

# **The Impact of Brexit on the European and International Markets and How it Affects the Student Travel Industry**

**November 9, 2016**

**Presented by:**

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**Teach&Travel**  
The Official Publication of SYTA

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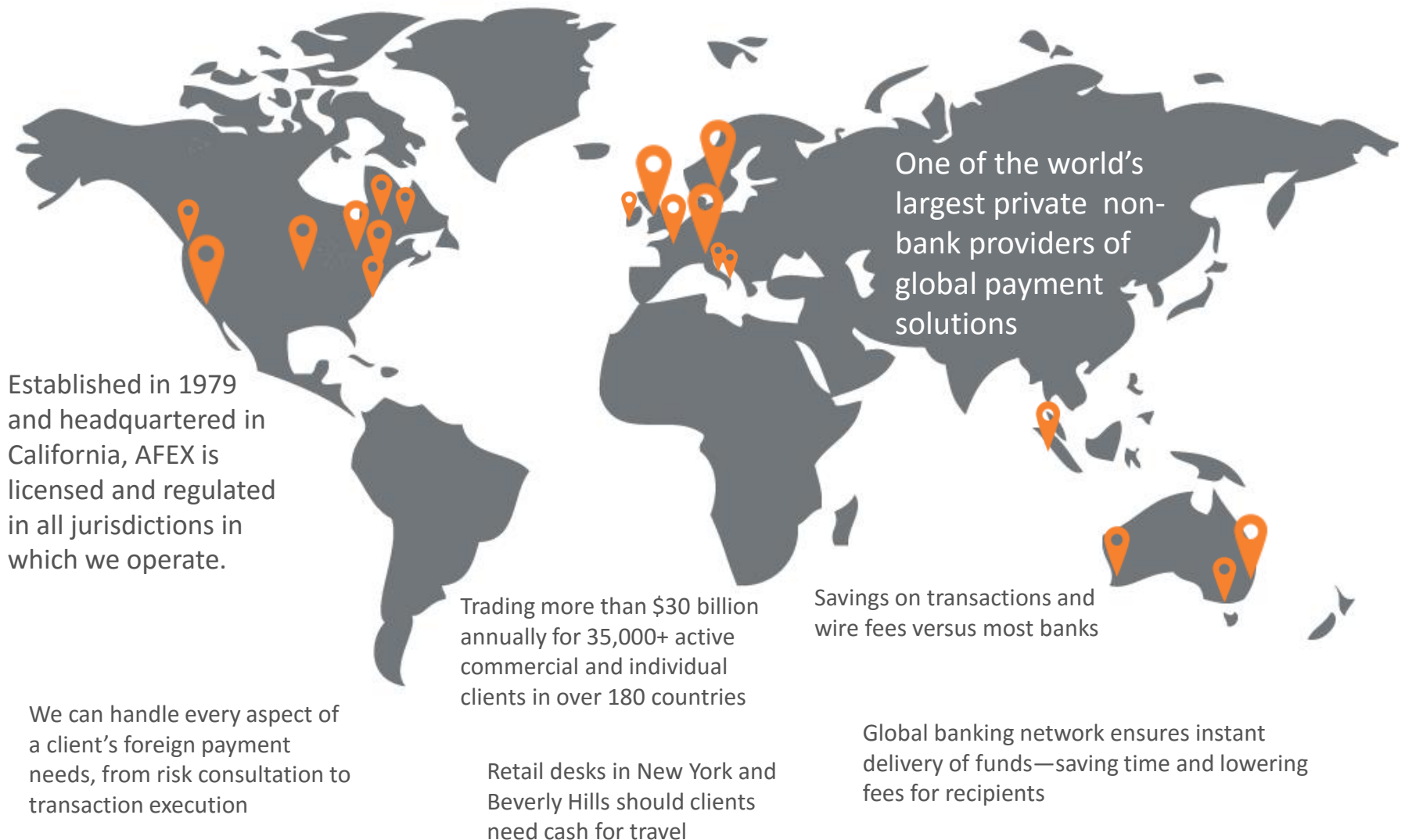
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# Agenda



- **About AFEX**
- **AFEX and SYTA: Member benefits**
- **The Brexit referendum and its aftermath**
- **Financial impact since the vote**
- **What it means for tourism**
- **Strategies for getting on top of the volatility**

# About AFEX



# SYTA and AFEX: Our Partnership

- We are proud to be a partner of SYTA, offering its members special benefits on their foreign exchange needs:
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# Shock and Awe:

## Britain votes LEAVE on EU Referendum

June 23, 2016. The British Public shock the world, and vote to leave the European Union.

Throughout the campaign leading up the referendum, polls were neck and neck, but no one really thought it would happen.

Federal Reserve Chairwoman, Janet Yellen, was asked whether she had an emergency meeting planned for June 24th in the event of a Brexit vote – but she confirmed that no such meeting had been scheduled.

But it soon becomes clear that the EXIT campaign has no real plan in place.



# Political Fallout



- Prime Minister **David Cameron** falls on his sword and resigns...
- But neither **Boris Johnson** nor **Michael Gove** move on to become credible leaders of the Conservative Party and thus Prime Minister

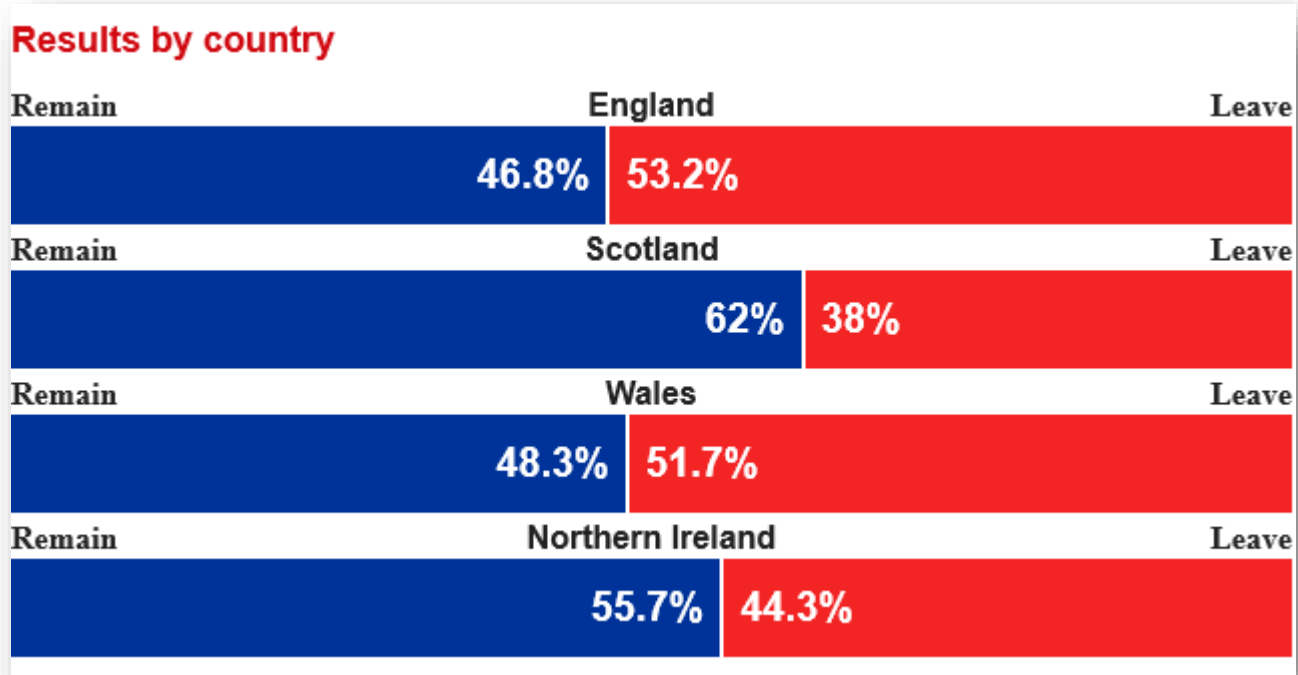


- **Nigel Farage**, leader of the **UK Independence Party**, resigns after admitting that his claim that money saved from leaving would be funneled into the UK's National Health Service was untrue



- **Theresa May** becomes Britain's first female Prime Minister since **Margaret Thatcher**.
- The onus is on her and her team to manage the long drawn-out negotiations, a minimum two-year process
- Her first international visit was with German Chancellor, **Angela Merkel**, who has maintained that the European Union cannot afford to make Brexit easy!

# How the United Kingdom voted



## Fast forward to October 24...

Initial meetings with Mrs. May and the First Ministers of Scotland, Wales and Northern Ireland leave Scotland's Nicola Sturgeon "deeply frustrated"



# The financial aftermath: GBP/USD

- The biggest, most obvious and immediate reaction to the UK's Brexit vote was the collapse of the British pound.



- In the lead-up to the vote, the pound had strengthened from decade-long lows of 1.4000, all the way back to 1.5000 on June 23<sup>rd</sup>, due to polls indicating that the UK would vote to remain.
- When it became clear that the result would be EXIT, the pound plummeted by 12%--an almost unprecedented collapse and the lowest level in 30 years.
- It held steady until a “Flash crash” in Asian markets pushed it to 1.18, and it’s struggled to recover.



# The financial aftermath: GBP/CAD

- The Pound/Canadian pairing follows a similar pattern to the GBP/USD—a precipitous drop when “Brexit” became inevitable, some peaks and valleys in a fairly narrow range, then a struggle after the “flash crash” and the “hard exit” announcement



# What's happening now?

Concerns of 'contagion' persist – that the Netherlands and France, in particular, could attempt to hold their own referendums to exit the European Union

- Presidential elections in Germany and France in 2017
- Parliamentary elections in the Netherlands, Germany, and other EU countries



In October PM Theresa May announced a “hard exit”, with unwinding to begin March 2017:

- A complex process after more than 40 years of integration
- Allowing Parliament to debate her plan was cause for a little optimism

The Marmite flap last month is just the beginning

- Unilever and Tesco are at loggerheads over pricing; Unilever cut off supply after Tesco refused to raise prices
- Mondelez announced that Toblerone bars will be shrinking due to the drop in the Pound's value



# In relative terms

On June 24<sup>th</sup> 2015, GBP 1,000 would have cost a US company \$1,577.

On June 24<sup>th</sup> 2016, it cost just \$1,330.

And on November 9, 2016, it cost \$1,240.

Great for US travel companies, and travelers, who are planning to visit the UK!



# President Trump:

## Impact on the global markets

- Initial volatility in the financial markets:
  - Chinese Yuan may weaken over time with Trump's protectionist stance
  - Mexican and Canadian currencies weaker against the US dollar in the immediate aftermath
  - USD/GBP and USD/EUR relatively unchanged (for now)
- The new administration will need to address:
  - Management of global diplomatic and military actions
  - Global trade deals, including Transatlantic Trade and Investment Partnership (US and EU) and the Trans-Pacific Partnership (12 nations) – Trump has trumpeted a protectionist stance
  - Immigration, jobs, health care--likely big domestic issues
    - Pharmaceuticals and banks likely to do well if Trump policies succeed
- Still largely uncharted territory



# Other political issues

- Other important questions
  - Will the Fed raise interest rates in December as was hinted? Still seems likely...
  - Will the EU continue its quantitative easing program?
  - With Mark Carney, Governor of the Bank of England, staying on the job until 2019, what will happen to UK interest rates?
  - What does the Trump win mean for populist movements in other parts of the world?

# Tourism in Britain: Some statistics

- Inbound tourism in Britain employs 3 million people and accounted for £22 billion in 2015<sup>1</sup>
  - Approximately 2/3 of visitors to Britain come from the Eurozone
  - Estimated £14 billion from international students (not all classified as tourists)<sup>1</sup>
- Short-term: travel to Britain surged over the summer
  - The number of foreign visitors increased by 18%
    - Approximately 3 million more travelers from outside Europe
    - 1.5 million more from the EU
- Longer term: If GBP weakness continues, tourism (and shopping and exports) could continue to benefit
- But there are other potential negatives
  - Less freedom of movement:
    - Travel to and from Europe could require a visa
  - New rules for Britain's low-cost airlines
  - Fewer EU workers coming to Britain for travel and tourism jobs

# Bargain-hunting in Britain?

## Strategies for Tour Operators

It's a good time to look back at 2016...and look ahead to 2017!

- Review current processes, pricing, and practices to uncover inefficiencies:
  - Historical market movements: what's happened?
  - Volumes and timing: how much and when?
  - How often are you transacting? How much and what time of day?
  - How does your achieved rate stack up against your budget /costing rate? How often do you re-price?
- Project upcoming needs:
  - What are your goals? How do you set your budget rate?
  - Monthly, quarterly, annual: How much is firm, how much needs to stay flexible?
  - Volume and timing of payments due: can this be improved
- Explore planning and hedging strategies:
  - Do rate orders or standing orders make sense?
  - With the Pound at current levels, forward contracts might be a consideration

AFEX can help!



> Questions?



# About Rob Bollé



Robert Bollé is the Regional Manager at AFEX Inc's global headquarters in Los Angeles. He has been a corporate foreign currency trader for 13 years, the first ten spent in his native London.

Rob and his team manage the foreign exchange exposure for AFEX's corporate and private client accounts in the US. Formerly a member of The Society of Technical Analysts in the UK, Rob helps his clients to understand global market trends to time their transactions effectively, reduce trading risk and formulate hedging strategies.

Prior to launching his foreign exchange career, Robert was a sports journalist. He now lives in LA with his wife and two young children.

# Thank you!

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