

BREXIT: WHAT TO EXPECT NEXT?

May 2019



BREXIT ME...LATER!

	2016	2017	2018	2019			2020	2021		
	Pro-Brexit vote in June	EU exit negotiations with EU	EU exit negotiations with EU	Agreement, orderly Brexit after delay (70%)	No agreement, disorderly Brexit, WTO rules (25%)	Revoke Article 50 (5%)	Transition deal	Soft Brexit (65%)	Limited FTA (30%)	Hard Brexit (5%)
Real GDP (y/y)	1.8%	1.8%	1.4%	1.2%	-1.0%	1.8%	1.0%	1.5%	0.5%	-0.5%
Real private consumption (y/y)	3.1%	2.1%	1.7%	1.5%	-1.0%	2.1%	1.5%	1.6%	0.8%	-0.6%
Real business investment (y/y)	-0.2%	1.5%	-0.4%	-1.9%	-4.0%	2.6%	0.3%	1.4%	-4.0%	-3.0%
Real total exports (y/y)	1.0%	5.6%	0.1%	2.3%	-5.0%	2.0%	1.7%	1.7%	-2.5%	-4.0%
Real total imports (y/y)	3.3%	3.5%	0.7%	2.8%	-6.0%	3.0%	1.9%	2.2%	-3.0%	-5.0%
Inflation (CPI, y/y)	0.9%	2.7%	2.5%	2.0%	3.5%	2.0%	2.1%	2.1%	2.7%	3.0%
BoE benchmark interest rate	0.25%	0.50%	0.75%	1.00%	0.75%	1.00%	1.25%	1.50%	1.25%	1.25%
GBP/EUR (eop)	1.17	1.13	1.12	1.20 - 1.25	0.80 - 0.90	1.25 - 1.30	1.20 - 1.25	1.20 - 1.25	0.90 - 1.00	0.70 - 0.80
Business insolvencies (y/y)	0.0%	-3.0%	10.0%	9.0%	20.0%	2.0%	6.0%	1.0%	4.0%	6.0%

NB:

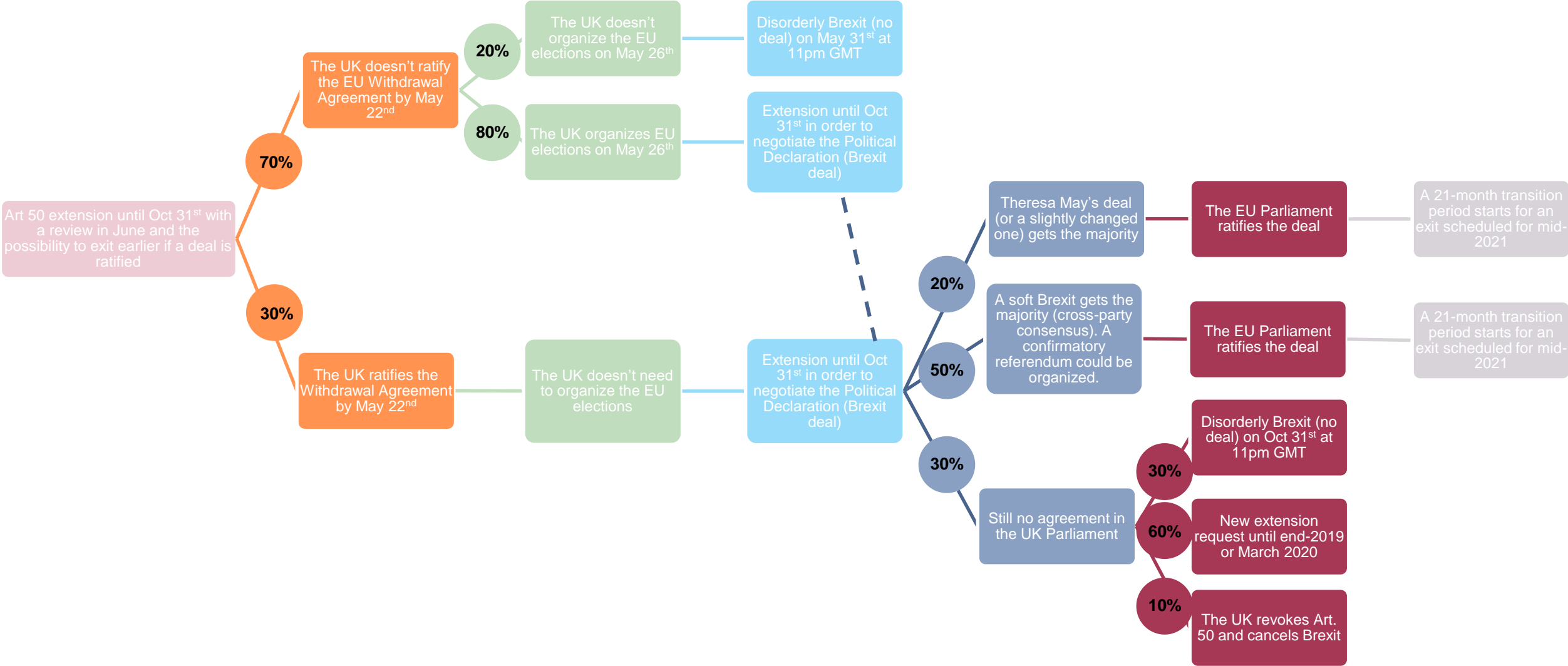
Soft Brexit = Custom Union with the EU or a Norway+ type of trade agreement

Limited FTA = CETA-type of trade agreement

Hard Brexit = WTO, Most Favored Nation principle will apply (equiv. to more than 5% weighted average on goods, 20% to 30% additional costs for trade in services)

Sources: IHS Global Insight, ONS, Eurostat, Bloomberg, Allianz Research

WHAT COULD HAPPEN BY OCT 31ST?



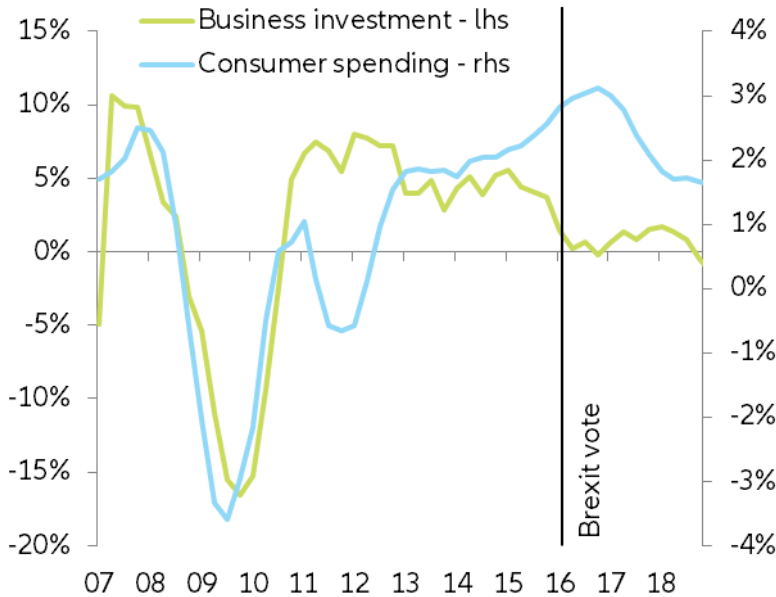
WHAT ARE THE VARIOUS BREXIT OPTIONS?

	EEA	EFTA	CUSTOM UNION	CETA	WTO
Goods	Full access to the Single Market for industrial goods excl. some agricultural and fisheries products not incl. in the 2017 agreement. Out of the EU Custom Union.	Partial access to the Single Market for industrial goods excl. agricultural and fisheries products. Out of the EU Custom Union.	Duty-free access to Single Market	Duty-free access to Single Market for 98% of goods	Goods would be subject to WTO MFN tariffs (5% on average)
Custom checks	Almost no physical custom checks	Few physical custom checks	No physical custom checks	Physical custom checks	Physical custom checks
Services	Full access to the Single Market for services (incl. passporting rights)	Partial access to the Single Market for services (equivalence for financial services)	Limited access to the Single Market for services	Limited access to the Single Market for services	Services subject to non-tariffs barriers (administrative costs up by 20 to 30%)
Migration from EU	No control	Partial control	Full control	Full control	Full control
FTAs with third countries	Possible	Possible	Not possible	Possible	Possible
ECJ jurisdiction	Yes	Partial	Very partial	No	No
EU Budget	Smaller contribution	Smaller contribution	No contribution	No contribution	No contribution

Sources: Various sources, Allianz Research

UNCERTAINTY CUT UK GDP GROWTH TO ITS WEAKEST LEVEL SINCE 2012

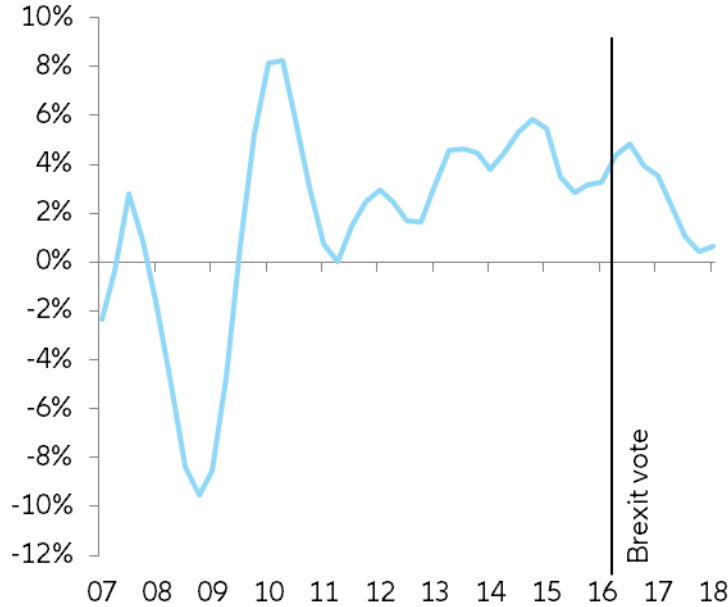
Domestic demand growth (4Q/4Q)



Sources: ONS, Euler Hermes

Investment stands almost 2% below the pre-referendum level while consumer spending growth, albeit more resilient, reached its lowest level since 2012

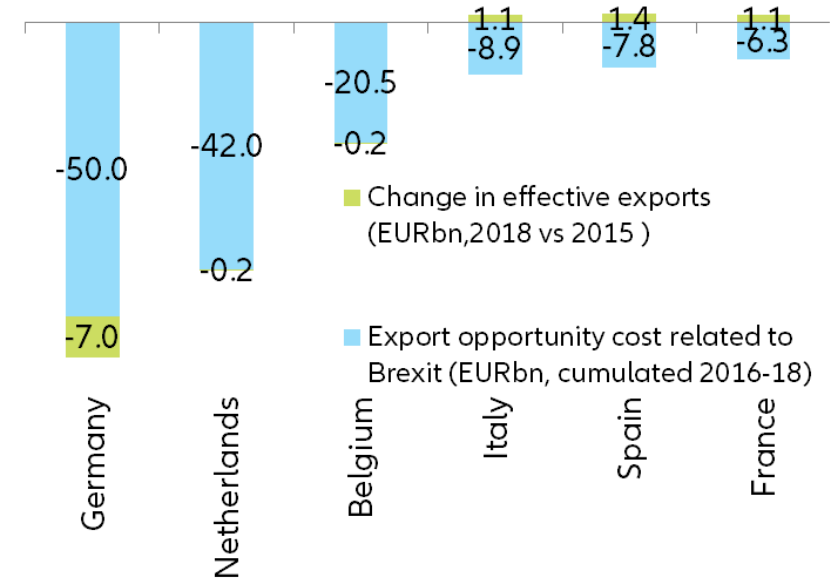
Real import growth (4Q/4Q)



Sources: ONS, Euler Hermes

Real imports growth stood at +0.7%, its lowest rate of growth since 2011...

Eurozone exports to the UK, main countries (EURbn)

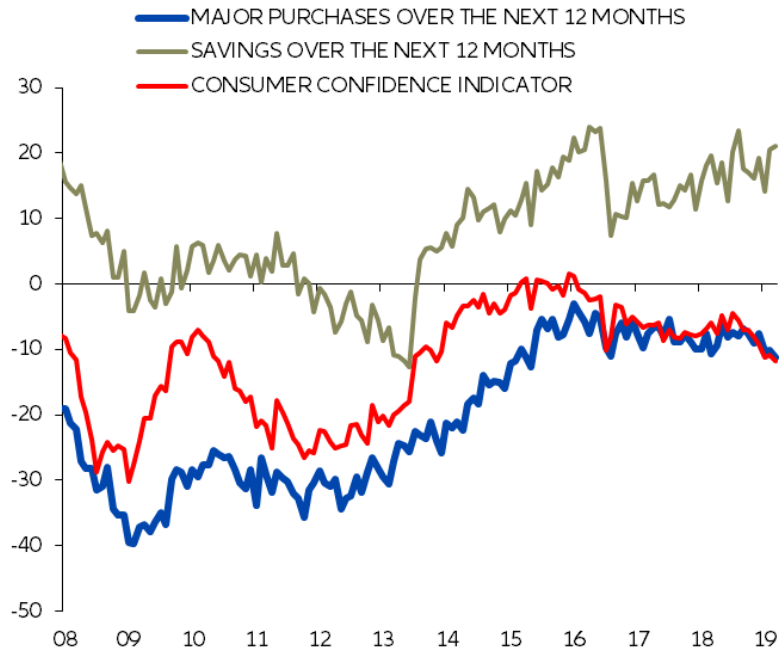


Sources: ITC, Euler Hermes

...translating into around EUR100bn of less outlets into the UK market since the Brexit vote for Eurozone companies

DOMESTIC CONFIDENCE CONTINUES TO WEAKEN

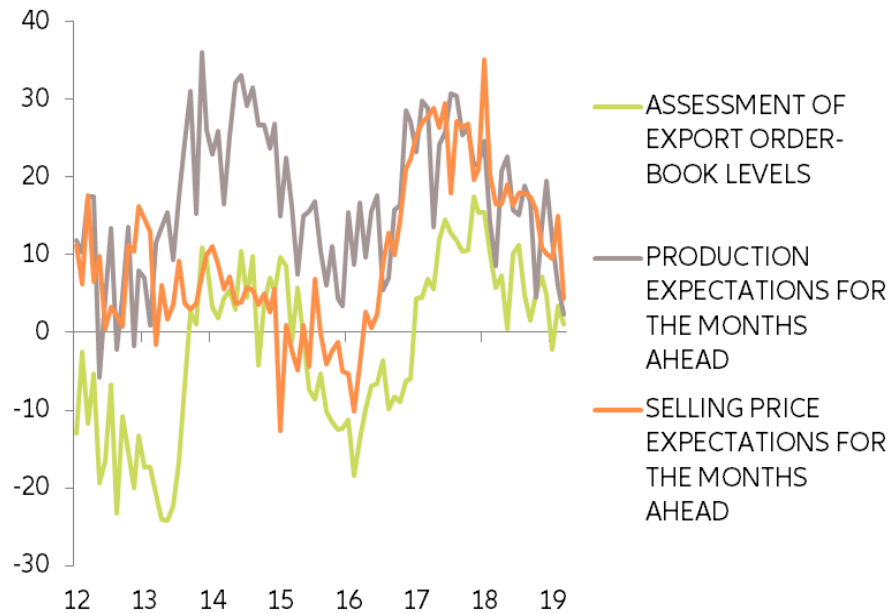
Household confidence indicators



Sources: Eurostat, Euler Hermes

Consumer confidence deteriorated to lows seen in the aftermath of the Brexit referendum

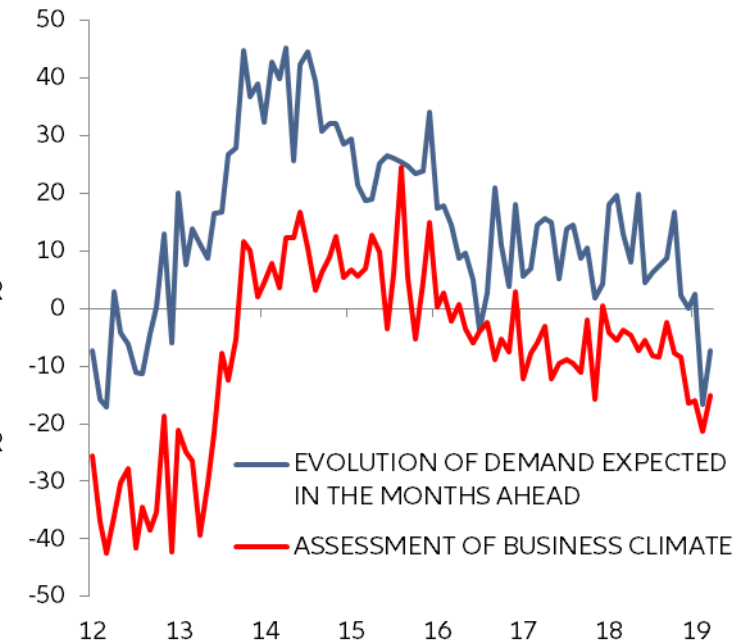
Confidence balance in manufacturing



Sources: Eurostat, Euler Hermes

Companies in the manufacturing sector have adjusted production on the downside on the back of lower order looks which drives their selling prices expectations downwards

Confidence balance in services

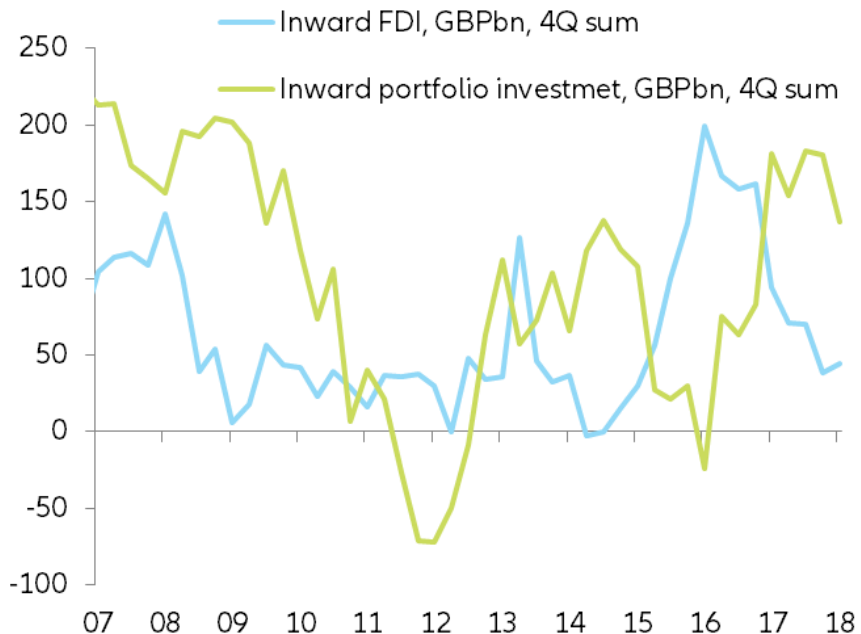


Sources: Eurostat, Euler Hermes

Companies in the services sector are also increasingly pessimistic about demand in the sector

MEDIUM-TERM GROWTH

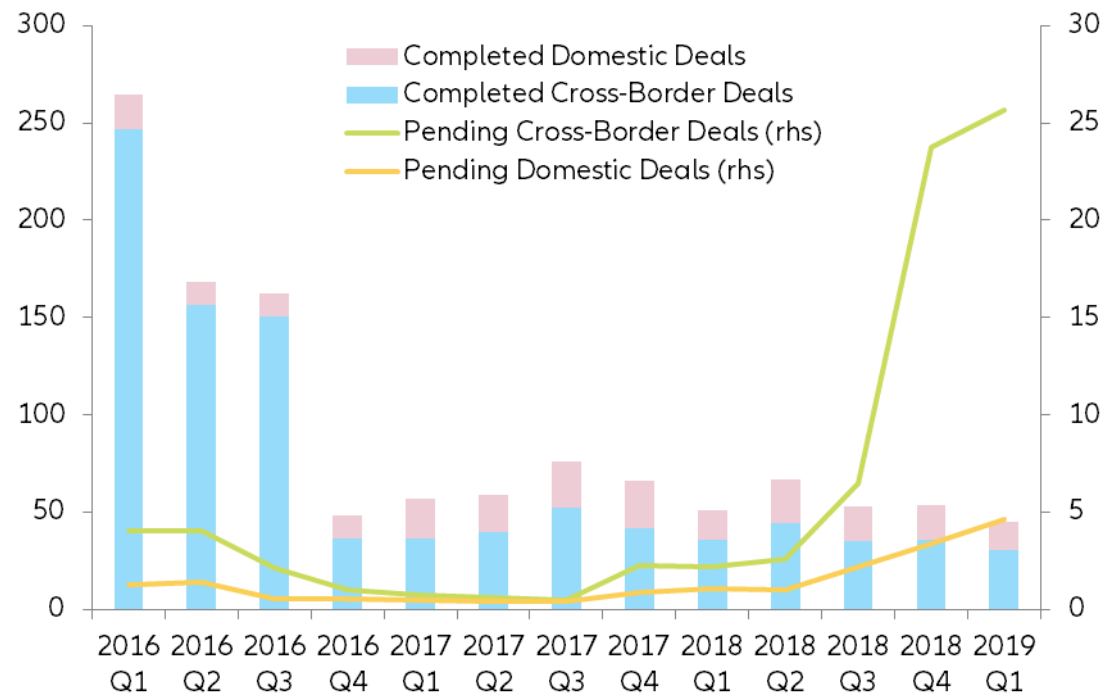
Short (portfolios) and long-term (FDIs) investments



Sources: ONS, Euler Hermes

Portfolios investments started to adjust downwards in mid-2018 while FDIs reached very low levels (-GBP155bn since the Brexit referendum)

M&A deals, 4Q sum, USDbn or total deal number



Sources: Bloomberg, Euler Hermes

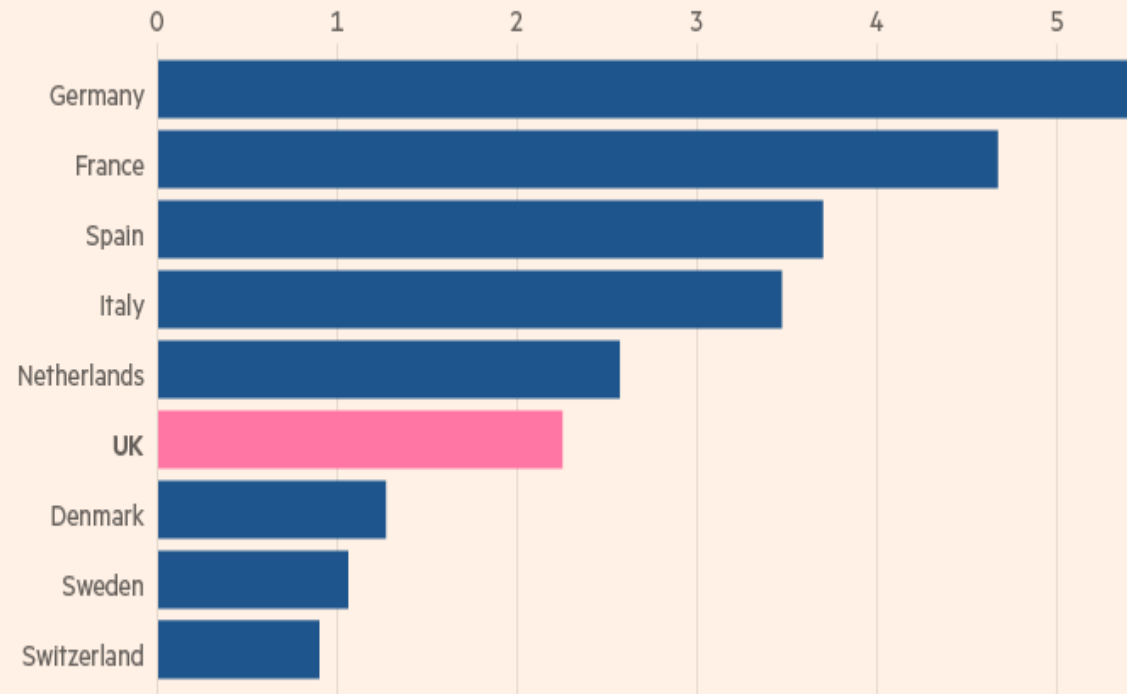
Pending M&A deals by foreign companies have increased markedly since Q3 2018 while the total completed deals in value have been divided by 5 since the Brexit referendum

PRIVATE EQUITY: IMPORTANT FOR INFRASTRUCTURE PROJECTS

(AMONG OTHERS)

The biggest winners in Europe are Germany and France

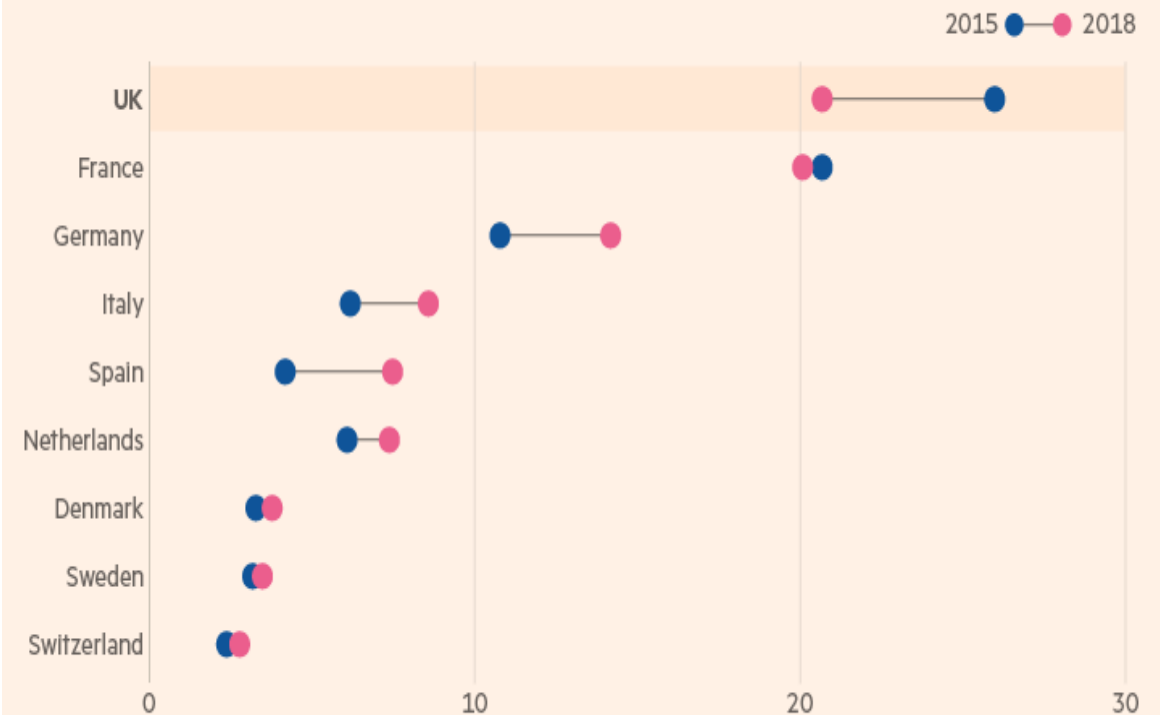
Rise in private equity annual investment in 2018, compared with 2015 (€bn)



Sources: Invest Europe; EDC
© FT

As UK private equity deals diminish, others benefit

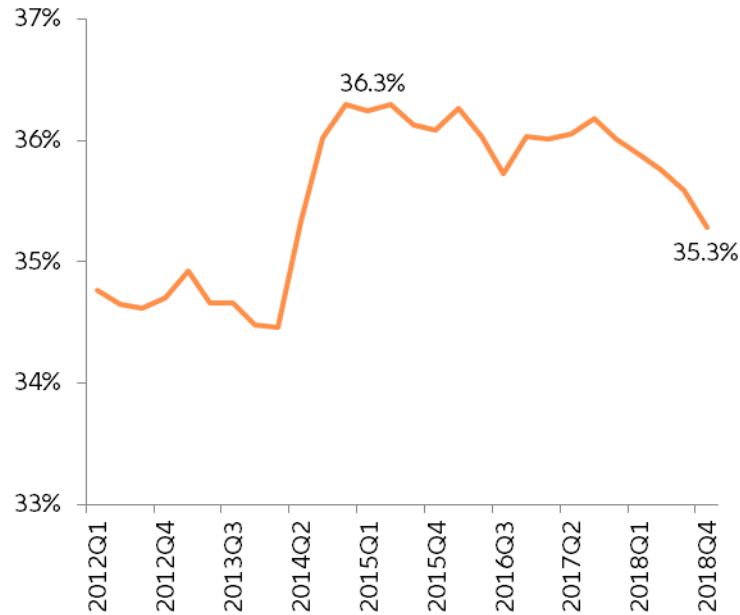
Share of European investments made in each country (%)



Sources: Invest Europe; EDC
© FT

UK COMPANIES ARE EXPECTED TO SEE THEIR MARGINS IMPACTED BY CONTINGENCY STOCKPILING

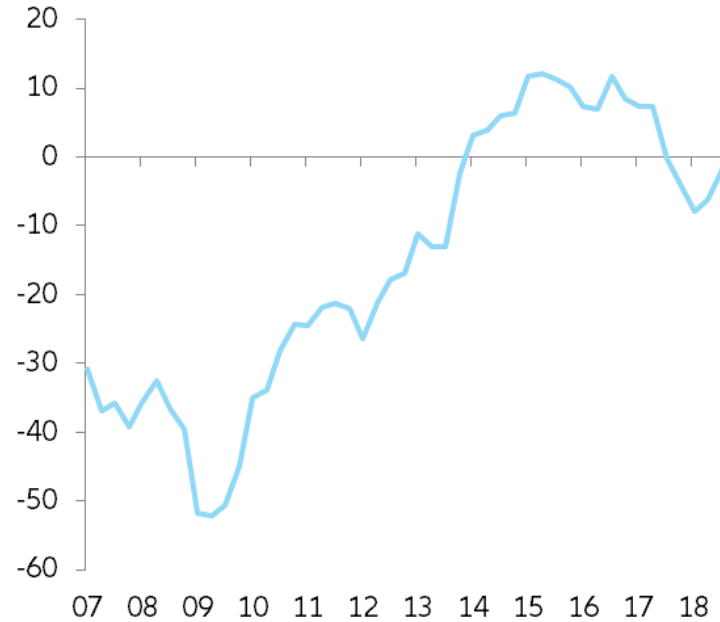
NFC corporations margins, % of value added



Sources: Eurostat, Euler Hermes

Corporates' margins deterioration accelerated in 2018...

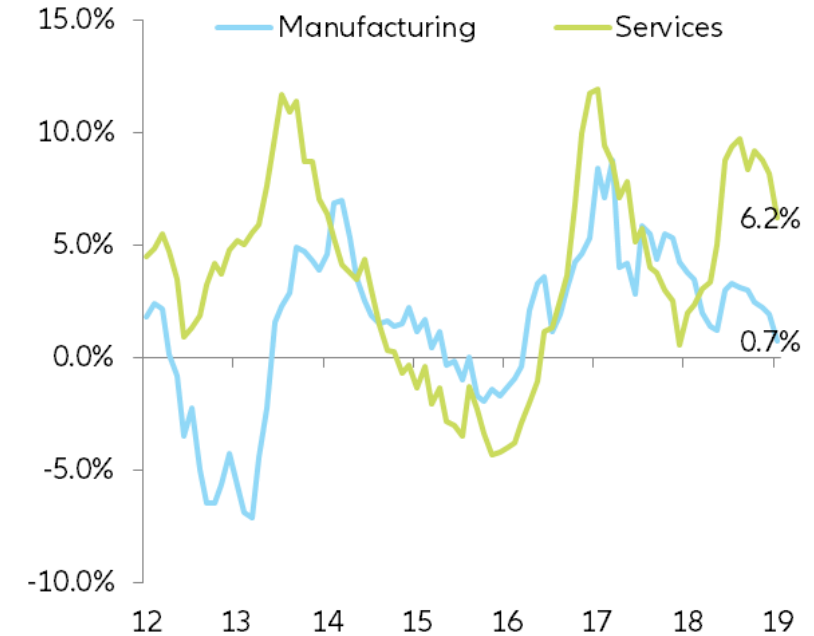
Total inventories, 4Q sum, EURbn



Sources: ONS, Euler Hermes

...and contingency stockpiling will pose downside risks for margins in 2019 given the weakness of domestic demand

Turnover by sector, 3M yoy



Sources: Eurostat, Euler Hermes

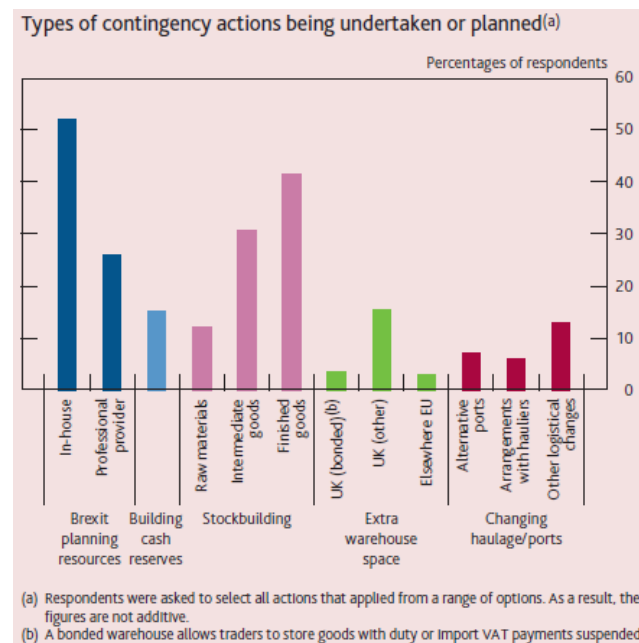
Turnover growth in the manufacturing sector is heading towards low levels seen in the 2015 deflationary environment

UK COMPANIES: UNEVEN PREPARATION FOR A “HARD BREXIT”



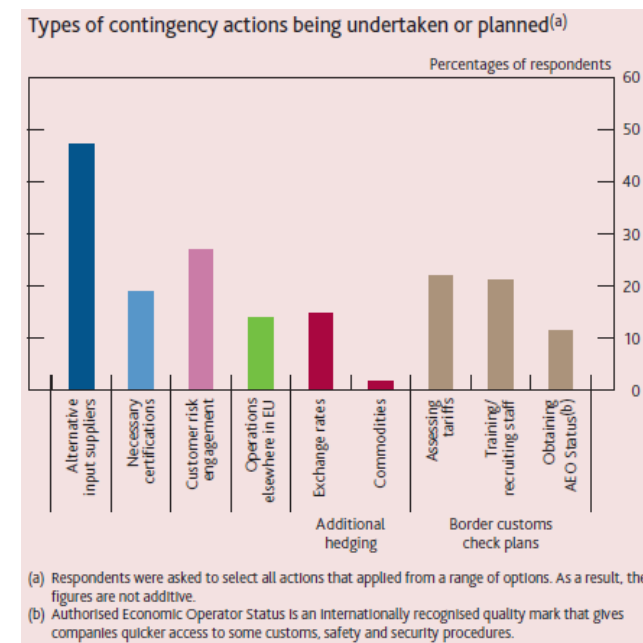
Source: Bank of England

Around half of companies surveyed (200) confirmed they started implementing contingency plans for a « no deal, no transition » Brexit.



Source: Bank of England

Around half of companies said that they are building inventories. A fifth said they were taking extra warehouse space.

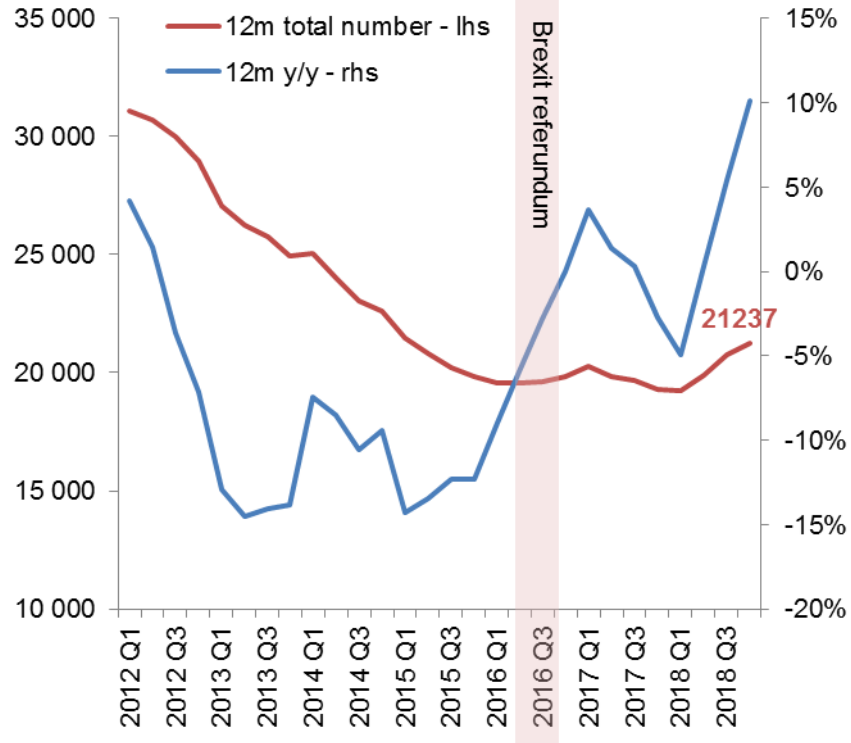


Source: Bank of England

Around half of companies were looking for alternative suppliers, 25% were engaging with customers directly to manage risks and 20% were looking for necessary certifications to sell products in the EU.

STRONG RISE IN INSOLVENCIES

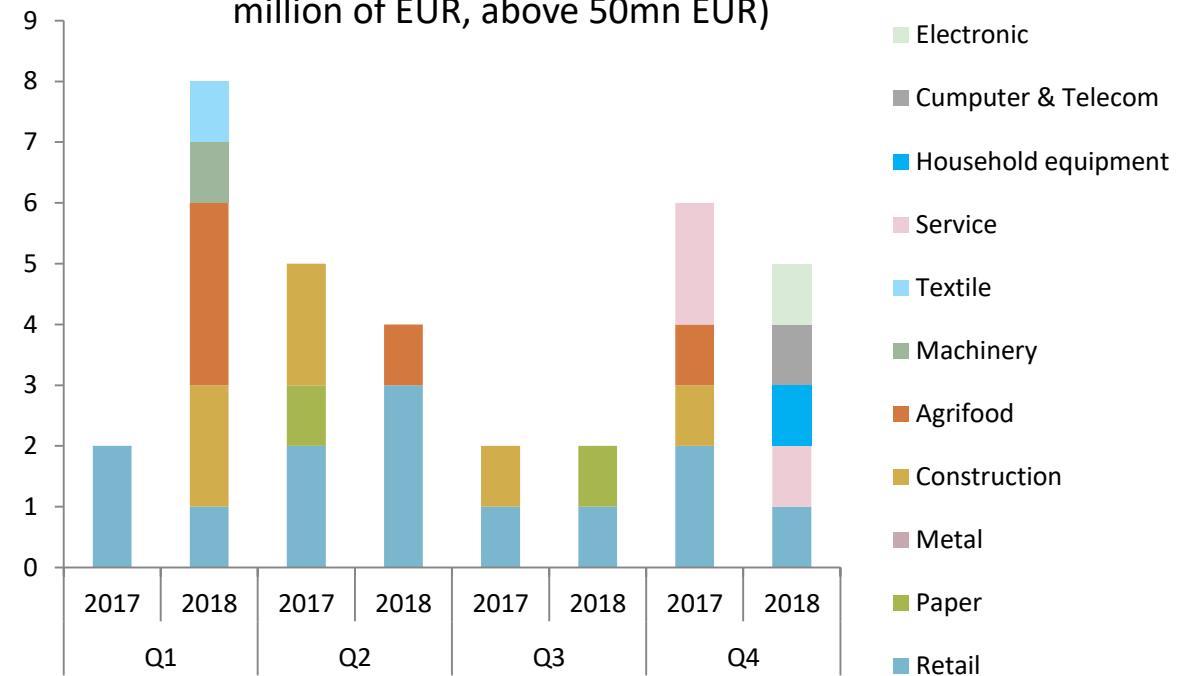
12m change and level of business insolvencies



Source: Euler Hermes

Business insolvencies rebounded strongly in 2018: +10%, the first rise since 2011. We expect a rise of +9% in 2019.

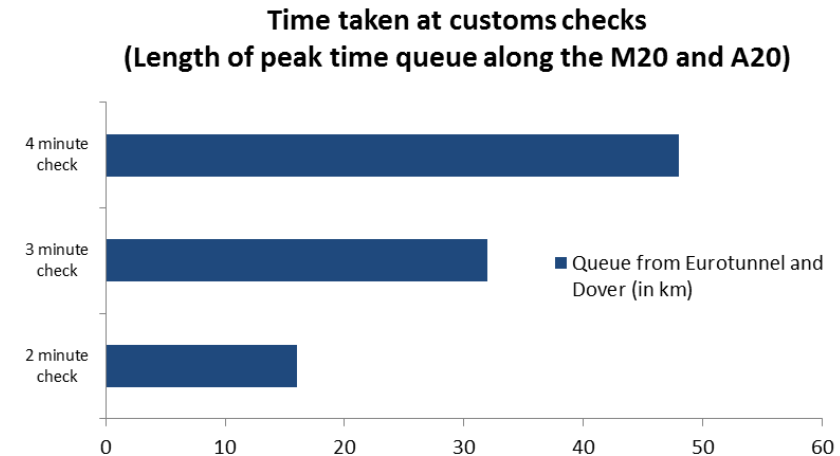
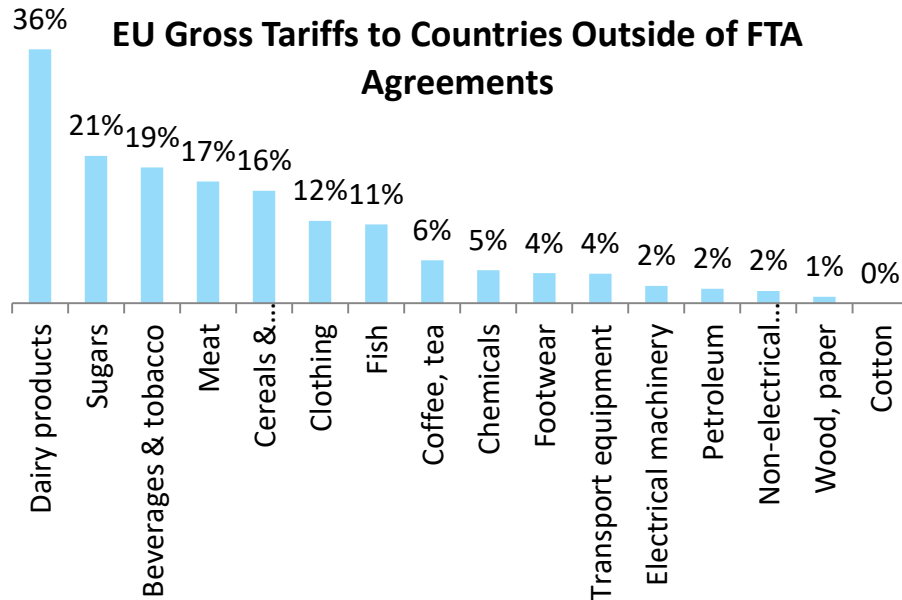
Major failures
(number of companies by size of turnover in million of EUR, above 50mn EUR)



Source: Euler Hermes

Major insolvencies accelerated in Q4 2018 with 5 cases from 2 in Q3. In total 19 cases in 2018 vs 15 in 2017. Retail, agri-food and construction are the most impacted sectors.

NO BREXIT DEAL: DISRUPTIONS IN EU-UK TRADE

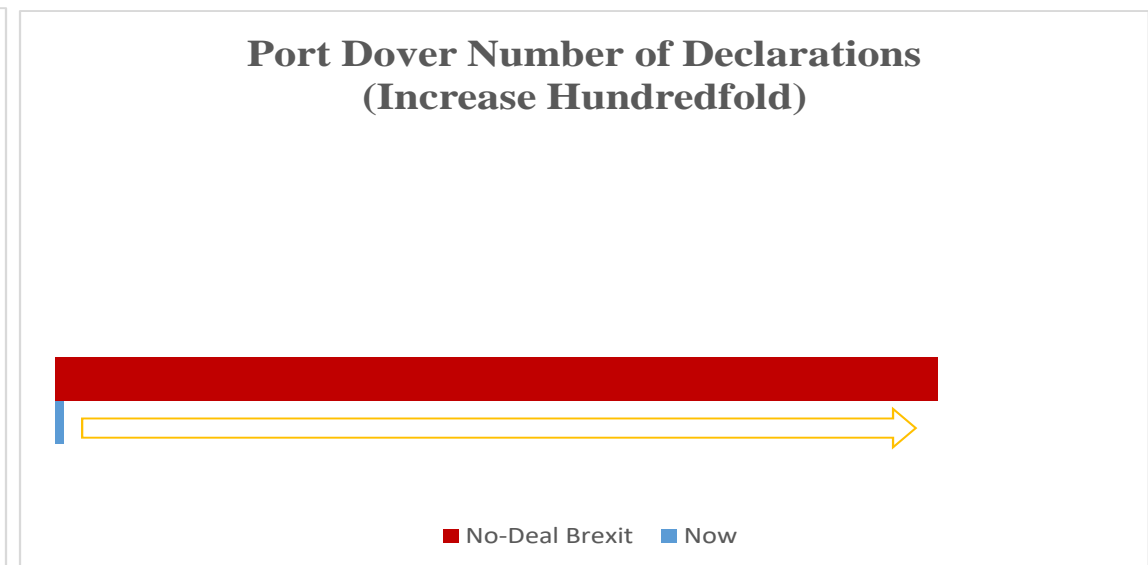
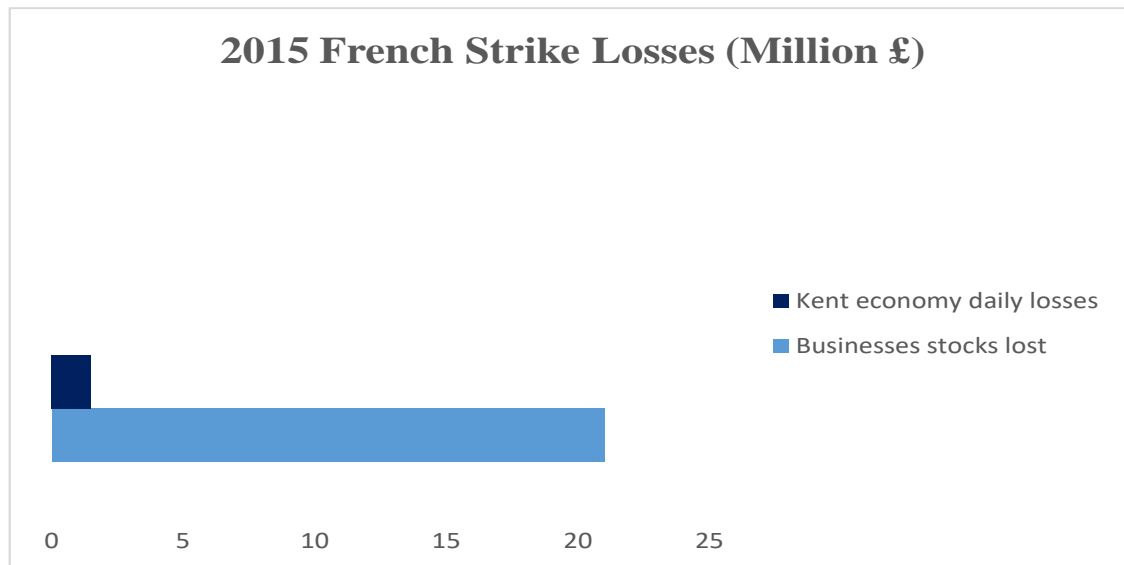
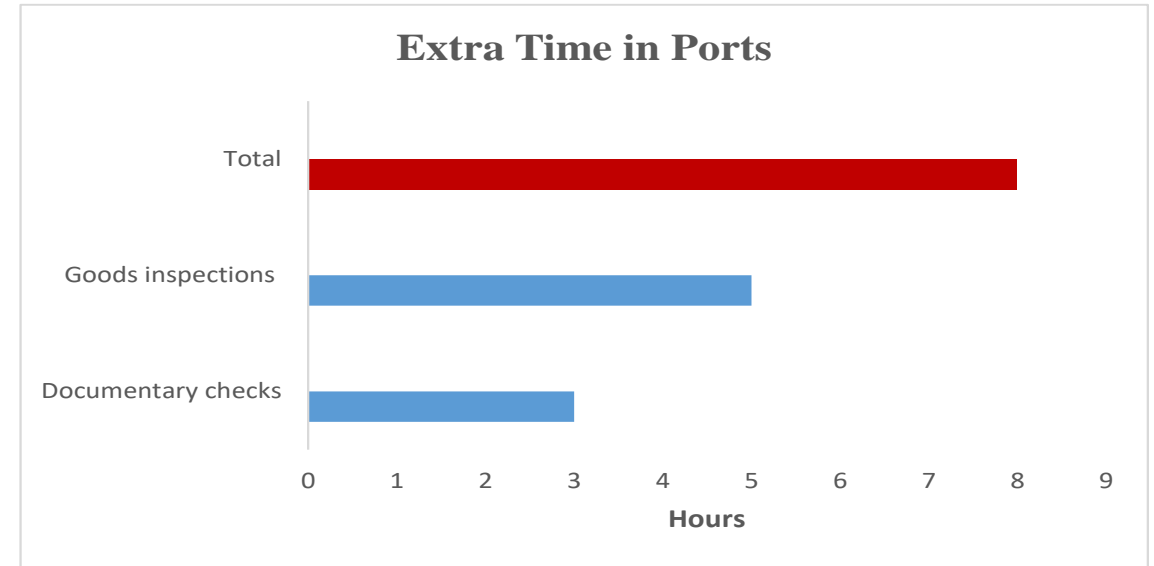
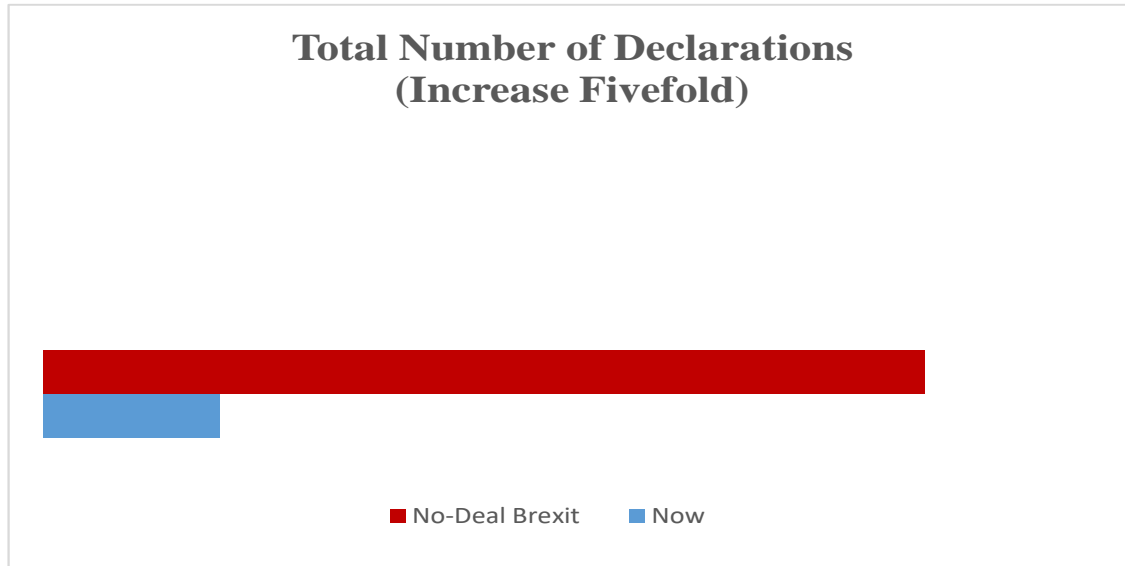


- UK will establish its own Import Tariffs. Given the short-notice, likely they will **implement the EU current tariffs**
- **UK seek the transition of all trade agreements the EU has (around 60)**, which appears unrealistic considering the need of each partner country's approval

- The **EU will apply customs and excise duties** in the same way it does to goods **outside the EU with whom they don't have a FTA** (e.g. China, the US)
- Estimates from Imperial College London point to **2 min of additional controls at the border** (to the current 2 minutes). This would translate into 32 km of queue, leaving drivers waiting almost five hours on the route



NO BREXIT DEAL: DISRUPTIONS IN EU-UK TRADE (2)



NO BREXIT DEAL: INCREASED COSTS & SLOWER PROCESSING TIMES FOR FINANCIAL TRANSACTIONS

End of passporting will force UK institutions operating in EU/EEA to submit an **application for authorization in the Member State where they operate**. Risk of not being able to serve clients in EU/EEA (lending and deposit activities, life insurance, annuities)

For EU/EEA institutions based in the UK there will be a **temporary permission regime for 3 years post Brexit** enabling EEA passporting firms to continue operating in the UK.



UK based-payment services providers would **lose direct access to central payment infrastructure (Target 2, SEPA)** resulting into increased costs & slower processing times for EUR transactions.

Asset management firms can continue to operate from the UK as the EU legislation gives the right to fund managers to delegate portfolio managements services to a third party in countries outside the EU.

For **derivatives contracts** between UK & EU financial firms, permissions might be necessary from both sets of regulators to support continuity of service provision.

THANK YOU!

