



UK stocks reacted negatively following the disclosure of a tough phone call between the PM and Chancellor Angela Merkel. In the call the Chancellor pointed out a number of problem areas with the PM's recent UK/Ireland border proposals, specifically that it seemed to create a non-controlled customs border. A source at no 10 suggested Chancellor Merkel made clear that the only way to break the deadlock was for Northern Ireland to remain in the customs union.

Senior EU negotiators in Brussels have made clear that an open border in Northern Ireland would contravene WTO regulations, allow smuggling and create a new and difficult precedent elsewhere in the EU single market.

The ultimate outcome of the ongoing Brexit fiasco affects the Pound which has a profound effect on the UK stock market. As a large percentage of large UK companies in the FTSE 100 aren't really British businesses at all. They earn a large proportion of their money outside the UK, but then "convert" that back into Pounds for reporting purposes. Doing so means they benefit from a weaker Pound thanks to the exchange rate.

Keeping it simple, when the Pound losses ground, the FTSE 100 tends to rise. Looking back, an example of this can be seen in the post-referendum period.

For those for whom Sterling is their base currency, a lower Pound is bad news (as the Pound has lost value internationally). But international companies, many of which are listed on the FTSE 100 are happy to see the recent fall in the Pound.

Importantly, the inverse is true; a rising Pound hurts the aforementioned businesses. And that's my Brexit prediction:

Once Brexit is all said and done the Pound will almost certainly enjoy a rally. Following this the FTSE 100 will lose ground with investors seeing a sharp fall in the stock of companies which generate much of the income from overseas assets.

That said, I also predict that this will be positive for UK stocks which transact most of their business in Sterling in the UK. These stocks are a buy!

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