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A Deeply Divided Britain Fractures the EU...



Source: toprightnews.com

The results of the British Referendum are in, and Britain is leaving the European Union (EU).

The shockwave from the 'Leave' vote has raced around the World and smashed into the unprepared global financial markets, which were looking the other way, sending them plunging into panicked depths, altering the financial and economic global landscape immediately.

The ramifications of Britain leaving the EU are so potentially severe that it will take some time for the shock to wear off and the panic to abate. The World's Central Banks had been preparing for this potential outcome and have been working overtime to try and reverse the damaging plunges in some of the currency, stock and bonds markets, while the political fallout is just beginning to manifest and will be quite unpredictable in scope and totality for some time [*one immediate casualty is the announcement by the British Prime Minister of his departure in October this year, prematurely cutting his mandated term, as the direct consequence of the terrible loss incurred by the 'Remain' campaign, under his direct leadership*].

But the reality of what has happened, and the damage it will do to the EU and the global economies, is not short term, or easily reversible. The World economic order has been fundamentally changed overnight, and quite negatively, and no amount of political and Central Bank intervention is going to be able to reverse the fissures that have been created, and which are only going to grow from here from this breakaway.

The 'Leave' results were anticipated as a remote possibility, but in reality were quite unexpected. In fact, the World was so certain the 'Remain' side

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would win, the financial markets these past days had been soaring in anticipation of the 'Remain' victory, which we had said repeatedly was a bit premature, and so it has turned out to be.

The global investors and the smart money got caught positioned on the wrong bet and the reversals since last night, as the shocking truth started to dawn, have been deep and brutal. Asian and European markets are a 'Sea of Red' with major indices plunging from 5% to over 8%, the UK pound Sterling plunged to 30+ year lows, oil and other commodities dropped in anticipation of further slowdown in global economic activity, and gold has soared as part of the flight to safety.

The Central Banks will, and are intervening massively, to try and stabilize the markets, and eventually the markets will calm down somewhat, helped by the huge doses of liquidity that the Central Banks are pumping into the system, but the real long term damage lies elsewhere.

The European Union has been damaged irrevocably. Now, the danger lies in the dissatisfaction, in some cases utter disgust of some citizens towards the EU authority, that led to this fateful decision being taken by the Brits, spreading to other European countries, in which there are also large segments of the populations that are deeply dissatisfied with the European Union's ruling elite and its institutions. Thus the real fear of the EU's leadership is the spreading contagion of dissatisfaction which might lead to more breakaways, or might force fundamentally altered structures and reforms upon them.



Jean-Claude Juncker, President of the European Commission, the executive branch of the European Union

The EU leadership is even now in emergency mode. For the near term it will be almost solely preoccupied with trying to assess the immediate damage that has been done by Britain's vote, and as to how it can mitigate the immediate, and the longer term effects of that damage.

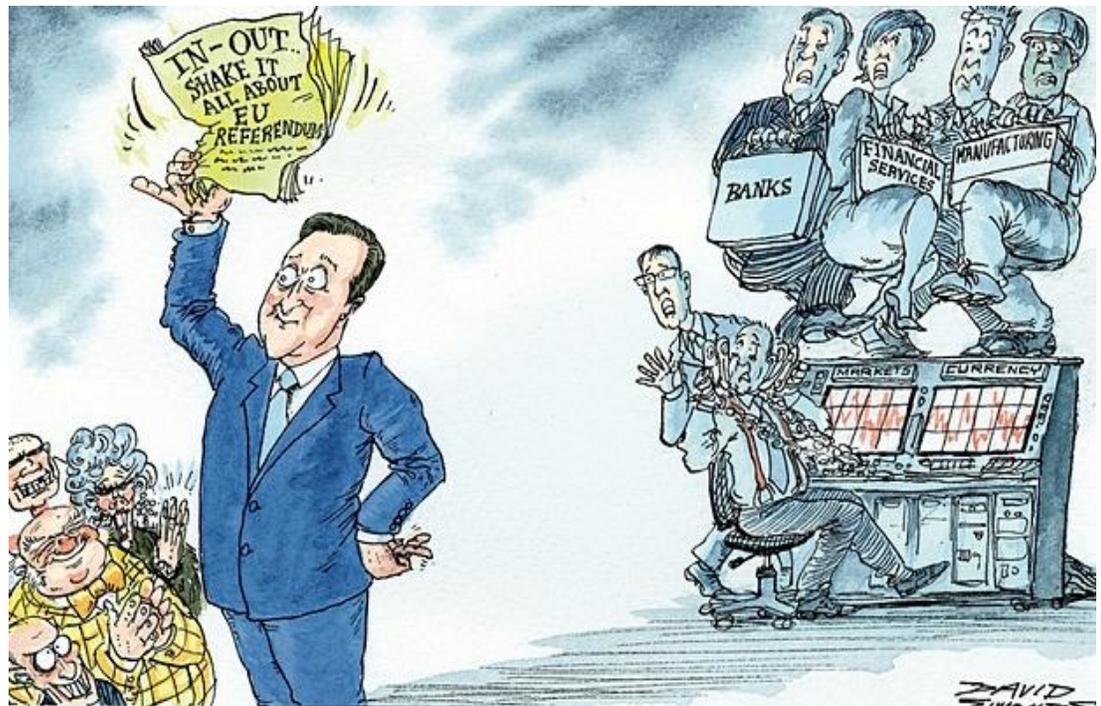
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Over the longer term EU leadership is going to be increasingly preoccupied by fighting political, social and economic fires that this vote will ignite within the Union itself, and among its trading and security partners in the larger World, where the damage inflicted will be primarily economic.

The unraveling of Britain from the EU is estimated to take at least two years of negotiations, and at times the negotiations may be quite acrimonious, as both sides wouldn't be able to help but blame the other for the end result.

All trade, travel, financial, banking, business, political and security 'Agreements' will need to be renegotiated. Additionally, Agreements between Britain and all the other countries will also need to be negotiated as Britain had been Party to those agreements as part of the EU, which it now no longer is, and will now have to renegotiate those agreements as a stand-alone country. The volume and complexity of these tasks is very significant, and will be incredibly expensive in extraordinary time, energy and costs involved.



Source: daryanblog.wordpress.com

These fundamental changes will have an immediate ill effect on all transactions between Britain, the EU, and the rest of the countries. That ill effect will happen at a time when the World is in an economically precarious state already.

The overall general effect of this shift is going to be the additional slowdown of global economic activity in all major economies, and particularly in countries like Japan, China and others that are primarily export-dependent countries and were heavily dependent on a large and strong European trading market for their well being.

Now they will have to cope with the prospect of additional weakness in demand

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that had already been less than adequate since 2008. This almost immediate additional weakness could exacerbate the existing recession-like conditions that these countries were already trying to cope with (*not very well*) now adding significant additional drag to their economic well being, which could tip these economies into full blown recessions or worse.



The Brexit that just took place will certainly add momentum to the ongoing global trend towards further global deflation, and the next recession. The significant plunge in the pound sterling, and the Euro, and the resultant flight to safety, to the US dollar and the Japanese Yen, will put tremendous strain on those and other currencies, and their countries. The overnight seismic shift in currency valuations will upset the carefully and at times very costly calibration that major international currencies are subjected to by their Governments and their Central Banks, to keep the trade relationships somewhat stable.

Those careful and costly calibrations over the past almost 8 years, since the 2008 financial crisis, by the Central Banks using Hundreds-of-Billions in support of their currencies, have just been shattered, and new rounds of massive cash interventions will be required to re-stabilize the uncertainty in the global currencies. Those interventions will cost the countries, and therefore the global economies, exacerbating an already overloaded financial global system with more debt.

These dramatic shifts that have taken place overnight will add significant strain on all major trading countries, international corporations, and all international transactions, that had not anticipated and hedged this particular risk from Brexit (*it would have been too difficult and costly to do so anyway*). Now, the significant adjustment to every international transaction will be an expensive and disruptive exercise.

Finally, the adverse effects of this monumental decision taken by Britain are difficult to quantify immediately with any real accuracy, as the possibility of a

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spreading chain reaction and its consequences within the EU, and the equally important prolonged economic shock outside of it, may trigger a protracted plunge in the global financial markets, and the global economies, which the Central Banks may not be able to contain. If that were to occur, then the World is in for a long and deep downturn which has the potential to fundamentally alter the economic and political landscape of Britain, other countries, and certain continents forever.

The financial and economic world has just changed, permanently, and there is no coming back, at least not entirely, ever.



Source: telegraph.co.uk