What's in store for the pound after the vote on the Brexit Bill?

A major vote in parliament on 12th June on amendments to the Brexit bill delivered a lot of drama but little in the way of clear answers. On the surface, the government won the day and voted to reject the majority of the Lords' amendments. However, there were heated words from both sides in parliament and PM Theresa May was harried by front and back bench alike. The morning of the vote brought the resignation of Justice Minister Dr Phillip Lee. He resigned in order to vote against the government and accused the government of trying to "limit" Parliament's role in the process. In the end, Dr Lee abstained from the vote after receiving last-minute assurances of concessions from the government on the key issue of whether Parliament has any say on the final UK-EU Brexit deal.

What do the results mean for the pound?

One of the outcomes of yesterday's drama is that it is looking increasingly unlikely that a "hard Brexit" with no deal and no concessions for trade will take place. This is good news for the pound and for businesses trading overseas in the long term as both may have struggled if the government walked away with a "no deal" option. However, what the day showed most clearly is that there are divisions in parliament on this issue. The government managed to reject the amendments only after some furious last-minute negotiations and thanks to a handful of Labour MPs voting with the government. These votes are by no means the final word on the matter, and for businesses looking for certainty and a clear road ahead, yesterday was disappointing. There is likely to be more drama to come, not least when the wording of that negotiated amendment comes through. Agencies are used to the luxury of many workers for each job they need to fill. Now, workers are enjoying the choice of 4 or 5 positions each.

How does this impact UK imports and exports?

Strong global growth and a decline in sterling following on from the EU referendum have meant that exports have expanded more quickly in the UK than many other countries over the past two years. However, it's worth noting that many companies have been reaping the rewards of a lower sterling to increase their sales volumes whilst still enjoying the tariff-free trade status Britain currently has with other EU members. If this is taken off the table entirely when the UK breaks with the EU, the cost of exports will go up due to tariffs. This will mean British companies would, almost overnight, become less competitive and be forced to raise prices or absorb the cost of those tariffs. Tariffs will also mean an increase in import prices; this has a knock on effect of creating inflation and lowering the standard of living for UK residents.

Will new trade tariffs be the only impact?

Brexit will have an impact across the business world. Companies risk losing the ability to bid on public contracts in any EU country and this could impact a wide range of organisations from manufacturers and engineering firms to the service industry. The controversial Irish questions, together with rumblings of another bid for Scottish independence could cause further disruption. Whatever deal is agreed upon in terms of a customs union or partnership, it's likely to require additional paperwork. The added compliance requirements are very likely to add resource costs to both importing and exporting, not to mention further time required to clear those new barriers which could create friction that results in an end to Just-In-Time efficiency processes. This in turn would have an impact on storage and transportation costs and even cash flow.

Will new trade tariffs be the only impact?

There are currently 135,000 businesses trading with the EU. Some businesses may find that the added obligations, in whatever form they take, may drive up resource costs. Larger businesses in particular may choose to make changes to the supply chain to circumvent some of the requirements by working with third parties with preferential agreement conditions. Looking at the bigger picture, US businesses often invest in Britain as a gateway to the EU and trading with the 28 EU nations. These businesses have invested $588 billion and employed over a million people. Of course, these businesses aren't going to disappear overnight but there are likely to be some changes to the way that outside investors view Britain for partnerships. There is, of course, the possibility that Britain may achieve trade deals which make the UK attractive to US investors for markets further afield, or for investors from elsewhere looking at specific markets. The challenge is that at the moment, nothing is guaranteed and meanwhile the pound continues to fluctuate according to both domestic and international events.

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What happens next?

The results and the amendments will be sent back to the House of Lords. There have been incidences where legislation has been passed back and forth between the Houses – the Corporate Manslaughter and Homicide Bill of 2007 bounced between the two houses seven times – but this is unlikely to happen in this case. The clock has been ticking even louder since the government agreed that the House of Commons will be able to direct Brexit negotiations if no deal is achieved by 30th November this year. This major concession may help to prevent the "no deal" scenario, but the government will be hoping to make progress in the meantime and use this option only as a last resort. In addition, any Brexit deal will be presented as a motion to the House of Commons within seven days of being reached. Both of these puts power back in the hands of parliament, but may leave the pound slightly adrift and hostage to the political manoeuvring of ministers and MPs on both sides of the political divide. On the other hand, the possibility of a softer Brexit, mitigated by the hand of parliament, may present the pound with more opportunities to make gains – but it looks set to be a bumpy ride.

Maintaining growth in uncertain times

The political landscape and the Brexit vote has a major impact on the value of currency, but it's clear that to date that has had a positive effect on British exports. Businesses can make the most of this opportunity by carefully managing currency payments to ensure that they are mitigating against the risk that the foreign exchange market presents. If there are concerns that sales volumes may drop off if trade tariffs cause a major change in pricing, then markets further afield may be an option. Again, the currency risk needs to be taken into account, but with moneycorp, a corporate international payments account means that additional markets doesn't necessarily mean additional complexity. It's possible to manage payments and receipts from all over the world within a single account, monitor and track payments online and develop a strategy for each currency that makes the best of each particular situation. In addition, our clients receive guidance and support on managing international payments efficiency and insight into the market to help companies make decisions to suit their requirements and achieve their commercial goals.

Brexit is unlikely to mark the end of British exports, given that "Brand Britain" has a strong reputation abroad and imports are likely to continue to be a necessity. What may need to change, while the fate of the pound remains tied to the outcome of whatever deal the government achieves, is that companies take a firmer grip on their currency exposure to steer their international business through some choppy waters.