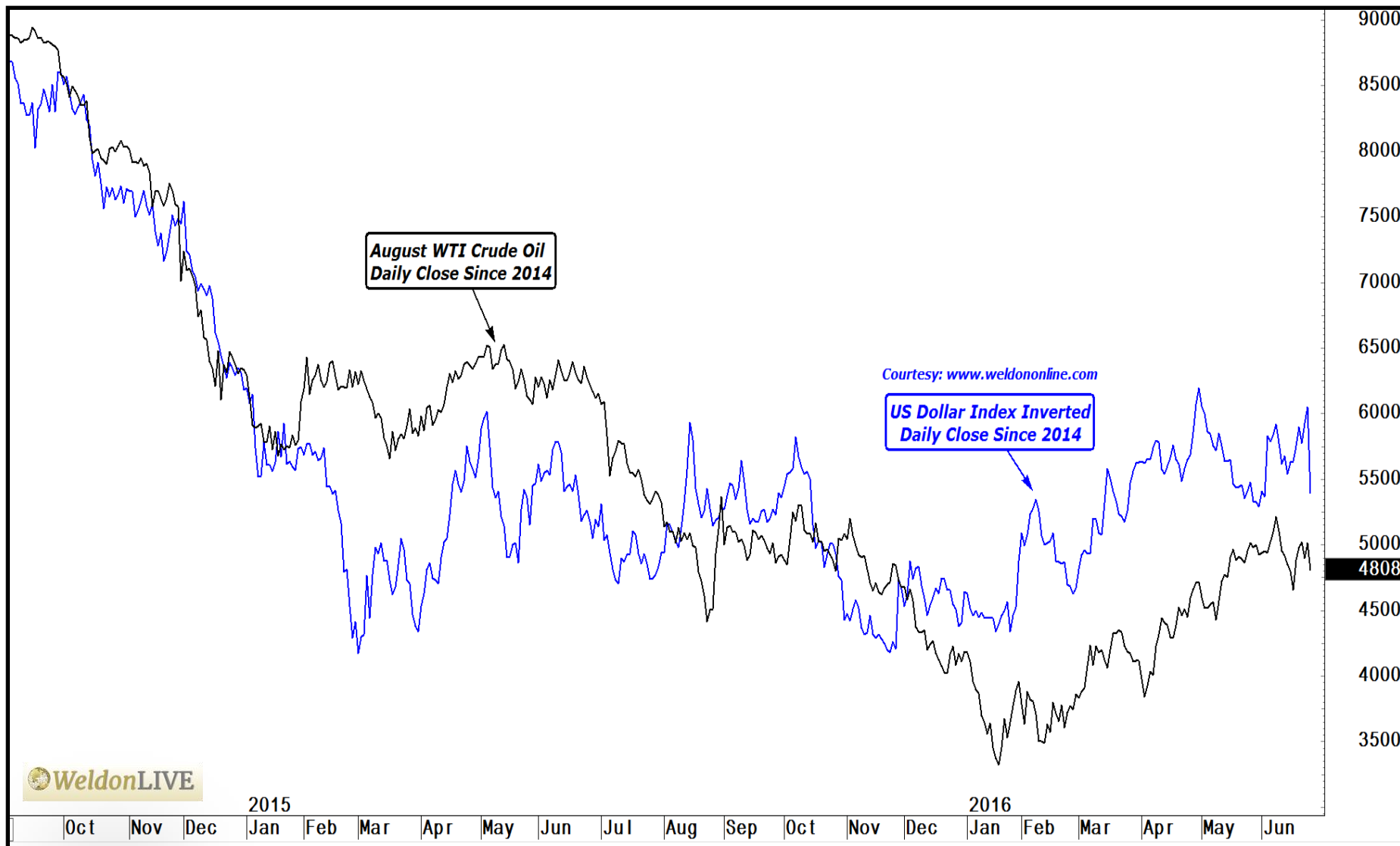


# *Energy*MARKETS

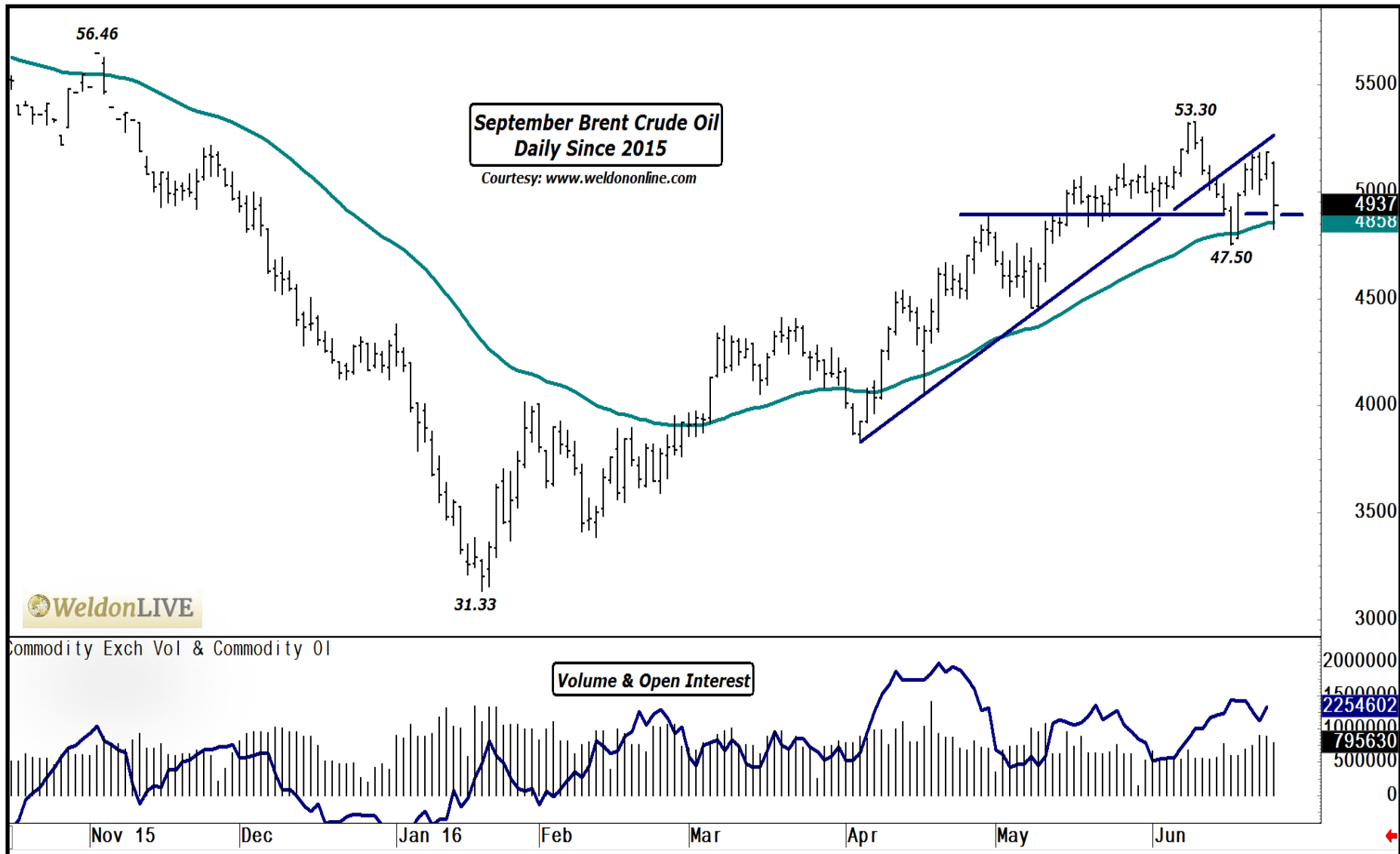




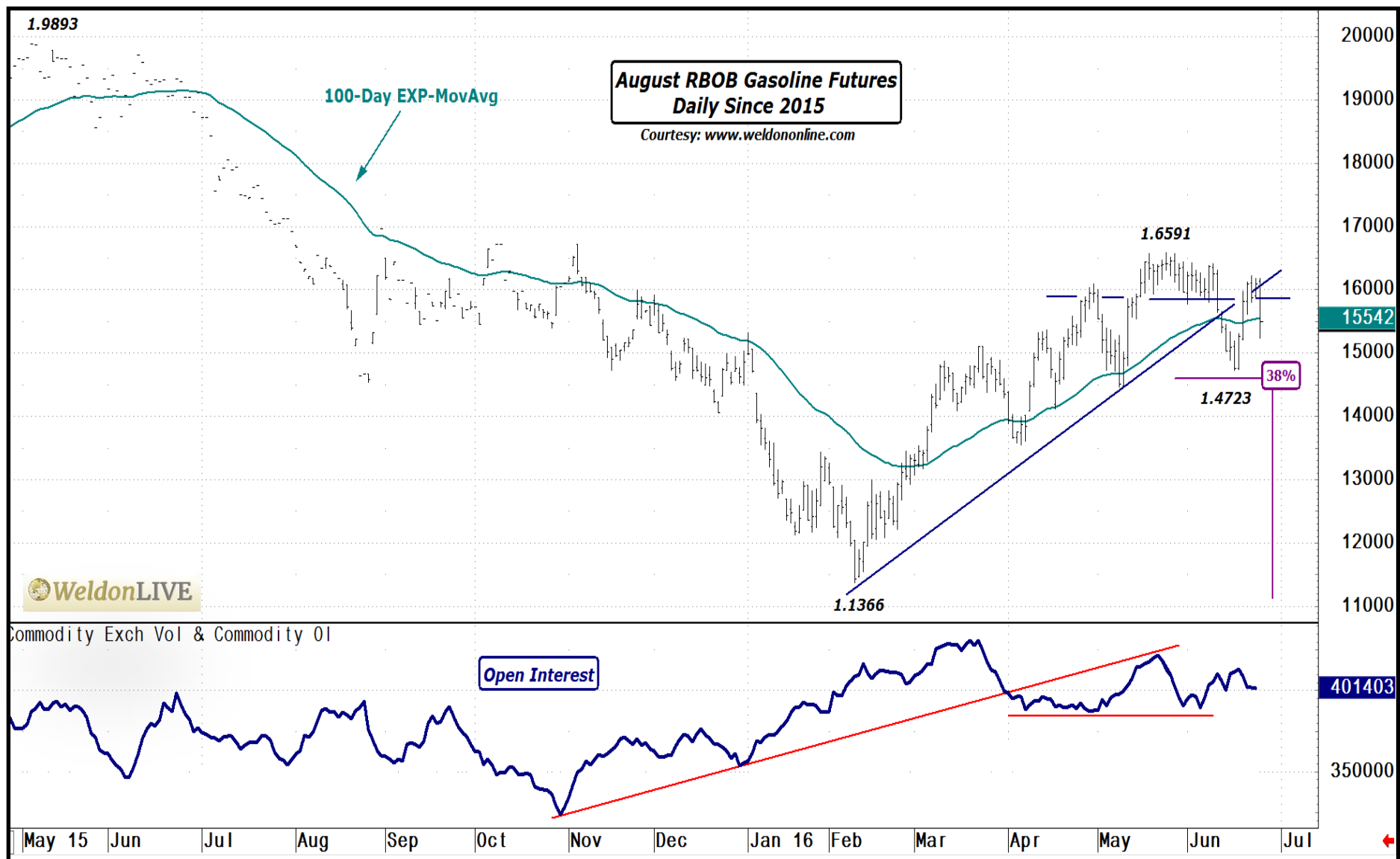
## Dollar Strength and Equity Market Weakness is a Double-Edged Sword Slicing Away at the Price of Crude Oil



# September WTI Crude Oil Futures ... on the Verge of a Deeper Corrective Breakdown



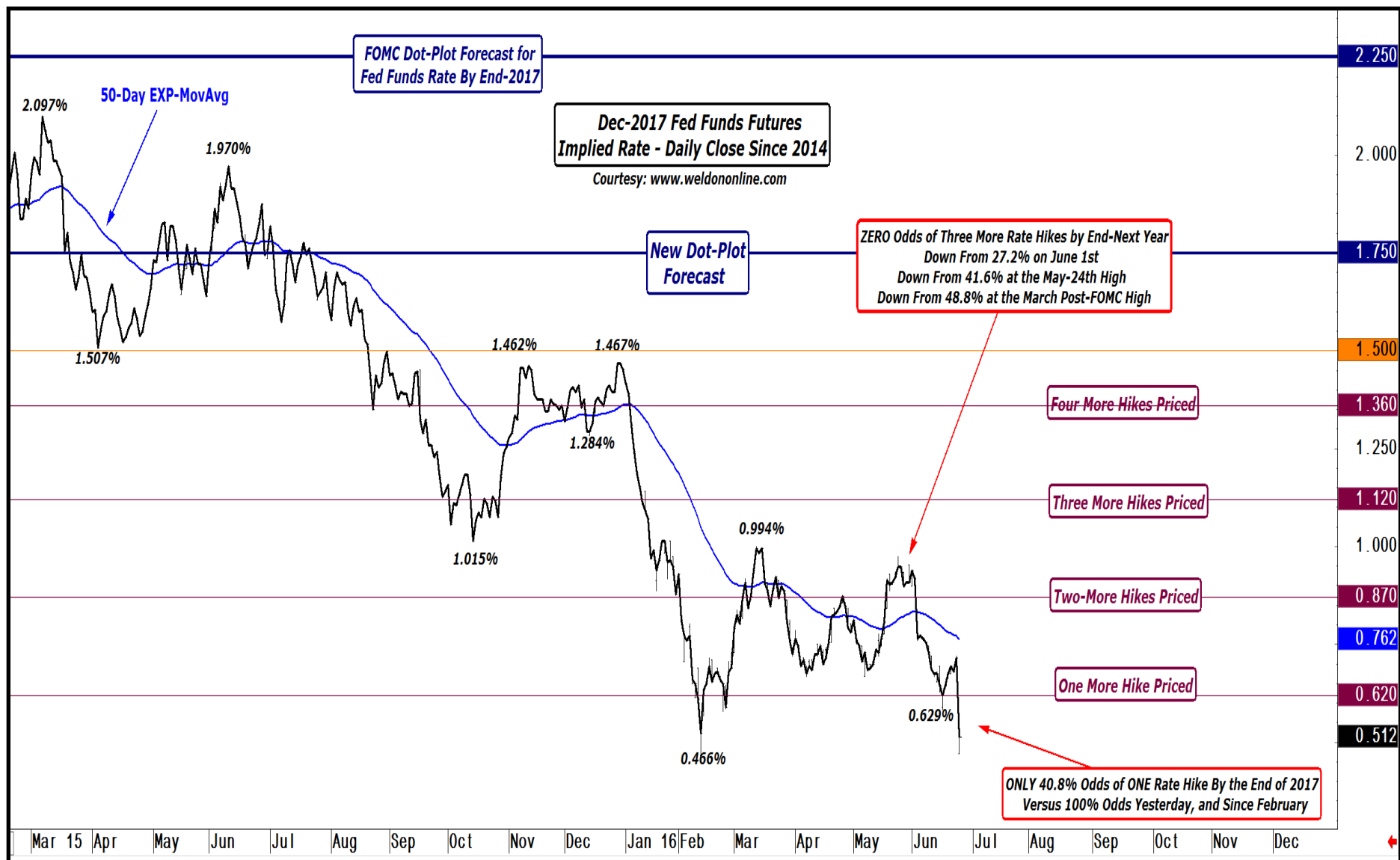
# Gasoline ... We Still 'See' Potential down to the \$1.38-\$1.42 Zone



# *Agricultural*COMMODITIES



# Brexit Seriously Diminishes the Market's Implied Odds of Even ONE More Hike in the Fed Funds Rate, by the End Of NEXT-YEAR !!!



## Close-Up: End-2017 Fed Funds Futures ... ... Wipe-Out !!!





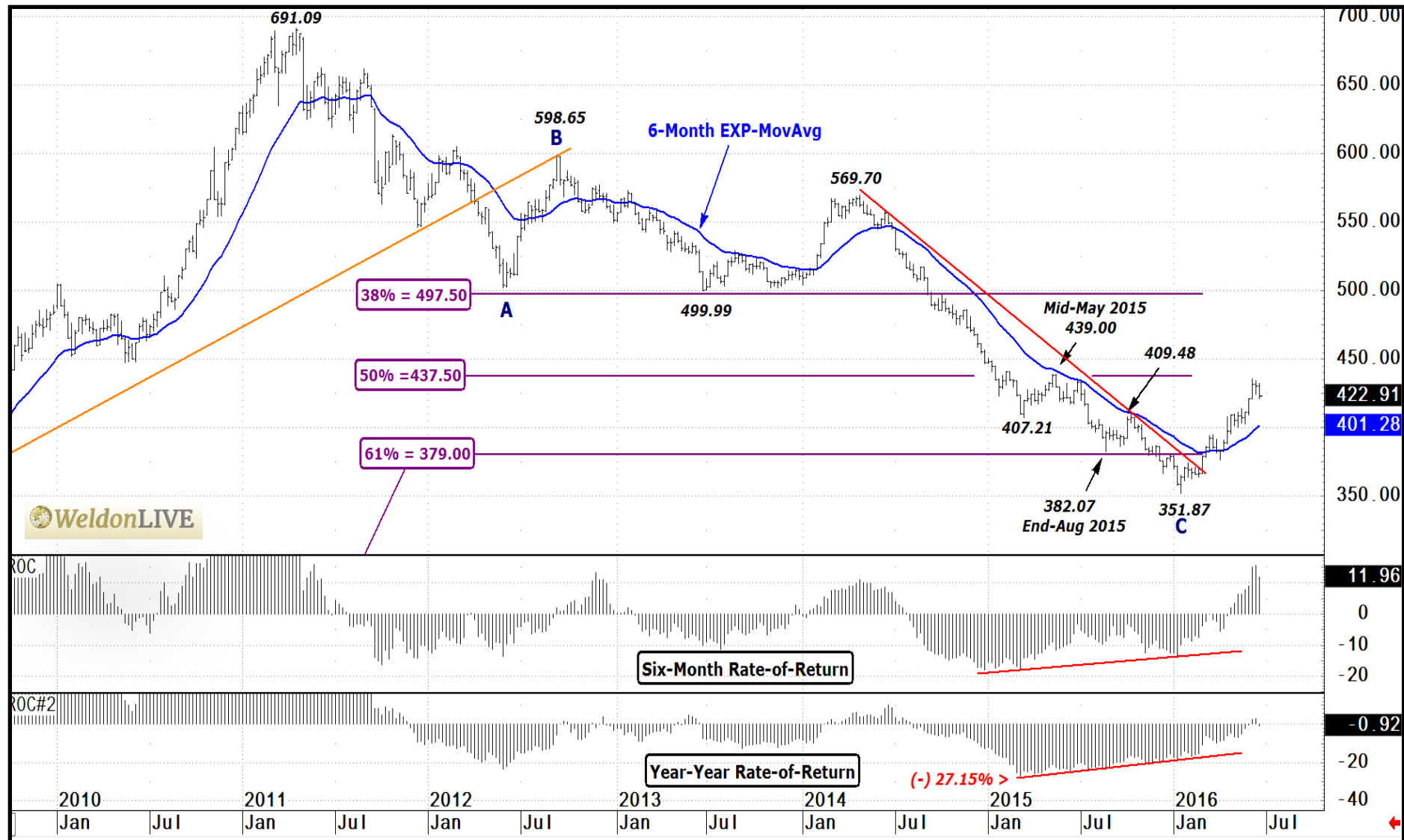
**But, the US Dollar Index Rally is Running COUNTER to the 'Positive Correlation' With Expected Changes in Fed Funds ... Diminished Odds of Fed Rate Hikes Would Have 'Normally' Been Dollar Negative**



# Wild, Outside-Upside Reversal Week in the USDX ... ... Which Bounces, Again, Off the Long-Term 2-Year Moving Average



# CRB Index Down ... But Diminished Odds of Fed Rate Hikes and Increased Odds of a Rate CUT by the Bank of England, is Mitigating the Damage Being Done to the Commodities Sector From the Appreciation in the US Currency



# The Rise in the CRB Has 'Outperformed' the Decline in the USD, Again, Mitigating the Damage to Commodities From Today's Rise in the Greenback

