EXCLUSIVE-Britain's financial heartland unbowed as Brexit risks deepen

By Andrew MacAskill and Simon Jessop

Britain's financial services industry has emerged largely unscathed so far from the build-up to Brexit, with about 2,000 roles expected to have moved or been created overseas even as the risk of a disorderly exit grows, a new Reuters survey showed.

Many bankers and politicians predicted Britain's vote to leave the European Union in a 2016 referendum would prompt a mass exodus of jobs and business and deal a crippling blow to London's position in global finance. But the number of jobs UK-based financial institutions say they actually expect to shift overseas has fallen steeply from the 5,766 predicted to move in the event of a no-deal Brexit in the last survey in September. This new estimate is about a fifth of the 10,000 flagged in the first survey in September 2017.

A no-deal Brexit would mean Britain leaving the European Union without an agreement on trade. Currently, the UK is on track for such a scenario because a deal giving London and Brussels a 21-month transition period to negotiate a trading relationship is at risk of collapse.

Most bankers, however, are confident a compromise will be hammered out. They are waiting to see what will be agreed and what the relationship will be, before making any final decisions about relocations.

The survey results are based on answers from 132 of the biggest or most internationally-focused banks, insurers, asset managers, private equity firms and exchanges to a survey conducted between Jan. 3 and Jan. 28. The jobs are equivalent to 0.5 percent of the 400,000 people who work in financial services in London.

Meanwhile, top investment banks plan to hire far more people in London than anywhere else in Europe, indicating they expect Britain will remain their main regional hub, at least in the short term, a separate Reuters survey showed.

"It will be a slow burn.

We won't know what the full impact will look like for at least 10 years," said Catherine McGuinness, the de facto political leader of the municipal body that helps to run London's financial district, known as the City. "But the City is always changing and it will find a way to thrive."

BREXIT BRINKMANSHP

Bankers' sanguine outlook comes even as the United Kingdom is on course to leave the EU in 52 days without a divorce deal, a step that could send shockwaves through financial markets.

British lawmakers last week instructed Prime Minister Theresa May to renegotiate a Brexit divorce deal, a move that is fiercely opposed by other members of the bloc, meaning there is likely to be weeks of political brinkmanship.

The survey findings suggest London, which has the largest number of banks and the largest commercial insurance market in the European Union, is likely to remain the region's centre of international finance.

The decision to leave the EU has jolted London's finance industry, which has been a critical artery for the flow of money around the world for centuries. Banks and insurers in Britain currently enjoy largely unfettered access to customers across the bloc in most financial activities. Elements long taken for granted, such as the right to buy and sell products in a single market, are suddenly in flux.

Under a worst-case no-deal scenario, consultants Oliver Wyman predicted as many as 75,000 jobs could go, while the London Stock Exchange suggested two years ago that figure could be as high as 232,000. The future of London as Europe's financial centre is one of the most important outcomes in the Brexit talks because it is Britain's largest export sector and biggest source of corporate tax revenue.

Large investment banks are expected to have moved about 890 jobs, just under half the number expected by end-March, according to interviews with more than two dozen industry sources.

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Brexit and the City: A barometer for London's financial outlook

By Simon Jessop and Andrew MacAskill

A few miles down the River Thames from the British parliament at Westminster, months of political tremors over Brexit have still barely registered on a monitor of London's financial services. But as policymakers seek ways to ensure the future of the financial services sector for when Britain leaves the European Union, some firms are building up their operations elsewhere in the bloc in anticipation of "Brexit Day" on March 29.

People walk past a temporary sculpture installed to mark the centenary of the Armistice which ended the First World War, in the Canary Wharf financial district of London, Britain November 1, 2018. REUTERS/Toby Melville

Reuters' fourth Brexit tracker of five indicators gauging the City of London's fortunes -- spanning jobs, commercial property prices, bar and restaurant openings and public transport usage -- shows that while some have seen a slight slowdown, others are steady or even buoyant.

The latest survey shows just under 2,000 jobs have been moved or created overseas in preparation for the City since Savills began compiling the data in the early 1990s. "To put it in numbers, 7.6 million square feet of new leases were signed in the City last year; that's a lot of businesses committing to the future, on the basis that the average length of those leases was probably 10 or more years."

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UK offered Nissan Brexit assurances, 80 mln pounds for car investment

Britain promised Nissan up to 80 million pounds of support and offered Brexit-related assurances to help secure a major investment from the Japanese carmaker in 2016, according to a well-guarded letter released on Monday.

Germany's Merkel drops hint of a "creative" Brexit compromise

German Chancellor Angela Merkel on Monday offered a way to break the deadlock over the United Kingdom's exit from the European Union, calling for a "creative" compromise to allay concerns over the future of Irish border arrangements.

Unilever preps for no-sweat Brexit with Magnum ice creams, deodorants

Unilever is stockpiling ice creams in Britain and deodorants in continental Europe to guard against potential supply disruptions in the event of a no-deal Brexit. The Anglo-Dutch consumer giant, which is the world's largest ice cream seller, makes British favorites like Magnum bars in Italy and Germany and is building up a few weeks of extra inventory in Britain in case of any border delays.

UK, EU watchdogs agree clearing houses pact for no-deal Brexit

The Bank of England and the European Union's market watchdog said they will work together to avoid financial market disruption involving clearing houses such as LCH in London if there is a no-deal Brexit. The BoE said it and the European Securities and Markets Authority (ESMA) had agreed memorandum of understanding regarding cross-border cooperation.
British PM May to visit Brussels in search of a Brexit deal

By William James and Gabriela Baczynska

"From a political point of view, there is still time," German Chancellor Angela Merkel told a conference in Tokyo. "That should be used, used by all sides. But for this it would be very important to know what exactly the British side envisages in terms of its relationship with the EU," she said.

May, on a visit to Belfast on Tuesday, tried to reassure Northern Ireland that she can deliver an orderly Brexit that will ensure peace in a province riven by three decades of sectarian conflict until a 1998 accord.

The Northern Irish Democratic Unionist Party (DUP), which has propped up May’s government since she lost her parliamentary majority in a 2017 snap election, said it wanted to get a deal agreed but the border backstop had to be replaced.

"The current backstop, as I have said all along, is toxic to those of us living in Northern Ireland," DUP leader Arlene Foster, who will meet May in Belfast on Wednesday, told BBC radio.

Foster refused to say whether the deal would have to be renegotiated or whether she would accept legally binding assurances.

"If the backstop is dealt with in the withdrawal agreement then, despite the fact we may have misgivings around other parts of the withdrawal agreement, we will support the prime minister because we do want Brexit to happen in an orderly and sustained fashion," she said. Britain, Ireland and the EU want to avoid physical checks on the border between Ireland and Northern Ireland that ceased with the 1998 Good Friday Agreement.

IRISH BORDER
Where British soldiers once manned checkpoints in a reminder of Ireland’s division, the border is now open with no controls since both the United Kingdom and Ireland are part of the EU.

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FACTBOX
Risk of no-deal Brexit still seen low, delay likelier, banks say

The risk that Britain will crash out of the EU without an agreement is low but rising, while the likelihood that it will delay Brexit is growing, banking analysts said on Wednesday after mixed messages from votes in parliament. With two months left until Britain is due by law to leave the EU, lawmakers voted on Tuesday to demand Prime Minister Theresa May seek changes to Britain’s exit treaty, which the EU says cannot be renegotiated. They also voted to express opposition to a no-deal exit from the EU but rejected a proposal that would delay Brexit if necessary to avert crashing out without a deal. Some analysts saw these events as raising risks of a no-deal Brexit, though they still assigned a low probability to this outcome. However, belief has grown that the government will have to extend the March 29 deadline for its EU exit. Below are the views from a selection of investment banks and asset managers:

AMUNDI ASSET MANAGEMENT
Views no-deal probability at roughly 20 percent but estimates a 50 percent chance an agreement is ratified by March 29. It also sees a roughly 30 percent probability of Brexit being postponed by several months, citing the likelihood of a new referendum or new elections or even a withdrawal of Article 50 by Britain.

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ANALYSIS
Britain's banks face funding crunch as Brexit looms

A funding crunch is squeezing British banks' profits and hitting their share prices, as the threat of a disorderly Brexit and the end of cheap cash from the Bank of England begin to bite. The average cost for British lenders of issuing secured debt has leapt to its highest since just after the 2016 EU referendum, JPMorgan data shows, as investors fret that political turmoil could tip the economy into recession. Conversations with bank executives, investors and analysts, and analysis by Reuters of data on the cost of British banks' funding from various channels, show lenders under increasing strain as Brexit approaches on March 29. The tough funding market is likely to have the most impact on so-called challenger banks, which are less able to rely on savers' deposits to finance lending. Read More

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