

12 January 2016

---

**Nick Kounis**  
Head of Macro and Financial Markets  
Research  
Tel: +31 20 343 5616  
nick.kounis@nl.abnamro.com

---

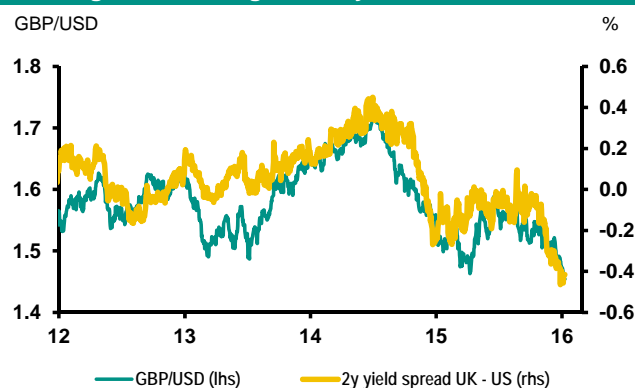
## Brexit risk premium still to build

- **Brexit risks are set to come more in focus in markets**
- **Prime Minister Cameron has hinted at referendum in H2**
- **A vote for Brexit seems a higher risk than commonly judged**
- **Sterling has weakened significantly against the dollar...**
- **... but this reflects rate spreads, with the Brexit premium still to come**

### Brexit can have a profound impact

The UK's future in the EU has the potential to be one of the biggest issues for the global economy and financial markets in 2016. The results of a possible Brexit referendum can have a major impact of the world's largest trading bloc. In addition, it could have even bigger impact on the UK itself. The long-term impact depends on the UK's trading relationship with the EU following any Brexit, and that in itself would depend on what would be agreed in the negotiations that follow. However, there could also be political knock-on effects for the UK itself, as it could make a new Scottish independence referendum more likely.

### Sterling has fallen significantly



Source: Thomson Reuters Datastream

### Near term impact whatever the outcome

In the near term, the UK economic outlook is less rosy than it would otherwise be whatever the outcome of the referendum. This is because businesses, both domestic and foreign, will likely hold off investment until there is more clarity. This is a factor that could

further delay BoE rate hikes, so it is negative for sterling. Furthermore, the more general Brexit uncertainty is also negative for sterling as a risk premium is likely to build.

#### **Sterling has fallen, but mostly on rate differentials**

Sterling has fallen sharply against the dollar over recent weeks. However, that does not mean that markets have fully discounted Brexit risks. Indeed, we would argue the opposite. The movements in Sterling seem to be largely tracking short-term interest rate spreads between the US and the UK (see chart). In particular, BoE rate hikes have been scaled back by financial markets given the subdued inflation outlook and moderate UK growth. In contrast, the Fed has embarked on an – albeit likely very slow – rate hike cycle. This means that much of the Brexit risk premium is still to come.

#### **Brexit issue becoming more of a reality**

Up until recently, the Brexit issue seemed to be treated more as a theoretical political issue going on in the background. After all the UK government has committed to a referendum by 2017, so it could be a long way off. However, it is becoming increasingly likely that a referendum will be held already in the second half of the year. Over the weekend, Prime Minister Cameron hinted strongly at this prospect. He said that he was confident in reaching a deal on the UK's 'new' terms of membership next month. That would open the way for a referendum later in the year.

#### **Further sterling weakness ahead**

We continue to expect further weakness ahead for sterling against the dollar as the Brexit risk premium builds and as rate differentials continue to move in the favour of the dollar. Uncertainty is likely to remain high in the run-up to the referendum, as polls currently suggest that the outcome is a close call. A vote for the UK to stay in the EU would likely trigger a rebound, while a vote for Brexit would likely usher in more uncertainty until the direction of the negotiations became clear.

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Saturday	09/01/2016	02:30:00	CN	CPI - % yoy	Dec	1.6	1.6	
Saturday	09/01/2016	02:30:00	CN	PPI - % yoy	Dec	-5.9	-5.8	
Tuesday	12/01/2016	15/01/2016	CN	Aggregate financing - CNY bn	Dec	1020.0	1150.0	
Tuesday	12/01/2016	15/01/2016	CN	New yuan loans - CNY bn	Dec	708.9	700.0	
Tuesday	12/01/2016	15/01/2016	CN	Money supply M2 - % yoy	Dec	13.7	13.6	
Tuesday	12/01/2016	12:00:00	US	NFIB small business optimism - index	Dec	94.8	95.5	<b>95</b>
Tuesday	12/01/2016	13:00:00	IN	CPI - % yoy	Dec	5.4		
Tuesday	12/01/2016	16:00:00	US	US Job Openings by Industry	Nov	5383.0		
Wednesday	13/01/2016	11:00:00	EC	Industrial production - % mom	Nov	0.6	0.0	<b>-0.2</b>
Wednesday	13/01/2016		CN	Exports - % yoy	Dec	-6.8	-8.0	
Wednesday	13/01/2016		CN	Imports - % yoy	Dec	-8.7	-11.0	
Thursday	14/01/2016	00:50:00	JP	Machinery orders private sector - % mom	Nov	10.7	-7.3	
Thursday	14/01/2016	13:00:00	GB	Policy rate - %	Jan 14	0.5	0.5	
Thursday	14/01/2016	13:00:00	GB	BoE size of asset purchase programme - GBP bn	Jan	375.0	375.0	
Thursday	14/01/2016		PL	Reference rate - %	Jan 14	1.50	1.50	<b>1.50</b>
Thursday	14/01/2016		KR	Policy rate - %	Jan 14	1.50	1.44	<b>1.50</b>
Friday	15/01/2016	14:30:00	US	Retail sales - % mom	Dec	0.2	0.1	0
Friday	15/01/2016	14:30:00	US	Prod. prices index - % mom	Dec	0.3	-0.1	
Friday	15/01/2016	14:30:00	US	Prod. prices index excl food and energy - % mom	Dec	0.3	0.1	
Friday	15/01/2016	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Jan	-4.6	-2.4	<b>-3.0</b>
Friday	15/01/2016	15:15:00	US	Industrial production - % mom	Dec	-0.6	-0.2	
Friday	15/01/2016		US	Univ. of Michigan cons. confidence - index	Jan P	92.6	92.8	92
Friday	15/01/2016	16:00:00	US	Business inventories - % mom	Nov	0.0	0.0	

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

## DISCLAIMER

ABN AMRO Bank  
Gustav Mahlerlaan 10 (visiting address)  
P.O. Box 283  
1000 EA Amsterdam  
The Netherlands

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2016 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO").