

Brexit: a political as much an economic challenge

- MFAT caught flat-footed
- Upheaval to NZ trade agenda – EU-NZ FTA + TPP
- Loss of influence in Europe through collapse of traditional UK channels inevitable
- A new NZ-UK FTA will become a priority
- Implications for EU agricultural access – will Europe try to trade special quota away?
- Global financial market volatility = caution; flight to safety; lower growth; heightened crisis risk
- Central banks braced to intervene
- Prospect of August OCR cut by RBNZ heightened
- A body blow for global elites and the globalisation 'status quo'
- David Cameron likely to face either a leadership challenge or general election

There will be no shortage of commentary on the global implications of the Brexit vote, so we confine most of this HugoVision special to immediate NZ implications, bar the observation that the extreme **volatility of financial market reaction is an economic expression of a political phenomenon: backlash in developed economies against the economic orthodoxy of the last 30-plus years.**

As the New York Times put it, this **outcome highlights "the power of anti-elite, populist and nationalist sentiment at a time of economic and cultural dislocation"**.

This theme will be explored further in the Hugo Medium Term Forecasts sessions on July 4 and 5.

Implications for NZ

In the same way that financial markets, bookmakers, UKIP's Nigel Farage (and this morning's edition of HugoVision) called the the Brexit outcome wrong, so did the Ministry of Foreign Affairs and Trade. We understand the ministry prepared speaking points for John Key on Thursday that barely contemplated an exit. The implications for MFAT are significant. Its trade negotiations team faces some serious challenges.

Firstly, an EU without the UK may seek to trade away special access for traditional agricultural exports, including butter. NZ has legally binding rights and will resist any such pressure.

Secondly, the impetus for an EU-NZ FTA might be blunted. France wasn't a fan, but Germany and the UK got the initiative onto the agenda. Without the UK in our corner, that outcome may be more difficult, although the **EU may still want the demonstration effect, given its pursuit of this agreement was more about engaging with China** than trading with NZ.

Thirdly, a completely **separate UK-NZ FTA now appears necessary**. And **fourth**, the political impulse that animated the Brexit vote is likely to **stiffen spines among Washington lawmakers against ratifying TPP**.

While the **NZ dollar has dropped sharply** on the outcome, it is still above the RBNZ's desired level and a lower global growth outlook would suggest a stronger case for an OCR cut in August.

Bear in mind: the process for leaving the EU will take at least two years and there is no clarity yet on the detail of that departure. Norway, for example, is not 'in' the EU, but enjoys many of the advantages of membership. Even if the 'leave' camp dominates UK politics, it will seek to preserve the many advantages of EU membership.

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