COLLECTIVE ANALYSIS: BREXIT

CINDICATOR

Content

Executive summary

This analysis has been compiled by Cindicator Analytics, a team of professional financial analysts enhanced by collective intelligence gathered using Cindicator's Analytical platform. In order to gauge the sentiments and views of our analysts on our platform regarding the topic as well as potential effects it might have on cryptocurrency prices and regulations, we asked multiple open questions as well as some binary ones over the last few weeks.

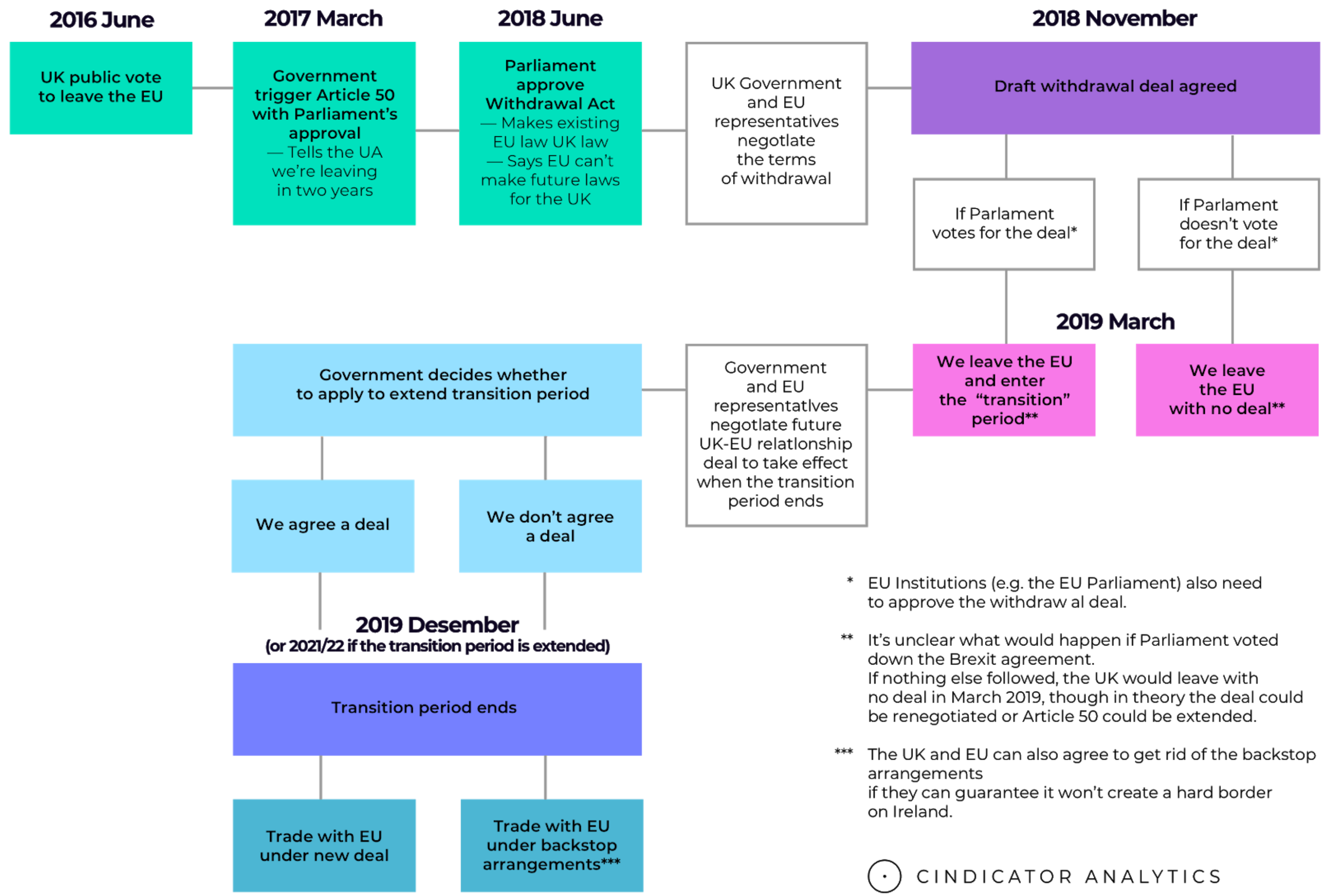
This analysis aims to provide a primer on one of the world's most debated political events, the UK Withdrawal from the European Union, also known as Brexit. You can find here a consolidation of the views and answers of our external analysts. First, we will provide a brief background on the event, including a timeline and key dates. As Brexit is currently a 'live topic' and negotiations are not finalised, the document will outline the possible scenarios prior to, and also after 29 March 2019, the initial date for the UK's departure from the EU. We also asked our analysts how they would prepare their portfolios for potential market uncertainties surrounding the event and gathered a list of asset classes they would consider investing in.

Brexit: Background and timeline

In 1973, the United Kingdom joined the European Union (the EU), then known as the EEC (European Economic Community). This allowed the UK to be part of the European Single Market which enables the free movement of goods, capital, services and labour between all EU members. On the 23 June 2016, the UK held a referendum where voters were asked only one question – whether the UK should leave or remain in the EU. One day later, the results were announced: a slim majority of British people voted to leave the EU (52% of voters).

The countdown to Brexit began on 29 March 2017, when the UK government invoked the official withdrawal process from the EU, aka Article 50. As a default, the United Kingdom would cease to be a member of the EU on 29 March 2019.

On 22 March 2019 the EU agreed to extend Brexit's deadline to either the 12 April or 22 May, depending on the outcome of the Withdrawal Agreement vote. This would be voted on by the UK Parliament during the last week of March.



Source: [Full Fact]

The possible scenarios for Brexit

After almost two years, negotiations between the EU and the UK parliament have still not reached a conclusive outcome. Although the EU approved a withdrawal agreement in November 2018, the UK Parliament could not command sufficient votes to back the deal. As a result, the progress of negotiations has reached an impasse and all options are now back on the table: (1) deal, (2) no deal, (3) extension and (4) second referendum.

We recently asked analysts to predict the likelihood of each outcome. Below are the results.

1. The UK leaves based on the negotiated withdrawal agreement with the European Union before 29 March. **On 14 March, Hybrid intelligence indicated a 19.10% chance that a negotiated deal between the UK and the EU would be in place by 29 March.**

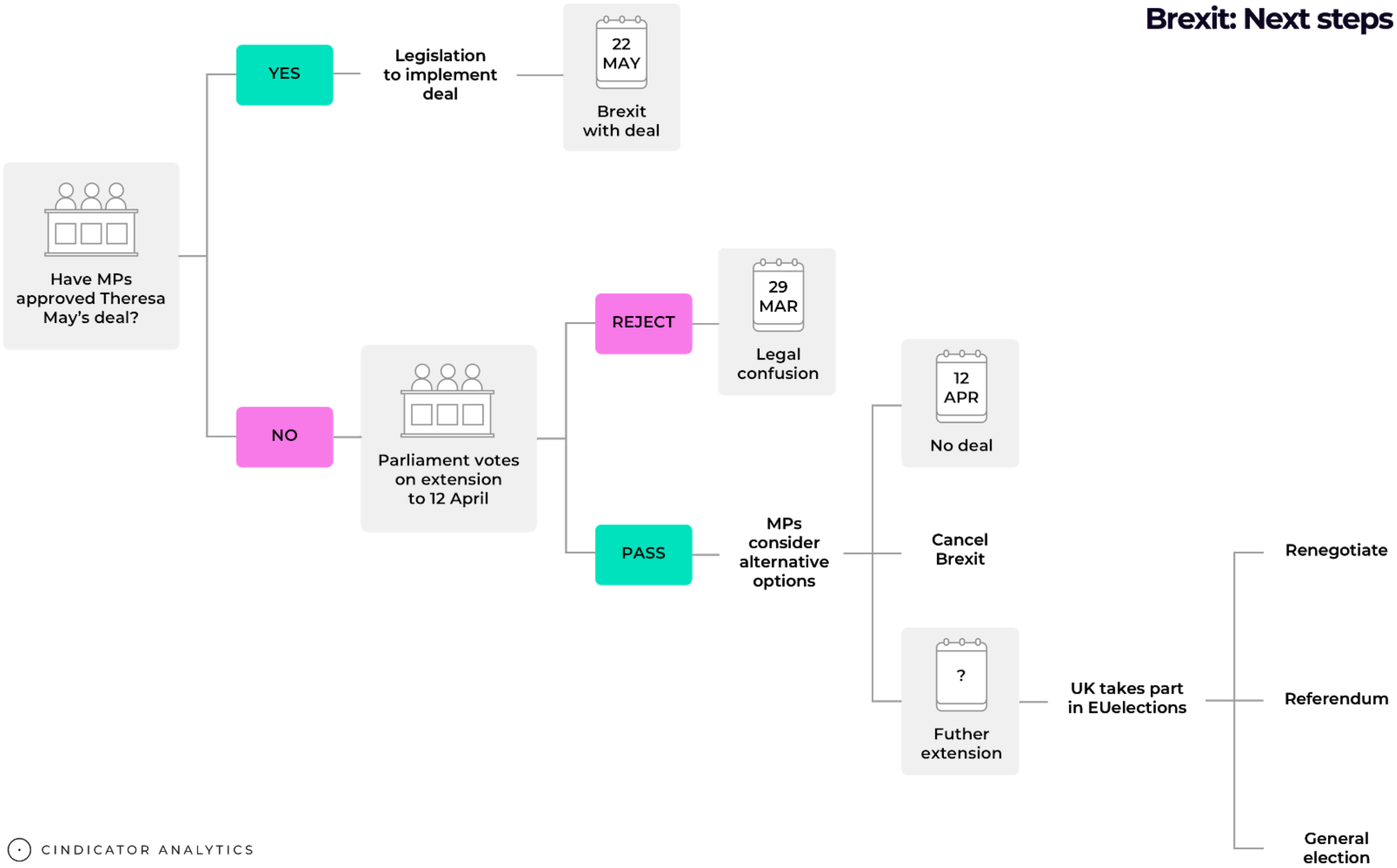
2. The UK leaves the EU without any agreement. This is called a no deal Brexit. **On 14 March, Hybrid intelligence predicted with only a 22.50% chance that a no deal Brexit would happen by 29 March.**

3. The UK asks for an extension of the two-year Article 50 period, thus remaining a member of the EU until the end of the extension period. Such an extension would require the consent of the EU. Moreover, if the extension exceeds a few months, the UK would have to participate in the 2019 European Parliament elections. **On 14 March, Hybrid intelligence forecast with an 82.75% chance that the deadline of Article 50 would be extended.**

4. The UK could unilaterally revoke Article 50 and remain a full member of the EU under the current terms. However, the revoking of Article 50 is unlikely to receive sufficient support from MPs. A more probable option would be a vote for a second referendum, which will give UK voters a chance to alter the outcome of Brexit. **On 14 March, Hybrid Intelligence predicted with a 69.58% probability that a second referendum would be passed in parliament by 29 June.**

From the results, it seems that the most likely outcome would be an extension of the Brexit deadline, followed by a possible second referendum passed by the UK parliament. If this turns out to be true, British voters could have a chance to reconsider their decision on Brexit.

Brexit: Next steps

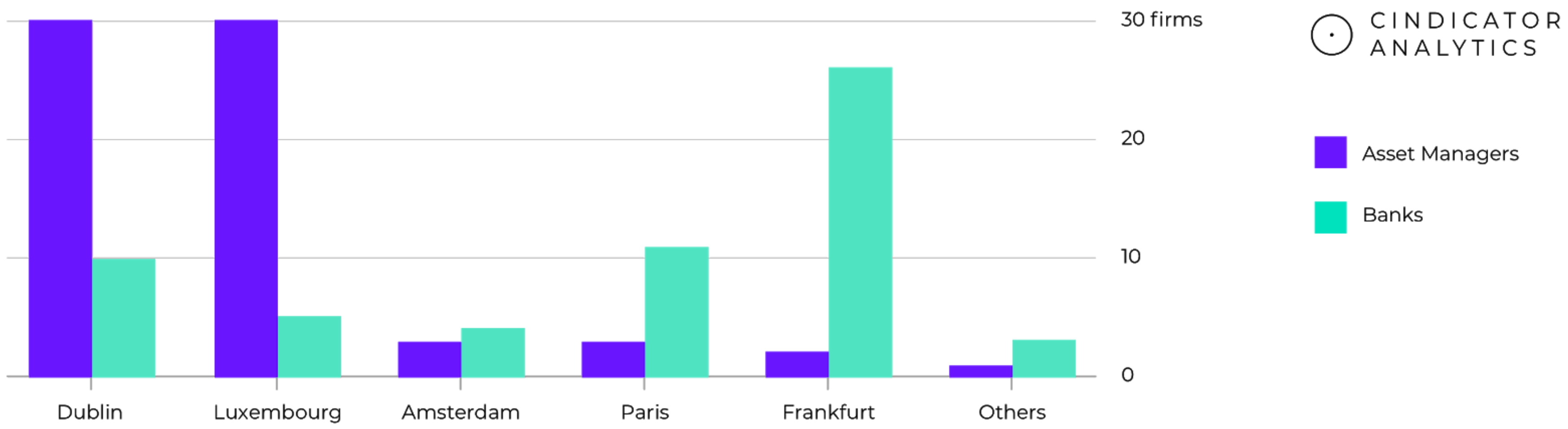


Economic impacts

Economists estimate that Brexit will have a negative impact on the British economy, which could reduce the UK's GDP per capita in the medium and long term. According to Bank of England policy makers, the leave vote has cost the UK about 800 million pounds ($1 billion) per week since June 2016, or the equivalent of 2% of GDP.

Brexit has also put massive downward pressure on the British currency. The pound sterling is down approximately 5% against the USD since the referendum, and about 10% against the Euro over the same period. The implications of the weaker pound have been cost inflation for imported goods and services, which has undermined the purchasing power of UK consumers. Money and jobs have flooded out of Europe's largest financial hub, the City of London. Many of London's largest financial corporations are implementing plans to rearrange their European operations in order to protect their business operations. So far, 65 billion pounds ($85.2 billion) of portfolio funds have left the UK, and at least 275 finance companies have moved, or are in the process of moving their operations outside the UK[1]. This signifies the weakening status of UK/London as one of the world's largest financial centers.

[1] Mark Gilbert, Bloomberg Opinion, 13 March 2019 - "Asset Managers Lead Britain's Exit Exodus"



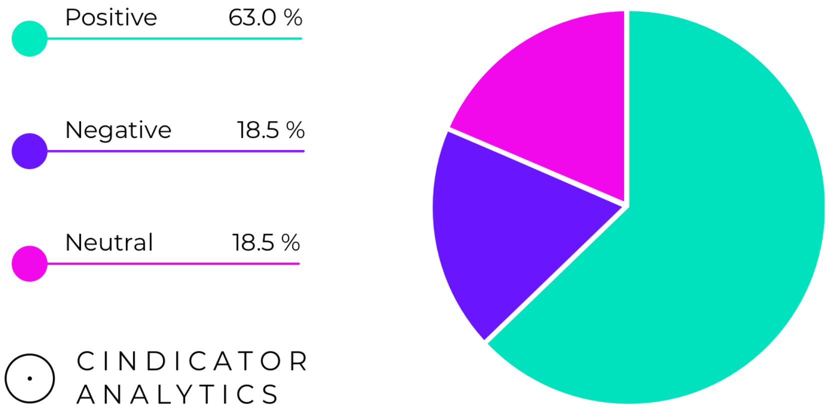
And the winners are...

Most fund managers have chosen Dublin for their new EU hubs; for banks, Frankfurt is city of choice

Source: [Washington Post]

Impacts on the crypto markets

We asked our analysts to assess the direct and indirect impacts of Brexit on the blockchain/digital assets, as well as what those impacts would mean to cryptocurrency prices.



Forecasters sentiment — Brexit impacts on crypto

Around 62% of analysts believe that Brexit will have a somewhat positive impact on crypto prices. This group believes that Brexit would continue to cause great uncertainty and risks for markets. In the event of a hard Brexit, businesses would experience rising costs to conduct cross-border trade, which would eventually cause a downturn in the financial markets. Investors would either invest in low-yield but reliable investments e.g. bonds, or find opportunities in markets with growth potential. Compared to the $32 trillion US stock markets and the $79 trillion global stock market[2], the $140 billion crypto market today is extremely small. It equates to 0.44% of the US markets and 0.175% of the world's stock markets by volume. Recently however, it has been growing at a much faster rate than those of the financial markets.

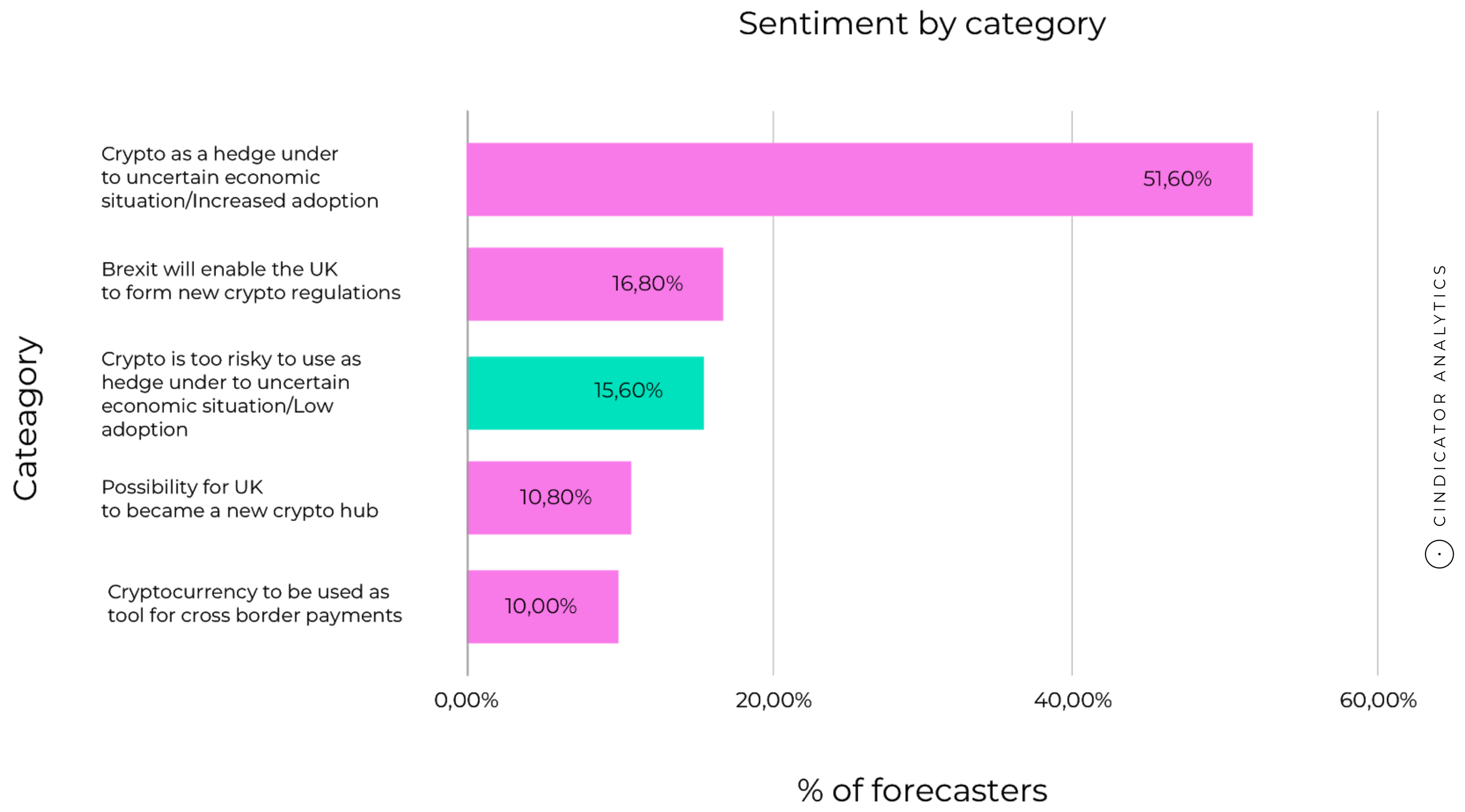
[2] World Bank Data, 2017 - https://data.worldbank.org/indicator/cm.mkt.lcap.cd

“There will be a positive impact on crypto, if Brexit happens. As trade will most likely become more cumbersome, some merchants will look to use crypto as an alternative to the pound. Furthermore, the impact on the pound should be negative, and this will cause people to diversify out of the pound into other currencies as well as store of value commodities. In my belief some of that diversification will flow into crypto, supporting prices and pushing them higher.”

Roughly 18.5% of forecasters believe that Brexit will not impact the crypto market in a meaningful way. Cryptocurrencies such as Bitcoin are borderless and not bound by any country and therefore should not be affected by the events of Brexit as a consequence. Even if there is a correlation, the current crypt o adoption and market participation rates are still too low for the ecosystem to be influenced by Brexit. Analysts in this group believe that although Brexit would likely have major implications for the UK and EU markets, it would have little impact on US and Asian markets, where large volumes of crypto are being traded daily.

Similarly, 18.5% of forecasters believe that Brexit will somewhat negatively impact the crypto market, at least in the short term. This would be especially true in the event of a disorderly Brexit, which would be very damaging to the UK economy and its financial markets. These analysts tend to believe that such an outcome would cause fear but would also trigger a sell-off in the stock markets, and that the same scenario would play out in the crypto markets in the short term. In the long term, however, the same group of analysts believes that there could be a faster adoption of blockchain technology in the UK, as it would increasingly be used in cross-border trades.

"The consequences of Brexit will definitely have a negative impact on the European and British economy. Any financial instability affects the value of various assets. From my point of view, crypto assets are rather risky assets, the share of which is reduced in such situations. At the same time, the behavior of the Euro and the pound is quite stable, if we do not take into account the days of important political events, when uncertainty in the markets increases sharply, and the crypto market shows moderate optimism. Therefore, I assume that the reaction of crypto markets will be moderately negative, and possibly insignificant, in the case of a calm development of the situation with Brexit."


Sentiment by category
Cateagory
Crypto as a hedge under to uncertain economic situation/Increased adoption
51,60%
Brexit will enable the UK to form new crypto regulations
16,80%
Crypto is too risky to use as hedge under to uncertain economic situation/Low adoption
15,60%
Possibility for UK to became a new crypto hub
10,80%
Cryptocurrency to be used as tool for cross border payments
10,00%
0,00%
20,00%
40,00%
60,00%
% of forecasters
CINDICATOR ANALYTICS

UK blockchain and crypto regulation

When the UK leaves the EU, there could be serious legal implications due to the revocation of the [1972 European Communities Act] (ECA). On the other hand, Brexit could have a beneficial effect on the regulatory atmosphere in the UK for the blockchain and cryptocurrencies. Breaking free from the EU means that the UK would have more control over its own legal framework. To gain a clearer perspective of what Brexit would mean for the crypto space, we asked our analysts to assess the implications of Brexit for the UK's regulation of cryptocurrency.

Disruption and delays in regulation

Almost 44% of analysts believe Brexit would not affect crypto regulation in the UK. Under a no deal scenario, withdrawing from the EU would lead to a repeal of the ECA. This would effectively remove 17,105 legal instruments across many areas of law, thus creating serious complications for the UK legislative system[3]. After Brexit, the government would then need to focus directly on legal processes associated with traditional political, economic and financial issues. As a result, some forecasters believe that regulatory development in innovative technology, such as cryptocurrency and blockchain, could be effectively delayed for the next 2–5 years.

[3] European Law Monitor, "The Legislative Impact of Brexit on the Economy"

Around 9% of analysts had a bearish outlook on crypto regulation post-Brexit. Bearish analysts believe that at least for the short term, leaving the UK could hinder growth not only for traditional companies, but also for blockchain projects. Being a member of the EU gives the UK access to the world's second largest single market, with a GDP of $17.28 trillion[4]. Losing access to the EU market could result in a massive capital exodus and business relocating away from the UK, as it would be more costly for investors and businesses alike to operate in Britain. For example, large blockchain company Coinbase has already moved its European base from London to Ireland, as part of the Brexit contingency plan.

Towards an autonomous financial sector

Around 47% of analysts view Brexit as having positive impacts on crypto regulation in the UK. Specifically, almost a third of analysts believe that after Brexit, Britain would implement a progressive approach towards the regulation of cryptocurrency. Without reliance on the EU regulatory framework, the UK could independently decide the direction of its regulatory approach to creating a more autonomous financial sector. In addition, with the prospect of jobs being lost due to Brexit, the government would seek different avenues to spur economic development and foster the innovation of new technologies e.g. blockchain, businesses and financial systems. The FCA and

[4] According to World Bank 2017 data https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=EU-CN-US&start=1960&view=chart

the Bank of England have been actively working on several blockchain initiatives and, most recently, created a fintech accelerator with PwC to work with blockchain proof of concept.

"The weakening of the influence of general directives for Eurozone banks will positively affect the development of blockchain technologies in the UK financial sector and the launch of new startups. With the UK leaving the EU, it can allow the UK to become even more flexible in terms of regulating new technologies and encouraging innovation, which will positively affect the development of the cryptocurrency market."

Preparation for uncertainty

With the Brexit deadline approaching, the markets are experiencing an increase in uncertainty. It is at this point that investors and fund managers must be ready to face one potential outcome of the Brexit process — the UK leaving the EU without any arrangements. In addition, the Bank of England predicts a 25% chance of a global recession in 2019 which is attributed to a slowing global economy and uncertainty surrounding Brexit.

To gauge investor confidence across different asset classes, we asked our analysts to shed light on which investment strategy they would (or did already) adopt in order to cope with the risks associated with Brexit and a potential recession.

In general, investors are inclined to build a diversified/mixed portfolio that consists of traditional assets, commodities and cryptocurrencies.

Cryptocurrency

Around 73.6% of forecasters would hold cryptocurrency investments in their personal portfolio during times of uncertainty. Specifically, they prefer to select large-cap cryptocurrencies such as Bitcoin, Ethereum, Litecoin etc., which are less volatile compared to small-cap tokens. From a risk management perspective, studies have shown that crypto assets have not been correlated with financial markets[5]. After a substantial decline throughout 2018, the low prices of Bitcoin and other cryptocurrencies appear to be attractive to some investors. For this reason, most of our forecasters tend to believe that investments in crypto would serve as a hedge against a slowing global economy and geopolitical events such as Brexit.

“In my opinion, it is more important to look at global trends by sector and to strategically allocate my investment portfolio to balance the risks and potential rewards. From the risk management perspective of a global recession, studies have shown that crypto assets are not correlated with traditional markets, so it makes good sense to include crypto assets in any overall portfolio as a hedge.” — Mark Shapland.

[5] Bitwise Asset Management, May 2018 “The Case for Crypto In An Institutional Portfolio”

Commodities and precious metals

Almost 40% of our analysts considered increasing their holdings in safe haven commodities, specifically gold, as a hedge against a possible global recession in the future. During upturns in economic cycles or times of stability, gold prices tend to fall as investors are more likely to invest in high-growth stocks and speculative assets. During an economic recession, however, gold is often perceived as a safe haven to insure investors against market risks and uncertainties. On the day the Brexit referendum result was communicated, gold rose 22% against the British pound in less than seven hours. Before that, the price of gold had already jumped by 20% in the first six weeks of 2016.

FX, bonds and defensive assets

Since 2016, uncertainties surrounding Brexit have been the major factor in the decline of the British pound (GBP). In the event of a disorderly Brexit, the BoE could apply quantitative easing policies and cut interest rates[6], which could lead to a further decline in the value of the pound. Around 20% of analysts would seek to increase their cash holdings. A small portion of forecasters (6%) specifically mentioned stable currencies such as the Swiss franc, Japanese yen and the US dollar. Roughly 10% of analysts are considering buying US Treasury bonds. Some analysts would also diversify their holdings into real estate as well as defensive assets such as low-volatility stocks

[6] David Goodman and Jill Ward, Vlieghe Says Loose BOE Policy More Apt in No Deal Brexit, Bloomberg, 14 Feb 2019

including utilities and consumer staples which pay stable dividends.

“The global recession is a fleeting risk off, which means everything will fall, and especially that which is already volatile. If we consider the issue from the point of view of economic cycles of 8–10 years, now the time is just right for the next post-2008 crisis. In a crisis, I would prefer classic hedge assets like the dollar, gold and now Bitcoin. In the simplest case, it is better to simply go into cash and not touch shares until the Fed draws down interest rates and floats the markets with capital. In the cryptocurrency market, because of the high cross-correlations among the coins, I would suggest simply keeping 50% in BTC and 50% in dollars until volatility calms down.” — Konstantin Karabanov.

Conclusion

Brexit has been a protracted and highly convoluted process. We asked our analysts to provide us with their views on how Brexit could impact the prices of cryptocurrencies and regulations. From our findings, analysts remain somewhat optimistic about the state of the crypto markets in the midst of Brexit and a slowing global economy. **About 62% of financial analysts believe that Brexit will have a somewhat positive impact on crypto prices. In terms of their investment strategy, around 74% of analysts are considering holding cryptocurrency in their portfolio**, along with other assets such as commodities, stocks and cash.

Brexit could have many different implications for the regulatory landscape of crypto. The optimists (44%) believe that post-Brexit, Britain could be prompted to take **a progressive stance towards cryptocurrency regulation** and enable blockchain innovations, which would increase the adoption rate of the technology. Only a small population of forecasters (9%) believe that the UK would adopt an unfavourable approach towards regulating cryptocurrency.

About Cindicator

Cindicator is a fintech company that has been developing its Hybrid Intelligence platform since 2015. The platform is used by 120,000+ highly motivated decentralised analysts.

Collective forecasts on global and digital markets are collected and enhanced with 30+ machine-learning models and a neural network. As a result of this symbiosis of humans and AI, Cindicator creates valuable trading indicators, predictive analytics and sentiments that improve investment decision-making amid high uncertainty for traders and investors.

To identify new investment opportunities and create relevant questions and indicators, Cindicator's internal team of financial analysts and quant researchers is continuously exploring the market environment. While Cindicator's analytical products are available exclusively to CND token holders, we share some of our research with a wider audience to increase public awareness of the prediction capabilities of Hybrid Intelligence.

Learn more about analytical products for traders and investors.

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