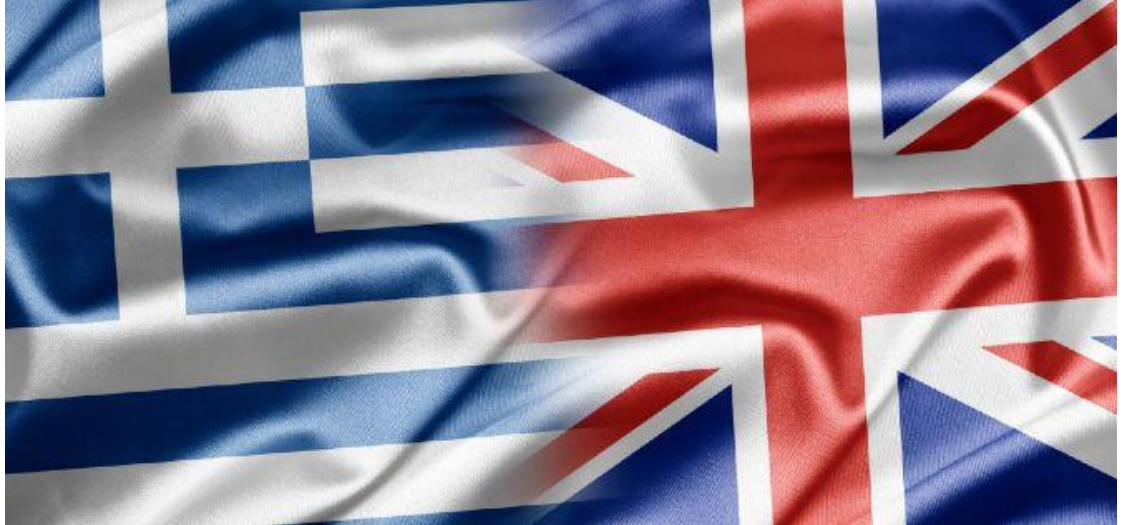




**R&R Weekly Column**  
**By Brunello Rosa**



## Brexit vs Grexit: Why Negotiations Will Remain Bumpy

After six months of negotiations, a preliminary deal has been reached between the UK and the EU to “unlock” the talks on the “second phase” of the Brexit negotiations, when a new “trading arrangement” will have to be established between the two sides.


While welcoming these developments, which are also in line with our [narrative](#) and [scenario analysis](#), at this stage we consider more relevant to emphasise that this is just the beginning of a very long process, which is likely to be bumpy until the very end. The UK will likely have to compromise on a number of issues, and in some cases capitulate. According to the text agreed in Brussels on 8 December, if “no deal” is reached between the UK and the EU, the entire UK will have to guarantee “full alignment” with the EU rules of the single market and the customs union, to prevent a hard border from re-emerging between Northern Ireland and EIRE. This would look very similar to a “Norway-style” solution, which is considered unacceptable by the vast majority of UK political leaders. On the other hand, if the eventual outcome is a Canada-Style FTA, this is very similar to “hard” Brexit, and with very little protection for the financial services industry; again, a sub-optimal outcome to say the least.


But other outcomes are also possible, depending on the political economy of events. To elucidate this point, in our [latest Working Paper](#), we take as an example the negotiations occurred between Greece and the EU in 2015. Apart from the obvious differences, there are several lessons that can be drawn from that experience, and in particular that: 1) a series of elections and referendums might be required to get to the eventual political equilibrium; 2) the political party that starts the process might not be the one that manages – and finishes – it; 3) all sides of the negotiations should be prepared for unexpected U-turns; 4) Negotiations tend to finish at the 11<sup>th</sup> hour, and beyond; 5) The eventual outcome might be very different from the initially expected results.

Comparing the Greek sequence of events in 2009-2015 with the Brexit timeline (starting from 2015) reveals that the UK is only at the very beginning of a long process, which might evolve in many different directions. As we discussed in our previous reports, given the current information set, a Canada-style FTA agreement seems the most likely scenario. But the information set will evolve over time, and with it the possible potential outcomes.


### **Our Recent Publications**

 [\*\*Brexit vs Grexit: Why Negotiations Will Remain Bumpy\*\*](#)  
by Brunello Rosa, 8 December 2017

 [\*\*ECB Preview December 2017: Nuances on Forward Guidance\*\*](#)  
by Brunello Rosa, 7 December 2017

 [\*\*U.S. Tax Cuts: A Most Modest Impact on The Economy and Markets\*\*](#), by Nouriel Roubini, 4 December 2017

 [\*\*EM Currencies: Still Pressured, but more Resilient to Normalisation\*\*](#), by Rémi Bourgeot, 6 December 2017

 [\*\*Saudi Arabia: Rough Seas, But No Storm Ahead\*\*](#)  
By Alessandro Magnoli Bocchi, Francisco Quintana,  
Pablo Gallego, 5 December 2017

### The Week Ahead

**US - The Fed will hike, U.S. inflation to remain at 2%:** On 13 December, the Fed will likely hike its policy rate (according to [CME's FedWatch](#), the implied probability is 100%). In our view, upcoming tax cuts might entail an upward revision of the "Fed Dot Plots" (the anonymous interest rate forecasts of Fed officials), possibly in 2019 and 2020. On 14 December, U.S. CPI inflation— a key input into Fed's decision making—will be published. Surveys show that no change is expected from the [current 2%](#).

**Europe – EU Summit, ECB, BOE and Germany immigration policies in the spotlight:** On December 13, the EP will vote on the "draft Brexit agreement" between the UK and the EU. On December 14-15 the EU summit will give the green light to trade talks. On December 14, both BoE and ECB will leave policy stances unchanged. In Germany, Chancellor Angela Merkel will tackle the immigration issues that are preventing key political parties from forming a coalition government.

**Middle East – CBT likely to increase rates:** On December 14, in Turkey the CBT/MPC is likely to increase policy rates (c: 75-100 bps hike, from the current level of 8.00%).

### The Quarter Ahead

**US - Fiscal stimulus likely to be finalized:** If approved, the tax cut plan might have [a marginal impact on growth](#), while increasing the federal budget deficit. Going forward, tightening labour market conditions and weak USD could create price pressures.

**Europe - EZ's economic recovery to continue and Brexit talks resume:** The political impasse in Germany will not affect the economy. Inflation will remain subdued and the ECB will remain on hold. In the UK, Brexit negotiations uncertainty will weigh on growth.

**EMs – Brazilian and Russian elections, China's reforms:** In Brazil, as growth picks up and elections approach, the chances of pension reforms will fade. In Russia, interest rates are likely to be cut in the pre-electoral period and economic growth will pick up. In India, growth and inflation are likely to accelerate. In China, President Xi will start implementing reforms and growth will slow.

**Middle East - OPEC-led oil production cuts and fiscal austerity continue to take a toll on growth:** [Saudi Arabia's political and economic challenges will keep testing the region](#). The geopolitical tensions with Iran will reach the level of "cold war", but military conflict will be avoided. The economic and military partnership launched by Saudi Arabia and the UAE will further weaken the GCC and add to pressure on Qatar. GCC financial markets might suffer an increase in volatility and a pick-up in bond yields, but will eventually stabilize and currency pegs will hold. Oil prices will trade at around USD 55-60 per barrel.

### Last Week's Review

**US – NFP, ISM, Equities:** November non-farm payrolls increased by 228k jobs (c: 200k; p: 244k), while average hourly earnings rose by 0.1% m-o-m (c: 0.3%; p: 0.0%), and 2.5% y-o-y (c: 2.7%; p: 2.4%). The November ISM non-manufacturing index declined to 57.4 (c: 59.0; p: 60.1), and the December Michigan Consumer Sentiment declined to 96.8 (c: 99.0, p: 98.5). US stock prices went up (DJIA +0.4% w-o-w) on rising expectations that lawmakers will bridge their differences on a final tax bill.

**Europe - The EU blacklisted 17 countries for "refusing to cooperate on tax avoidance":** The tax-haven blacklist includes the UAE, Bahrain and Tunisia; 47 countries - not compliant with EU tax standards but committed to change their rules - were included in a "grey" list. Going forward, blacklisted countries could face "dissuasive sanctions" and lose access to EU funds.

**GCC - The second day of the GCC summit was cancelled:** The Emirs of Kuwait and Qatar were the only heads of state who attended the meeting, while other countries sent lower-level officials.

**International debt markets issuances have increased:** In the first week of December, international debt markets issuances have increased to USD30.3bn and EUR19.9bn (compared to USD10.3bn and EUR14.9bn the week before). In EMs, USD15.6bn and EUR2.3bn were raised (compared to USD12.5bn and EUR1.0bn the week before). In MENA, 2017 y-t-d supply stands at USD83.4bn (compared to 61.1bn in 2016 and 22.0bn in 2015 for the same period).

Pablo Gallego Cuervo and Renata Bossini contributed to this Viewsletter.

The picture in the front page comes from [this website](#).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to [info@rosa-roubini-associates.com](mailto:info@rosa-roubini-associates.com)

[www.rosa-roubini-associates.com](http://www.rosa-roubini-associates.com)

120 Pall Mall, London SW1Y 5EA



## Abbreviations, Acronyms and Definitions

<i>bn</i>	<i>Billion</i>	<i>IPO</i>	<i>Initial public offering</i>
<i>BoE</i>	<i>Bank of England</i>	<i>ISM</i>	<i>Institute for Supply Management</i>
<i>BoJ</i>	<i>Bank of Japan</i>	<i>KWSEIDX</i>	<i>Kuwait Stock Exchange Index</i>
<i>bps</i>	<i>Basis points</i>	<i>m-o-m</i>	<i>Month-on-month</i>
<i>c</i>	<i>Consensus</i>	<i>MPC</i>	<i>Monetary Policy Committee of the Central Bank of Turkey</i>
<i>CB</i>	<i>Central bank</i>	<i>Nafta</i>	<i>North American Free Trade Agreement</i>
<i>CBT</i>	<i>Central Bank of the Republic of Turkey</i>	<i>OECD</i>	<i>The Organization for Economic Co-operation and Development</i>
<i>CPI</i>	<i>Consumer Price Index</i>	<i>Opec</i>	<i>Organization of Petroleum Exporting Countries</i>
<i>DFMGI</i>	<i>Dubai Financial Market General Index</i>	<i>p</i>	<i>Previous</i>
<i>DJIA</i>	<i>Dow Jones Industrial Average Index</i>	<i>PM</i>	<i>Prime minister</i>
<i>d-o-d</i>	<i>Day-on-day</i>	<i>PMI</i>	<i>Purchasing managers' index</i>
<i>EC</i>	<i>European Council</i>	<i>QE</i>	<i>Quantitative easing</i>
<i>ECB</i>	<i>European Central Bank</i>	<i>q-o-q</i>	<i>Quarter on quarter</i>
<i>EM</i>	<i>Emerging Markets</i>	<i>S&amp;P</i>	<i>Standard and Poor's</i>
<i>EP</i>	<i>European Parliament</i>	<i>SOE</i>	<i>State-owned enterprise</i>
<i>EUR</i>	<i>Euro</i>	<i>tn</i>	<i>Trillion</i>
<i>EZ</i>	<i>Eurozone</i>	<i>TRY</i>	<i>Turkish Lira</i>
<i>Fed</i>	<i>US Federal Reserve</i>	<i>UAE</i>	<i>United Arab Emirates</i>
<i>FOMC</i>	<i>US Federal Open Market Committee</i>	<i>UK</i>	<i>United Kingdom</i>
<i>FRB</i>	<i>US Federal Reserve Board</i>	<i>US</i>	<i>United States</i>
<i>FX</i>	<i>Foreign exchange</i>	<i>USD</i>	<i>United States Dollar</i>
<i>GCC</i>	<i>Gulf Cooperation Council</i>	<i>USD/bbl.</i>	<i>USD per barrel</i>
<i>GBP</i>	<i>British Pound</i>	<i>VP</i>	<i>Vice President</i>
<i>GDP</i>	<i>Gross domestic product</i>	<i>y-o-y</i>	<i>Year-on-year</i>
<i>GOP</i>	<i>Grand Old Party (US Republican Party)</i>	<i>y-t-d</i>	<i>Year-to-date</i>
<i>IEA</i>	<i>International Energy Agency</i>	<i>w-o-w</i>	<i>Week-on-week</i>
<i>IMF</i>	<i>International Monetary Fund</i>		



Rosa&Roubini Associates is a Limited company (number 10975116), with registered office at 120 Pall Mall, St. James's, London SW1Y 5EA, United Kingdom. VAT registration number GB 278 7297 39.

**Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa&Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

**Disclaimer:** All material presented in this report is provided by Rosa&Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa&Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa&Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa&Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa&Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa&Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa&Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa&Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa&Roubini Associates's written permission.

