BREXIT

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Tale of Two Donalds: Trump gives Europe splitting headache

By Alastair Macdonald

Our Donald, or the other Donald? European Union leaders meeting in Malta found themselves taking sides, between their summit chairman, "our Donald" Tusk, and the new U.S. president, Donald Trump.
But despite declarations of unity, EU states are split on how to respond to policies from a man who has reversed staunch postwar U.S. support for European integration and suggested others follow Britain out of a bloc he has called "a vehicle for Germany".
Tusk, a former Polish prime minister, said EU leaders gave him the "our Donald" nickname in Malta. He presented it as a sign of their support, saying before the summit that Trump posed a "threat" to the bloc, alongside Russia, China and violent Islam.
"The mood in the room was 'our Donald' and 'the other Donald'," said one person present at the talks, where Tusk also felt confident enough in his support to confirm he wants a second term as president of the European Council.
His political enemies in the Warsaw government publicly disavowed any sense of unanimity behind Tusk, however, calling his criticism of Trump a "gross abuse" and accusing him of "sowing fear" and "seeking confrontation".
Others, less publicly, said there was wider disquiet that the EU could turn its back on its Transatlantic relationship.
Such internal arguments pit historic unease, especially in France, over U.S. influence against fears of weakening a Western front against Russia and, increasingly, China. How they play out will help shape Trump's hopes, for example, of saving U.S. money spent on NATO and shifting world trade in Americans' favour.
They will also flavour the EU's Brexit talks with London - where Prime Minister Theresa May sees Britain being a bridge between Washington and Brussels - as well as efforts by some states to tighten cooperation on euro zone economic policies and other areas, notably an independent EU military capability.

"STRATEGIC AUTONOMY"

As a Pole well aware it is U.S. forces that underpin NATO's security guarantees in eastern Europe, Tusk nuanced his call to Europeans to pull together to defend their independent interests against the "superpowers, the United States, Russia and China" with an appeal to Americans to preserve "the Transatlantic bond without which global order and peace cannot survive".
But some leaders worry Trump's coolness toward NATO and the exit of well-armed Britain will fuel ambitions for Europeans to loosen that bond - notably in Paris, which has often chafed at "Anglo-American" influence and where officials say Trump shows France has been right to seek "strategic autonomy" for the EU.
"The French ... are as usual saying 'It's just the European Union now; there's no such thing as the West'," said a senior eastern European diplomat, criticising Paris's view.
"The Germans are much more cautious. There is a clear issue to be decided on whether we should seek a common ground to engage with the United States, or turn our backs."
As EU leaders prepare to map out a post-Brexit strategy at a 60th anniversary summit in Rome next month, French President Francois Hollande criticised Trump and eastern European governments he accused of raking in EU subsidies but then breaking ranks and undermining the bloc by seeking special favour from Washington.
Many in the east are especially alarmed by Trump's warmer tone toward Russia but some back his entry ban on Muslims, which echoes their own criticisms of EU refugee policies.
German Chancellor Angela Merkel took a less confrontational tone but stressed the need for "multilateralism" - a prod to Trump not to try and circumvent the EU by talking only to national leaders, and to Europeans to speak with a single voice.
Whether "the other Donald" gets that message is another matter, given a seemingly hazy grasp on who is who

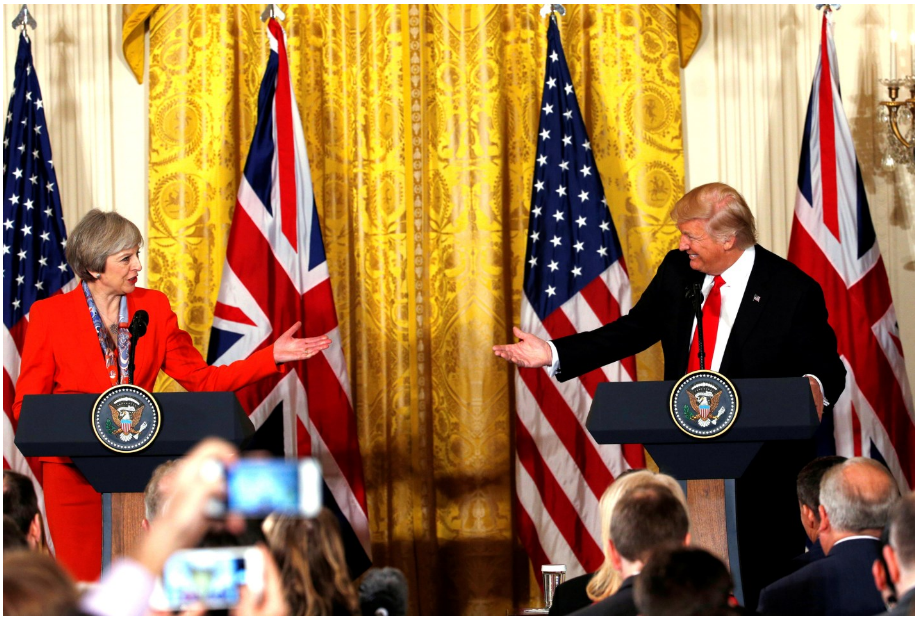
European Council President Donald Tusk addresses the media on the eve of a European Union leaders summit in Valletta, Malta February 2. REUTERS/Yves Herman

in Brussels. The tycoon-turned-president told an interviewer last month he had spoken to "the head of the European Union" and named his interlocutor as Jean-Claude Juncker, the EU chief executive.
In fact, however, he had spoken to "our Donald", Tusk.
"Sometimes I have an impression that the new administration does not know the EU in detail," Juncker said drily on Friday.
"But, in Europe, details matter."

May faces bumpy road to her "special relationship" with U.S.

By Elizabeth Piper

It was an invitation to seal Theresa May's bid to revitalise the "special relationship" with the United States, but the promise of a state visit for Donald Trump is turning into another headache for the British leader.
May is determined to strengthen her hand before launching divorce talks with the European Union by bolstering ties with world powers like the United States. Her trip to the United States last month that aides described as successful ended with Trump's acceptance of a chance to meet Queen Elizabeth.
But any enjoyment of what a source in May's team praised as a "warm, free-flowing and unscripted conversation", one that yielded a Trump promise of a trade deal as soon as Britain leaves the EU, was short-lived.
On her return home, May came under fire for not immediately condemning Trump's summary curbs on immigration. Since then over 1.8 million people have signed a petition urging the visit be cancelled or downgraded to avoid embarrassing the Queen, though about half of Britons say it should go ahead.
On Monday, the speaker of Britain's lower house of parliament, a member of her ruling Conservative Party, rejected any plans for Trump to address parliament during the visit.
"An address by a foreign leader to both houses of parliament is not an automatic right; it is an earned honour," House of Commons speaker John Bercow told parliament - to cheers from members of the opposition and near silence from his own party.
"As far as this place (parliament) is concerned, I feel very strongly that our opposition to racism and to sexism



British Prime Minister Theresa May and U.S. President Donald Trump gesture towards each other during their joint news conference at the White House in Washington, U.S., January 27. REUTERS/Kevin Lamarque

and our support for equality before the law and an independent judiciary are hugely important considerations," said Bercow, who has some say over where a parliamentary address can take place.
For many in Britain's august, centuries-old parliament, his comments broke with tradition.
The speaker is seen as a neutral voice whose main role is to keep order in the House of Commons and to keep the prime minister informed of the mood in the chamber over certain issues, mostly privately rather than publicly, lawmakers say.

SPLIT

He drew support from many in the main opposition Labour Party and the Scottish National Party. Both have voiced disquiet about according Trump a platform in Britain following his disputed executive order barring entry for refugees and people from seven Muslim-majority countries.
But for several Conservative colleagues, Bercow may have overstepped his writ, while underlining the "controversy" May must navigate as she pursues closer ties with the United States as leverage in looming EU exit negotiations.
"We've got to move the discussion on to try to rescue the visit and the relationship with the States," said Crispin Blunt, a senior Conservative lawmaker and chair of parliament's foreign affairs select committee.
He told Reuters the trip could be moved to 2020 to coincide with the 400th anniversary of the Pilgrim Fathers, the first English settlers in America, when both sides could also sign a trade deal following Britain's expected exit from the EU.
It was not known how Trump viewed Bercow's comments.
May, who is also under pressure from

some of her lawmakers over her strategy for Brexit, has yet to be moved on her commitment to a state visit for Trump this year.
"We look forward to welcoming the president to the UK later this year," a spokeswoman for May said. "Dates and arrangements for the state visit will be worked out in due course."
At particular issue is whether Trump will be able to speak in Westminster Hall, the oldest wing of the Palace of Westminster where it is deemed a rare honour for foreign leaders to address both houses of parliament. Barack Obama was the first U.S. president to use the hall to address parliament in 2011.
A state visit does not automatically include an address to both houses of parliament, according to the Hansard Society, an independent charity that promotes British parliamentary democracy, and this does not have to take place in the hall.
If one is granted in Westminster Hall, the invitation rests with parliament in the form of its speakers of the two houses and the Lord Great Chamberlain on behalf of the Queen, it said.
Bercow said he was "strongly opposed" to an address by Trump in the hall even before his immigration curbs. "After the imposition of the migrant ban ... I am even more strongly opposed to an address by President Trump in Westminster Hall."
Blunt said it was very likely May was aware of Bercow's views before she went to Washington in late January and would have known she would have to engineer Trump's visit to take account of parliament's position.
"Now we have a situation that the referee has taken a view and has gone on one side of a very controversial area."

May's "Trump embrace" galls Britain's EU allies ahead of Brexit

By John Irish, Gabriela Baczynska and Andreas Rinke

Prime Minister Theresa May's embrace of Donald Trump has galled Britain's closest European Union allies, who fear London is tilting too heavily towards the new U.S. administration ahead of Brexit.
May sought to use her Washington meeting last week with President Trump, the first such visit by a foreign leader, to show that Britain can still have a "special relationship" with the world's dominant superpower after it leaves the EU.
But May's visit, which included a photograph of the two leaders briefly holding hands outside the White House, has irked EU allies who fear Britain could indulge Trump by changing its stance on Iran and Israel in the hope of a trade deal after Brexit with the world's biggest economy.
"We have to ask Britain whether they are really willing to pay the price of their foreign policy to have a free trade deal with the United States," a senior western European diplomat told Reuters on condition of anonymity.
Others cast the visit as a "pathetic" attempt to court favour with Trump by one of Europe's top two military powers.
The unusually vociferous criticism was shared by diplomats from across Europe - the same countries that will decide the nature of the Brexit divorce agreement, which May will have two years to strike after triggering the EU exit talks next month.
Asked about such concerns, May's spokeswoman told Reuters the prime minister was not afraid her overtures to Trump would unnecessarily annoy Britain's EU partners and reiterated her stance that Washington is a key ally.

"QUITE INDECENT"

The shift in British policy, while partly due to the Brexit vote, illustrates how Trump's first days in office have shaken up British and EU calculations.
"Theresa May was caught by surprise by the momentum in Washington, which is now forcing her to move more quickly to adopt a post-Brexit position," said Almut Moeller, head of the Berlin office of the European Council on Foreign Relations.
"May's problem is that the more Trump drives Britain to express solidarity, the larger the negative reaction will be on the European

A cyclist rides past a mural depicting U.S. President Donald Trump and British Prime Minister Theresa May, in London, Britain, February 7. REUTERS/Toby Melville

continent," Moeller said. "Washington is driving the division of the EU."
The German leader of the conservative bloc in the European Parliament, Manfred Weber, compared the latest U.S.-UK special relationship unflatteringly with 20th-century predecessors.
"Roosevelt and Churchill fought side by side for freedom," he told the chamber. "Reagan and Thatcher together tamed Communism. Donald Trump and Theresa May stand only for national self interest."
EU leaders have said Britain cannot conclude any bilateral trade deals until it leaves the EU - likely on the current timetable to be in early 2019 - and that any deal it does with the EU will be on less favourable terms than membership.
"We want a fair deal for the United Kingdom, but that deal necessarily needs to be inferior to membership," Malta's Prime Minister Joseph Muscat, holder of the EU's rotating presidency, told the European Parliament last month.
EU diplomats said Trump's surprise decision to ban refugees and citizens from seven Muslim-majority nations - an order signed hours after he met May - had highlighted the risks facing Britain as it begins to disentangle itself from Europe.
Trump's action prompted protests in British cities, while Foreign Secretary Boris Johnson angered some EU diplomats by seeking bilateral assurances from Washington that all U.K. passport holders could still visit the United States.
"The Brits tried to negotiate something between themselves and the Americans and frankly didn't get much. It was quite indecent," the senior western European diplomat said.
Some diplomats said May had shown unseemly haste in embracing a U.S. leader widely seen in Europe as unpredictable.
"That photograph of May and Trump holding hands will never be forgotten," said one EU ambassador. "Why did May have to rush to Washington without knowing who she was dealing with? Her embrace with Trump has backfired in Europe and at home."

"THE TRUMP EFFECT"

Some EU officials said May had shown signs of shifting tack on the Middle East and Iran to suit Trump's stance.
In December - after Trump's election win - Britain scolded then U.S. Secretary of State John Kerry for describing the Israeli government as the most right-wing in Israeli history.
While Britain voted for a U.N. resolution that angered Israeli Prime Minister Benjamin Netanyahu, it refused to sign a communique at the Paris peace conference on the Israeli-Palestinian conflict, expressing "particular reservations" about the absence of the two parties to the conflict.
Of further worry to EU diplomats were recent comments from Johnson that Syrian President Bashar al-Assad should be allowed to run for re-election in the event of a Syria peace settlement.
Britain had previously insisted that Assad must go.
"Britain could pay in the long-term internationally ... if it continues to follow such a shift in policy," said one French diplomat. "The respect it garners, including on the U.N. Security Council, could diminish if it aligns itself with Trump."
To be sure, May has kept support for EU sanctions on Russia over the Ukraine crisis and has insisted that the NATO alliance is not "obsolete", as Trump has suggested in the past.
For many EU capitals, though, Britain after its Brexit vote seems to be drifting inexorably away from the continent.
"Britain always said that on foreign policy, its interests lie in working with the EU despite Brexit," one central European diplomat in Brussels said. "Now there's this Trump-effect, with Britain looking to play well in Washington even if that goes against its traditional positions."

British Prime Minister Theresa May listens as U.S. President Donald Trump speaks during their joint news conference at the White House in Washington, U.S., January 27. REUTERS/Kevin Lamarque

ANALYSIS

Europe without Merkel? Investors think through another 'surprise'

By Marc Jones and Paul Carrel

German Chancellor Angela Merkel attends a press conference in Warsaw, Poland February 7. REUTERS/Kacper Pempel

A serious challenger to German Chancellor Angela Merkel is forcing global investors to parse another potential electoral surprise - removal of a key political constant through years of euro zone turbulence but also an end to Europe's austerity bias.

Martin Schulz's appointment as the Social Democrats' (SPD) candidate to run against Merkel has energised Germany's September election race and those in his party daring to think they could unseat her.

He remains the underdog, but polls show him pulling closer by the day. One published on Thursday gave just a six point gap between Merkel's alliance and the SPD. It said Schulz far outstripped her in one-on-one popularity.

That is an unnerving prospect for some investors now accustomed to Merkel's generally steady handling of Europe's rolling crises that has contributed to triple-digit gains from German stocks to Portuguese bonds.

Just a few weeks ago, Larry Fink, head of the world's biggest asset manager BlackRock, praised "the moral leadership Chancellor Merkel and Germany have played in an increasingly discordant world," adding that he hoped it would continue.

Schulz, a former European Parliament president, though, is looking to shake things up.

Having seen his party wither during its time as the junior partner in a 'grand coalition' with Merkel's conservative alliance, he is vowing to fight for fairer tax rules, higher wages, better education and to overcome the "deep divisions" that have fuelled populism.

Financial markets will see that as a nod to loosening the fiscal purse strings - no problem for a major economy with a large surplus and probably good for European stocks, although not so great for bonds if it fuels inflation.

One lesson for investors from 2016 was that political shocks from the U.S. election of Donald Trump and Britain's vote to leave the EU did not crash markets. In part that's because growth-friendly fiscal policies have come to the fore, away from an over-reliance on maxed out monetary policy.

A change in Germany could also help ease international strains about its budget and trade surpluses that surfaced again this week when Donald Trump's trade advisor lashed out at the boost German exporters gets from a "grossly undervalued" euro.

Another question for international investors will be what happens to Wolfgang Schaeuble's tough stance on financial aid for Greece if the veteran finance minister is replaced.

They will want to know if Schulz could end the push for austerity in Europe and take aim at the European Central Bank's money printing programme and the sub-zero interest rates that have been crushing German savers.

"If you read between the lines, the Merkel administration has been very supportive of the ECB's actions," said Tim Barker, Head of Credit at Old Mutual Global Investors.

"Were she not to be in power, would that support remain? We don't know the answer."

EUROPEAN DNA

Schulz is unsurprisingly pro European. He told Der Spiegel magazine in 2012 the introduction of common 'euro bonds' across the single currency bloc would be the best way to reduce the interest burden on indebted countries in the south, though he said this was "a theoretical debate" as northern countries didn't want them.

Greek, Italian, Spanish and Portuguese bonds have all been underperforming this year on nervousness about ECB policy and rising anti-euro sentiment several countries including France. JP Morgan Asset Management's Tilmann Galler said with "European DNA running through his political career," Schulz might be the antidote.

Any rally could easily reverse if it opened the government borrowing spigot again in peripheral euro zone countries.

"All things being equal austerity equals fiscal discipline, so if you reverse that, does that open the

floodgates of supply?" said Old Mutual's Barker.
"You have to reassess you starting point for valuation. It could potentially be quite damaging."
The euro could swing too if Germany does start spending. The government has faced international pressure for years - including from the IMF and OECD - to boost economic demand at home to balance its exports. It had a record trade surplus of almost a quarter of a trillion euros ($264.10 billion) last year.

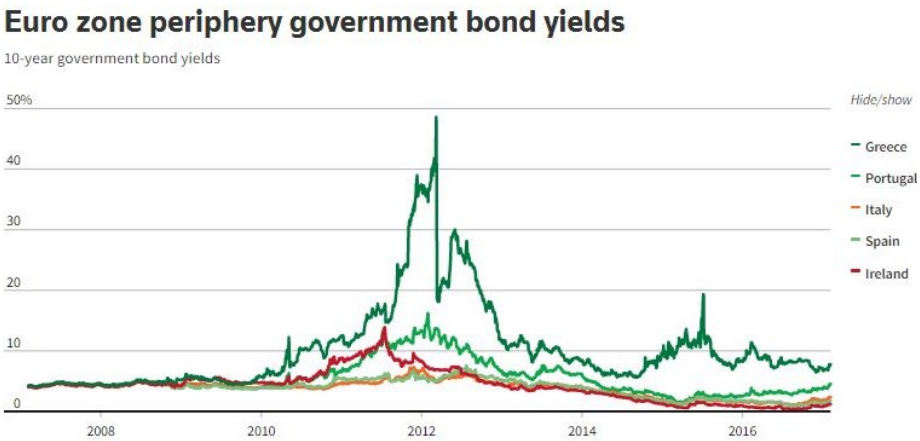
POSSIBLE ALLIANCES

Despite the SPD's excitement about Schulz, his chances of toppling Merkel are still seen as slim.
Though popularity polls have him pulling neck-and-neck, or even beating Merkel, personal ratings don't necessarily count for much as Germany does not have a presidential -style system.
A more significant measure of party support still shows Merkel's conservatives ahead on 34 percent, with the SPD trailing on 28 percent.
The gap means that to clinch power, Schulz would need to team up with two smaller parties - the environmentalist Greens and the leftist Linke - exploratory talks have been held.
The prospect of a heavily left alliance is already alarming some conservatives, even if it is a long shot.
"It would endanger everything we have achieved," said Michael Frieser, a member of parliament for the Christian Social Union (CSU), Merkel's conservative Bavarian allies.
For market players the unknowns all breed caution.
If Schulz became chancellor and signals a spending drive, German Bunds are likely to underperform their euro zone peers said JP Morgan AM's Galler, though the bond market selling would broaden if the ECB makes a quick move to wind down its aid.
The uncertainty is already being reflected in currency options markets. Traders have been taking out some bets on euro volatility around the Sept. 24 election, although that is also when analysts expect the ECB to announce the next scale down in its bond buying.
Analysts in UBS's Chief Investment Office expect the euro to be at $1.20 in 12 months time once the dust has settled though it could be a bumpy ride if Schulz does win.
"It would be an enormous shock to markets and the political order of the eurozone," said Sassan Ghahramani, CEO of U.S.-based SGH Macro Advisors which advises hedge funds.

Election nerves push French bond yields to highest over Germany since 2012

By Abhinav Ramnarayan

Investor concerns that the far right could win France's presidential vote and take it out of the European Union pushed the premium investors demand to hold French government debt over German bonds to its highest since November 2012 on Tuesday.
The gap between French and German 10-year borrowing costs widened to 78 basis points in early trades as nervous investors sought safety in low -risk German government bonds.
Though the spread between the two narrowed as the session wore on, it remained near multi-year highs.
Bets against French bonds had already risen dramatically in the wake of Donald Trump's surprise win in the U.S. election in November.
These have intensified over the past two weeks as support for conservative challenger Francois Fillon has tumbled in the wake of a financial scandal. The former prime minister had been seen as a shoo-in for the



Elysee palace before the scandal erupted, but opinion polls now show him crashing out in the first round.
Fillon has lost ground to independent centrist Emmanuel Macron and, more alarmingly for investors, the anti-EU National Front leader Marine Le Pen.
Le Pen promises to haul France out of the euro zone and hold a referendum on EU membership.
But while Le Pen has long been expected to reach the spring election's second round, polls show her being soundly defeated in that runoff.
As political uncertainty grows in France, the relationship between French and German bonds has weakened while that between French and lower-rated Italian debt has strengthened, suggesting French bonds are behaving more like peripheral peers.
The correlation between daily changes in 10-year bond yields in France and

Germany over a 60-day period is now lower than the equivalen correlation between French and Italian yields.
The last time the correlations crossed over was early 2012 when Italian spreads widened and concerns over a euro breakup were on the rise, according to Thomson Reuters' IFR.

"LE PEN CAN'T WIN"

"The market is pricing in the tail risk of Le Pen winning the presidential elections," said DZ Bank strategist Daniel Lenz.
The phrase "tail risk" refers to an unlikely but potentially disruptive event.
French Finance Minister Michel Sapin weighed in on Tuesday, saying some investors failed to understand France's electoral system and Le Pen would not win the election.
"Those who, in good faith or by speculation, bet against France because they think Le Pen can win are not only wrong, but I'll be frank: they will lose a lot of money," he said.
While his comments chimed voter surveys, Britain's Brexit vote and Donald Trump's U.S. election win revealed the depth of of anti-establishment feeling and highlighted the unreliability of opinion polls.
BlackRock's global chief investment strategist, Richard Turnill, said in a note that he believed the risk priced into European markets around this year's French and German elections was overstated.
Such sentiment helped push yields lower as the session wore on, with France's 10-year bond yield down 4 basis points on the day at 1.10 percent, and the gap to German equivalents narrowing to 73 bps.
"There is always the conflict between fear and greed," said Commerzbank strategist David Schnautz. "I guess fear pushed the yields so high that some investors could not resist."
The cost of insuring against volatility in the euro versus the dollar over the next three months rose to its highest in over a week on Tuesday as contracts took in the date of the final round of France's presidential vote.
French stocks underperformed the pan-European STOXX 600 index, though traders ascribed this to a fall in banking shares after BNP Paribas shares reported sub-forecast fourth-quarter profits and its shares fell 4 percent.
Doubts over a rescue package for Greece were also stoking concerns over the future stability of the euro zone.
Greece's two-year bond yield topped 10 percent for the first time since June on growing worries over whether the European Union and the International Monetary Fund can reach an agreement over a third Greek bailout.

BREAKINGVIEWS

Politics biggest enemy of Paris Brexit hopes

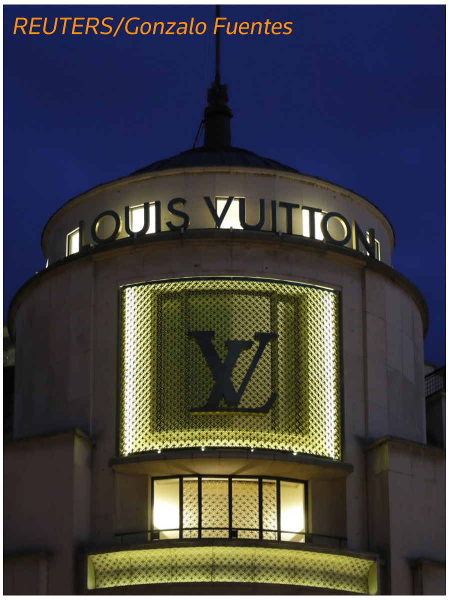
By Rob Cox

There is no more cliché pairing than a Hermes tie with an investment banker in a tailored suit. So it is only fitting that Paris – where the luxury goods firm began in a small workshop 180 years ago – would emerge as a frontrunner over Frankfurt, Amsterdam and other European cities to pick up many of the financial industry castaways who will be sent packing by Brexit.
And the allure of the City of Lights extends far beyond fashion, or even “la belle vie”, to hard numbers. Paris Europlace, a consortium of trade associations working with the local government to attract financial industry jobs, has a surprisingly convincing case, which it has pitched to more than 100 banks, multinational corporations and fund managers since Britons voted last June to leave the European Union.
Less persuasive is the complacency of

REUTERS/Jacky Naegelen

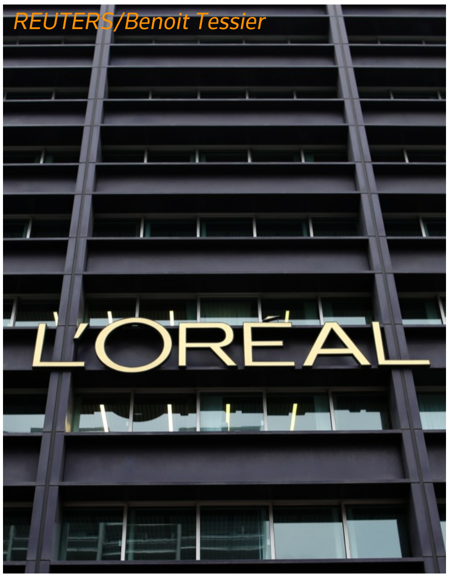
many in the French establishment and financial elite towards the country’s fractious presidential race. France, they say, is different from the United States and Britain where voters upset all expectations, defied pollsters, and embarrassed the media’s self-confident prognosticators.
But the scandal engulfing the erstwhile frontrunner, the centre-right’s Francois Fillon, suggests unpredictability is not uniquely Anglo-Saxon. Though French voters may not succumb to the populist instincts that put Donald Trump in the White House and sent the UK packing, it would be foolish for any bank boss to choose Paris as a post-Brexit safe harbor until after French voters cast their final ballots on May 7.
This is not a ding against Paris as a financial center. Europlace is doing a bang-up job making the city’s case, as a packed press conference on Monday at London’s Shangri-La Hotel demonstrated.
An hour spent with Managing Director Arnaud de Bresson at the group’s Place de la Bourse headquarters makes for a compelling lesson in the

merits of French finance.
Consider some of the stats, as outlined in the 34-page Europlace dossier that has landed on the desks of every banking boss in London, New York, Toronto, Beijing and Tokyo. The Paris bourse ranks first in market capitalization in Europe. France also sported 854 public companies, compared with 619 in Frankfurt at the end of 2015. The French bond market is bigger than Germany's – a reflection of the respective countries' different fiscal and budgetary approaches. There's also more trading of over-the-counter interest rate and foreign exchange contracts in Paris than anywhere else in continental Europe. Perhaps more compelling for investment bankers bereft of their ability to "passport" throughout Europe from London is the concentration of large companies, banks, fund managers and private equity houses in Paris. As de Bresson puts it: "Frankfurt may be a place to see bankers, but Paris is where you can actually see clients."



REUTERS/Gonzalo Fuentes

There are 31 French multinational companies among the 500 world leaders in their respective industries, such as Airbus in aerospace; Vivendi in media; Sanofi in drugs; LVMH, L'Oreal and, of course, Hermes in personal and luxury goods. That compares with 28, by Europlace's count, in Germany, and most of them are not headquartered in one city.
The French asset management industry is also ahead, overseeing 3.6 trillion euros of client money. That's double the amount managed by German institutions, and four times what Italian money managers oversee. In the more fee-generative private equity arena, France also leads its neighbors, with 11 billion euros invested in 2015 compared with 6 billion euros in Germany.
Even in banking, Paris has an edge. BNP Paribas vies with Banco Santander as the largest bank on the continent by market value, at around 75 billion euros. Societe Generale and Credit Agricole clock in at around 35 billion euros each, making them 40 percent more valuable than Deutsche Bank.
Finally, there's Paris: an undisputed global cultural capital and gastronomic ground zero, with nearly seven times the number of Michelin-starred restaurants as Frankfurt. Or as Yves Perrier, chief executive of Amundi, a listed $9 billion fund manager, demonstrates with a gesture towards the window of his Montparnasse office with the Eiffel Tower in the middle distance: "You won't find a view like this in Frankfurt." The icing on the éclair for firms considering moving some financial operations to Paris, or the 300,000 or so French expats living in London, comes in the form of a more favorable tax regime. Under rules unveiled after Brexit, France reduced the effective tax rate for high earners for as many as eight years by, among other things, exempting some foreign financial investment income and excluding foreign properties and assets from wealth tax calculations. According to Europlace figures, the effective tax rate for qualified individuals earning 300,000 euros a year would be 24 percent under this so-called "impatriate scheme" compared with 38 percent under the old regime, or in Germany. In addition to foreigners moving to Paris, this would apply to French bankers and traders returning home.
Under a centrist, pro-European government, incentives like these –



REUTERS/Benoit Tessier

alongside the many other charms Paris has to offer – make the city a formidable challenger to Frankfurt.
But with a shift to the far left or right, the idea of tens of thousands of rich bankers moving into the city, driving up housing prices, snatching coveted school placements and paying lower tax rates than bakers could make Robespierres of even the mellowest of French socialists. Two weeks ago, that seemed impossible. But the fluidity of the political situation is highlighted by the swift decline of Fillon in the polls following reports that his wife received taxpayer-funded payments for work that a newspaper alleges she did not do. Though Fillon's woes have helped independent centrist candidate and former investment banker Emmanuel Macron's chances, they have also boosted the fortunes of the "business-unfriendly hard left", as my colleague Swaha Pattanaik wrote.
Over the weekend, Macron urged American scientists, academics and entrepreneurs worried by the direction of the country under Trump to consider moving to France. It's a bold, globalist call from a young and relatively untested politician. He – along with any bankers and scientists heeding him – must recall the lesson of the U.S. election, with its late-stage surprises and Russian meddling: anything can happen.
The author is a Reuters Breakingviews columnist. The opinions expressed are his own.

ECB sees seeds of next crisis in Trump deregulation plan

By Balazs Koranyi and Francesco Canepa

The European Central Bank rejected U.S. accusations of currency manipulation on Monday and warned that deregulating the banking industry, now being openly discussed in Washington, could sow the seeds of the next financial crisis.

Arguing that lax regulation had been a key cause of the global financial crisis a decade ago, ECB President Mario Draghi said the idea of easing bank rules was not just worrying but potentially dangerous, threatening the relative stability that has supported the slow but steady recovery.

Draghi's words are among the strongest reactions yet from Europe since U.S. President Donald Trump ordered a review of banking rules with the implicit aim of loosening them.

That raises the prospect of the United States pulling out of some international cooperation efforts.

"The last thing we need at this point in time is the relaxation of regulation," Draghi told the European Parliament's committee on economic affairs in Brussels. "The idea of repeating the conditions that were in place before the crisis is something that is very worrisome."

The ECB supervises the euro zone's biggest lenders.

"BIG MISTAKE"

Andreas Dombret, a member of the board of Germany's powerful central bank, the Bundesbank, said that reversing or weakening regulations all at once would be a "big mistake", because it would increase the chance of another financial crisis.

"That is why I see a possible lowering of regulatory requirements in the U.S., which is under discussion, critically," said Dombret, who is also a member of the Basel committee drafting new global banking rules.

Roberto Gualtieri, chairman of the European Parliament's economic and monetary affairs committee, also criticised Trump.

"Some first concrete confirmations of a new more unilateral policy stance by the new U.S. administration, including on sensitive financial markets regulatory issues, raise concerns and require both thorough reflection and action from the EU side," he told the committee.

ECB President Mario Draghi testifies before the European Parliament's Economic and Monetary Affairs Committee in Brussels, Belgium February 6. REUTERS/Yves Herman

Draghi's U.S. counterpart, Federal Reserve Chair Janet Yellen, has come under pressure to step back from international regulatory cooperation.

Indeed, an influential member of the Senate recently called on Yellen to end talks in forums like the Basel Committee on Banking and Supervision, some of whose proposed rules he said would disadvantage the United States.

"It is incumbent upon all regulators to support the U.S. economy, and scrutinize international agreements that are killing American jobs," Patrick McHenry, the Vice Chairman of the Senate's Financial Services Committee, told Yellen.

MANIPULATOR

Draghi also rebuffed accusations by Trump's top trade adviser that Germany, the euro zone's biggest economy, is using a grossly undervalued currency to take advantage of the United States. He argued instead that economic weakness is the main reason for the weak euro.

Germany runs a massive trade surplus with the United States and Trump trade adviser Peter Navarro said it was now exploiting this to America's detriment, de facto accusing Berlin of currency manipulation.

But Germany does not set monetary policy and has repeatedly complained that ECB policy is actually too easy, calling on Draghi to end its massive stimulus programme.

"First and foremost: we are not currency manipulators." Draghi said.

"Second, our monetary policies reflect the diverse state of the (economic) cycle of the euro zone and the United States."

"The single market would not survive with continuous competitive devaluations," Draghi said.

But the ECB chief also said no policy tightening was coming as growth was still weak and faced with risks, while the inflation spike is still temporary, all indicating that monetary support is still needed.

"Our monetary policy strategy prescribes that we should not react to individual data points and short-lived increases in inflation," Draghi said. "We therefore continue to look through changes in (harmonised) inflation if we believe they do not durably affect the medium-term outlook for price stability.

Euro zone inflation hit 1.8 percent in January and is likely to exceed the ECB's target of almost 2 percent in the coming months, but underlying inflation is still half the headline figure.

"So far underlying inflation pressures remain very subdued and are expected to pick up only gradually as we go on," Draghi said. "This lack of momentum in underlying inflation reflects largely weak domestic cost pressures."

Accept EU court or risk losing euro clearing, ECB tells UK

Whether Britain accepts the authority of the European Court of Justice will be a key factor when the European Central Bank decides if the clearing of euros can remain in London after Brexit, ECB President Mario Draghi said on Monday.

"It's too early to take a firm stance on the regulatory framework that should be established once the UK leaves the EU," Draghi told a European Parliament committee.

"What is important is that we don't step back on the single market. And to be part of the single market, you have to be subject to the European Court of Justice. We'll have to look carefully at that."

The ECB has a say in approving a planned merger between the London Stock Exchange and Deutsche Boerse, with the location of the headquarters and the clearing operations seen as a possible sticking point.

Clearing, M&A face Brexit challenges -EU document

By Jan Strupczewski

London could see a new EU push to end its dominance of euro clearing after Brexit and firms may pay more for merger approvals in Europe, European Parliament officials concluded in a working paper seen by Reuters.

The Jan. 13 document prepared for the economic and monetary affairs committee lists dozens of issues, including outstanding legislative projects, existing financial regulations and other economic policies facing "significant consequences" once Britain exits the EU, taking the bloc's main financial centre with it.

"A transitional agreement or, alternatively, a series of phasing-out provisions in the withdrawal agreement, might be considered in order to avoid 'cliff effects' that could adversely affect the functioning of financial services markets both at EU 27 and UK level," the paper said, underlining active discussion in Brussels of how to cushion the shock of Brexit.

Parliament must approve any deal with London, expected in about two years, but will play a secondary role in negotiations to that of the executive European Commission and to the other 27 member state governments grouped in the European Council.

A Union flag flutters near the Houses of Parliament in London, Britain February 1. REUTERS/Neil Hall

The paper was produced several days before Prime Minister Theresa May laid out an outline of her Brexit strategy, which included leaving the EU's single market - a move that may leave London's financial services firms distant from many big clients.

Among an array of topics covered in a parliamentary paper which notes from the outset the "considerable interdependence" of economies on either side of the English Channel, the

officials said Britain could adopt a "more relaxed" policy on state aid subsidies to business after Brexit.
Noting so far unspecified undertakings the British government appeared to make to Japanese carmaker Nissan so it maintained expansion plans in Britain, the document said: "Any promise made by the UK to Nissan that might have been made now but may only become effective if and when the UK will have left the EU cannot be assessed under EU state aid rules."
The paper noted that the binding force in Britain of recent and pending rulings in EU courts would have to be clarified. Among these were EU moves to curb short-selling and to regulate bonus pay for executives as well as judges' support for London against EU efforts to restrict euro clearing to the euro zone.
"With the withdrawal of the UK, clearing might become again a major issue to be addressed in the negotiations," it said.
As for M&A, splitting British regulation from the EU common market "would mean", the paper continued, "two applications and two procedures to clear the same merger in Europe".

London or Paris? Choice proves a taxing question for bankers

By Anjuli Davies

Forget fine wine, haute cuisine and art ... the big question from London's bankers for a French delegation trying to lure them to Paris was, how much tax will I pay?
"Most were interested in income tax and executive tax on pay," Gerard Mestrallet, president of France's finance industry lobby Europlace who led Monday's roadshow, said.
More than 80 representatives from banks and business met with authorities from Paris who are highlighting the attractions of the French capital if Britain's exit from the European Union forces the relocation of some activities to continental Europe.
Global banks and insurers have begun signalling how they cope with a "hard" exit from the EU, after Prime Minister Theresa May said Britain would leave the single market.
And Brexit has opened up "fierce competition" among the main financial cities of Europe -- which include Paris, Frankfurt, Dublin and Luxembourg -- Valerie Pecresse, the head of the wider Paris region, said.
HSBC, Europe's biggest bank, has said it could move some of its operations to Paris, where it has a subsidiary that holds most of the licences needed by an investment bank thanks to its purchase of CCF in 2000.

Banks' Brexit dilemma

Banks in Britain are facing the prospect of relocating operations out of London to other cities in Europe so that they can continue to operate across the European Union's single market.

	LONDON	AMSTERDAM	DUBLIN	FRANKFURT	PARIS
TAX RATES					
Corporate	20.0%	25.0%	12.5%	20.5%	33.3%
Personal income (max)	45.0%	52.0%	48.0%†	45.0%	49.0%
COST OF LIVING					
A pint of beer	€5.79	€4.61	€ 5.91	€ 3.43	€ 7.00
A lunch meal*	€11	€12	€ 12	€12	€15
Monthly rent**	€2,732	€1,856	€1,840	€1,544	€2,590
Cost of living ranking among globe's cities	17	64	47	88	44
Quality of life ranking	39	11	33	7	37
OFFICE SPACE					
Office vacancy rate	6.9%***	11.1%	7.0%	9.1%	6.8%
Prime office rent (€/sq m/year)	1,319***	365	646	462	770
FINANCE SECTOR					
Numbers employed	400,000	44,000	23,000	75,000	147,000
Size of bank sector (country's bank claims)	$10.7 tln	$2.8 tln	$0.6 tln	$7.7tln	$7.5 tln
Foreign exchange trading	$2.4 tln	$0.1 tln	$0.002 tln	$0.1 tln	$0.2 tln
Derivatives trading	$1.2 tln	$0.02 tln	$0.001 tln	$0.03 tln	$0.1tln

†Includes a Universal Social Charge.
*Basic lunch menu (with drink) in business district. **Furnished 900 sq ft accommodation in upscale area. ***Central London

LABOUR LAW CONCERNS

Pecresse estimated that the French capital could attract about 10,000 jobs, although bankers at the event raised concerns about French tax rules and labour laws as a possible deterrent.
"The expatriate regime has dramatically improved but there are also some concerns about labour flexibility," Mestrallet, who is chairman of French utilities Engie and Suez, said. The French government introduced extra tax concessions for expatriates last year in the hope Paris could profit from Brexit, but experts say other centres with more flexible labour and tax rules are likely to be bigger beneficiaries. With the exception of HSBC, most financial firms have yet to make a decision on relocation plans to Paris, according to Mestrallet.
"Many will wait three months to have more clarity on the outcome of the French elections."
Germany is also seeking to attract finance jobs from Britain. The country's senior regulators met about 50 envoys from foreign banks last week to explain how they could move business to Europe's biggest economy after Britain leaves the EU, German financial watchdog Bafin said.
But the Parisian delegation thinks it has the upper hand. "When was the last time you took your partner for a weekend to Frankfurt," quipped Pecresse.

Europe gets creative to win banks after Brexit

By Anjuli Davies, Andrew MacAskill and John O'Donnell

Regulators in European countries competing for post-Brexit banking business are offering London-based banks a range of short -term workarounds to help them relocate, bankers, regulators and lawyers say.

Global banks have warned they might have to move their European bases from Britain if its departure from the European Union means they lose "passporting" rights to operate across the bloc under the supervision of just one member state's regulator.

Brexit negotiations have yet to start and will take years but big centres like Frankfurt and Paris, as well as smaller ones like Dublin, Amsterdam and Luxembourg, are encouraging banks, insurers and fund managers to consider moving to them.

Financial watchdogs have told banks they will need to create more than so-called brass plate operations; they will have to have a certain amount of capital, senior staff on the ground and approved risk models to get a licence to operate across the EU.

They are looking at ways to make the transition easier, however by allowing institutions which typically have very complex operations to move fewer jobs and assets over from Britain in the near term.

Proposals outlined to Reuters by people involved in talks between regulators and banks include 'back-to-back' trades, where a deal done on the continent could be processed in London, and licensing certain activities more quickly than usual.

"Various jurisdictions are going to try to make it as attractive as possible to set up there," said Mark Compton, a financial services lawyer at Mayer Brown in London.

"They will try to be as flexible and accommodating where they can. But it will vary from jurisdiction to jurisdiction, the appetite of the regulator and the constraints put on them by central authorities."

DISCRETION

While the European Central Bank is chiefly responsible for supervising big banks in the euro zone, national authorities such as Bafin do much of the day-to-day supervision, especially of smaller lenders.

The ECB must first grant the license for, say, a London-based bank that wants to move operations to Frankfurt. Bafin could afterwards show some flexibility in its supervision, so long as this is in line with European rules.

German regulator Bafin met about 50 envoys from roughly 25 foreign banks on Monday to explain how they could move business to Europe's biggest economy after Britain leaves the European Union. Many asked how large a German operation should be to win the regulator's blessing.

Bafin's Peter Lutz, who met the banks, said after the gathering that it would take into account that a bank was gradually building up its business, as long as the plan was to eventually establish a substantial operation.

Bafin could adjust its demands, for example, as to how many people must be based in, say, Frankfurt or how much capital is needed – at the outset.

"We are talking about big internationally active banks," he told reporters, adding that he was open to arrangements during a gradual transition from London to Germany. "Naturally, we can talk about transitional arrangements."

One official said one such possibility is the limited and temporary use of so-called 'back-to-back' arrangements, where a bank in Germany gives, say, a loan on the continent but processes it through its London head office.

"Part of the new strategy (of Bafin) is to show banks that the regulator is open to speak and discuss new policy tools for foreign banks," the official familiar with the matter told Reuters on condition of anonymity.

"The overall question with regulators is how far can services be outsourced to London initially."

This could help banks in London

The logo of Germany's Federal Financial Supervisory Authority BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) is pictured outside the former finance ministry building in Bonn, Germany, Germany, April 5, 2016. REUTERS/Wolfgang Rattay stagger the migration of staff and systems.

INTERIM FIX

French regulators have also spoken to banks about simplifying and accelerating the licensing process for financial institutions considering moving operations due to Brexit.

"Banks are doing contingency planning, which means that in a very short period of time they will need to transfer some quite significant operational and IT teams," a source at a French financial regulator said.

"It is logical that it will happen in a progressive way and that technical constraints are taken into account (by a regulator)."

Irish regulators, too, are considering the practical and logistical constraints firms face in having to do a number of things in a relatively short time frame, Gerry Cross, Director of Policy and Risk at Ireland's Central Bank said last week.

"We are open to thinking constructively about how this practical sequencing challenge might be addressed, how things might be arranged so that the various objectives can be met, without of course undermining our commitment to our responsibilities," Cross said.

European regulators need to clarify which transitional arrangements will be approved and offer flexibility on an 'interim fix' at the onset of the Brexit process or risk disruption to financial markets, the Association for Financial Markets in Europe (AFME) industry body said in report this week.

"Some banks are also considering migration to a short-term or transitional way of operating in order to be ready for Brexit," the report, which analysed the Brexit planning measures of 15 banks of varying sizes and from different home regions.

"Their plans are therefore dependent upon regulatory approvals for transitional operating arrangements."

Investment banks with large sales and trading operations, which buy and sell foreign exchange, debt, equities and other financial instruments for clients across Europe, require specialised talent and regulators who are familiar with sometimes esoteric financial instruments.

Approving for example, complex internal risk models used by banks to calculate risk on their balance sheets, requires expertise and can have an impact on how much capital needs to be held to back risky assets.

This is another area regulators could initially be flexible on, lawyers say, given that some regulators need to build up their own expertise on the issue.

If these workarounds are approved, it would mean more banking staff and assets would stay in Britain for the short-term and UK regulators, used to supervising complex investment banks, would continue to have an influential role over the EU's financial markets.

The banks are making the most of the competition.

"Lots of member states are very keen to have financial firms," said one banking source speaking on condition of anonymity as discussions are private.

"We are doing a lot of work with different regulators on accepting various solutions and interim arrangements. Regulators are having to be a little imaginative."

For now, regulators say they will require senior risk managers in situ as well as some infrastructure, but staffing could be built up over time whilst banks scout for offices and local staff.

"There is the expectation by regulators of substance on the ground," said one legal source. "The million dollar question is how much substance does there need to be."

INTERVIEW

German minister calls for LSE-Deutsche Boerse HQ in Frankfurt

By John O'Donnell and Andreas Kröner

Deutsche Boerse and the London Stock Exchange should have their combined headquarters in Frankfurt not London because of Brexit, an influential German minister told Reuters in the clearest public demand for control of the group in Germany.

"The reasons for the headquarters being in Frankfurt are crystal clear," said Thomas Schaefer, the finance minister of the state of Hesse, home to Frankfurt and Deutsche Boerse.

The location of what will be Europe's

REUTERS/Andrew Winning

biggest stock market has symbolic and operational significance, with regulators keen for tight oversight of its derivatives processing business.

"Those involved in London must recognise, also in their own interests, that it would not be a good idea to keep the plans as they are now," said Schaefer, a minister in the regional government that must give approval for the deal to go ahead.

Advisers and company executives are divided about whether London's status in the deal as the main headquarters can be changed. Some people involved argue it could require a new

vote by shareholders of both companies, which could upset the deal.
"This might be legally complicated," said Schaefer. "But where there's a will, there's a way."
The remarks, the bluntest yet from a German politician, come amid growing uncertainty over the deal.
This week, German police and prosecutors investigating possible insider trading by Deutsche Boerse Chief Executive Carsten Kengeter searched his office and apartment.
Under the terms of the merger, Kengeter is due to lead the combined exchange, with London the home of the main holding company and its joint board.
When asked about a switch to Frankfurt earlier this week, LSE chief executive Xavier Rolet said: "The deal is set."
However, Britain's departure from the European Union, which was decided after the merger was agreed last year, will isolate London as Europe's financial centre and that has turned the tables in favour of Frankfurt.

LONDON AFTER BREXIT
With less than two months before the European Commission is due to wrap up its antitrust review of the deal, Schaefer said the headquarters should be in Germany because its

REUTERS/ Kai Pfaffenbach

membership of the EU was guaranteed, offering legal certainty.
"No-one knows for sure how things in London will look after Brexit," said Schaefer, a member of chancellor Angela Merkel's Christian Democrat party.
One of the chief concerns is that London-based LCH Clearnet, which is majority owned by the London Stock Exchange, clears more than half of all interest rate swaps traded around the world, many of which are in euros.
That means as soon as Britain leaves the EU, the clearing and regulation of euro transactions will be outside the bloc.
The companies, which will make fresh concessions to EU antitrust officials examining the deal, have so far resisted any such change of the headquarters.
Kengeter has spoken of building bridges to London but his lobbying for having it as the headquarters has angered some in the regional German government in Hesse, said one person familiar with its thinking.
It is not the first time a planned merger between the London and Frankfurt bourses has run into difficulties.
There have been four attempts, two public and two informal, to combine the two exchanges during the past decade.

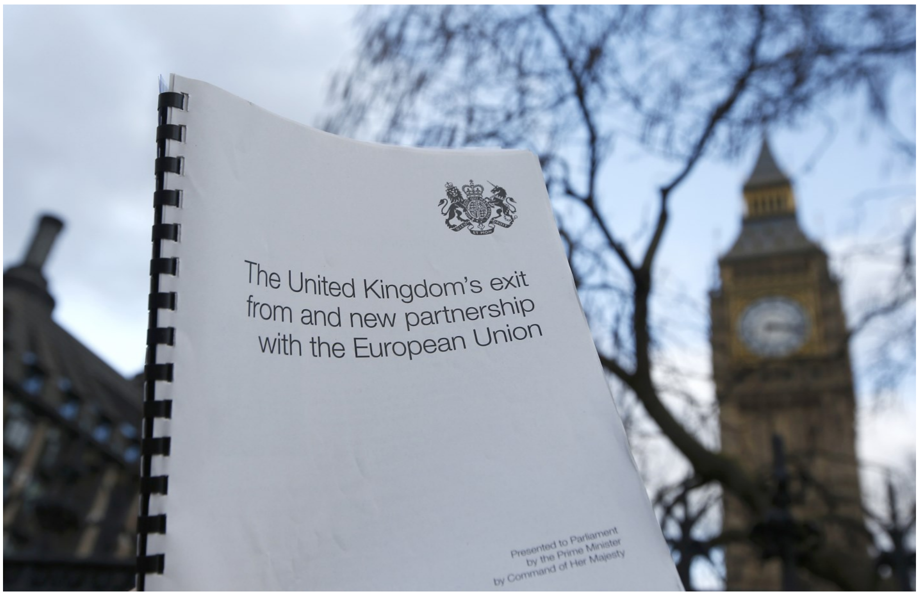
Britain will try to negotiate amicable EU divorce -Brexit paper

By Elizabeth Piper

Britain will do its utmost to negotiate a divorce deal with the European Union that is mutually beneficial, Brexit minister David Davis said on Thursday, setting out the government's strategy in an official policy document.
The publication of the "White Paper" is part of an attempt by Prime Minister Theresa May to keep lawmakers on side as she launches Britain's formal divorce talks with the EU.
Britain's future relationship with the EU has split opinion in parliament, where the majority of lawmakers backed remaining in the bloc in last June's referendum. Some fear May is leading Britain towards a chaotic Brexit, with no framework for future economic and security cooperation.
Introducing the document, Davis defended the government against charges it had offered lawmakers no time to consider its Brexit White Paper which, some said, gave little detail beyond what May has already said.
"We will seek a new strategic partnership. A bold and ambitious free trade and customs agreement that should ensure the most free and frictionless trade in goods and services that is possible," Davis told parliament.
"That will be to our mutual benefit."

PHASING IN IMPLEMENTATION
Davis reiterated May's priorities in the negotiations, which she wants to launch before the end of March, and the paper offered some detail on how the British government saw the divorce process, suggesting a phased implementation.
May's spokeswoman said the length of the so-called 'implementation phase' would vary for different sectors.
Britain's financial industry welcomed the proposal for phased implementation, which offers firms a few extra years to adapt, but said the paper offered little detail on what kind of access the government wanted to get to the single market.
Malcolm Barr, an economist JP Morgan, said the "shallowness of the analysis and absence of detail are matters of great concern".
Several opposition lawmakers also said the government was keeping parliament in the dark over its plan to leave the EU, a criticism which has

been repeated against May who has said she does not want to give away her negotiating hand.
"For months we've been calling for a plan ... now there's a White Paper too late in the day to ask meaningful questions ... That is completely unacceptable," said Keir Starmer, Brexit spokesman for the opposition Labour Party.
Under pressure to give the parliament more say over her plans, May was forced by a Supreme Court ruling to draft a new law giving her the right to trigger Article 50 of the EU's Lisbon Treaty and start the talks.
With a majority in parliament, she cleared the first legislative hurdle for the bill on Wednesday but the new law will face more scrutiny by lawmakers next week.



An illustration shows the white paper setting out Britain's government statergy for departing the EU, outside Parliament, in London, Britain February 2. REUTERS/Peter Nicholls

INTERVIEW

EU court might make changes to Brexit deal, chief justice says

By Alastair Macdonald and Julia Fioretti

Britain's withdrawal from the European Union seems likely to end up under review by the EU's top court, which might insist on changes to any Brexit treaty, its chief justice told Reuters in an interview.
Koen Lenaerts, president of the Court of Justice of the European Union, stressed the political process was in its early stages. The ECJ cannot act on its own initiative and it was impossible to foretell what aspects of Brexit might be referred to it by national courts via cases raised by various parties.
But asked if such a momentous EU political crisis was likely to end up at the Luxembourg-based court, the Belgian jurist said: "Yes, it is."
Even "a lawyer with the wildest imagination" would be unable to anticipate exactly how, he emphasised: "But it probably will, one day or another, end up on the docket of the Court - not because of the Court, but because of parties bringing the case."
Citing as an example a judgment two decades ago that forced a change to EU banana trade pacts with Latin American states, Lenaerts said the ECJ could ultimately oblige the Union to amend any post-Brexit trade deal it might strike with Britain -- though he stressed this was a purely speculative reflection.
His comments raised the possibility that Britain's divorce terms from the EU could ultimately be shaped by the very court whose jurisdiction it is determined to escape, as Prime Minister Theresa May spelt out in a speech last month.
The prospect of court battles going on well after Brexit, expected to take effect in about two years' time, underlines the uncertainty surrounding the process, which is outlined in a bare 261 words in Article 50 of the EU's Lisbon Treaty.
British judges have already upheld some private complaints to oblige May to change tack on how the government launches the process and at least one case is under way, in Ireland, which campaigners hope can trigger an ECJ review of her plan.
A spokesman for May, commenting on Lenaerts' remarks, said she was clear that Brexit would mean leaving the jurisdiction of the ECJ. "Clearly where we're going to be in two and a bit years time as a result of the negotiations that we go into with the other members states is impossible to predict," he added.

"SPLENDID ISOLATION"

Lenaerts, a 28-year veteran of the EU courts who has led the ECJ since 2015, stressed that, unlike the U.S. Supreme Court, the EU judges cannot decline to take a case, but insisted they would rule only on legal arguments, not politics.
Speaking in his modern chambers, from where he enjoys a panoramic view over Luxembourg's rural hinterland, he said the Court marked itself out as an independent institution in "splendid isolation" from Brussels and Europe's power capitals.
There was no question of its judges offering advice, however informally, to those negotiating any treaties as to what might meet their eventual approval, the 62-year-old judge said.

European Court of Justice president Koen Lenaerts speaks during an interview with Reuters in Luxembourg January 26, 2017. REUTERS/Francois Lenoir

Nor would the court take political sides in favour of the Union.
He rejected suggestions by some legal analysts that the ECJ has played an activist role in strengthening federal powers for Brussels or delivered rulings to quell rising euroscepticism -- for example, in backing states' moves to curb the ability of new or recent immigrants to claim benefits in other EU countries.
These were, Lenaerts said, the result of governments sharpening their own legislation, not of judicial flip-flopping by the court, which had previously upheld the broad rights of Europeans to claim benefits while looking for work in other member states.
"We are not pro-Union, we are not against Union," he said. "We are pro-law. The law is made by the political process."
In that process, he said, politicians often found it useful to leave "grey zones" in legislation where they could not agree.
It was the task of the Court to offer clarity, when cases are brought to it, on what is compatible with the Union's treaties.
Asked about British newspaper attacks on judges who ruled against the government on Brexit - one branded them "Enemies of the People" - Lenaerts noted that the ECJ's 28 judges, one from each EU state, tend to keep a lower profile.
In contrast to Supreme Courts in Britain or the United States, they do not publish personal votes on cases or any dissenting opinions, he noted.
"We certainly do not feel immune to criticism," he added, however. "Criticism is something very constructive. A court is operating in a real world context."
But in 28 years on the European Union bench, he said, "I have never ever, even in the most sensitive cases, felt any form of pressure, influence. Nothing. Not before, during or after. "And that's how it must be."

Most British voters now approve of May's approach to Brexit – poll

A majority of Britons approve of the government's approach to leaving the European Union, a poll indicated on Monday, in a boost to Prime Minister Theresa May after she laid out her priorities for negotiations.
May set out her vision for Brexit in a speech in mid-January, outlining plans to leave the EU single market in a clean break with the bloc.
She had previously been criticised for being vague, and some lawmakers want further clarity before they will vote to start Brexit negotiations.
While May still faces some opposition from lawmakers, a majority of the public approve of her government's approach, for the first time since polling firm ORB began the series of polls in November.
The proportion of the public that approve of the government's preparations for Brexit stood at 53 percent, ORB found, up 15 points from a poll last month when only 38 percent approved, with 62 percent disapproving.
The poll also found that 47 percent agreed that May would get the right deal for Britain, with just 29 percent disagreeing. In January, it was evenly split at 35 percent between those who agreed and disagreed.
The two-year process of leaving the European Union is expected to be started by March, following a parliamentary vote this week.
The ORB interviewed a sample of 2,058 adults across the UK between Feb. 3 and 5. The poll was conducted online.

China invites Britain to attend new Silk Road summit –sources

By Ben Blanchard and Elizabeth Piper

China has invited British Prime Minister Theresa May to attend a major summit in May on its "One Belt, One Road" initiative to build a new Silk Road, diplomatic sources told Reuters, as London said she would visit China this year.

"One Belt, One Road" is Chinese President Xi Jinping's landmark programme to invest billions of dollars in infrastructure projects including railways, ports and power grids across Asia, Africa and Europe.

China has dedicated $40 billion to a Silk Road Fund and the idea was the driving force behind the establishment of the $50 billion China-backed Asian Infrastructure Investment Bank.

China has so far given few details about who will attend the summit, to be held in Beijing.

The country's top diplomat, State Councillor Yang Jiechi, told the official China Daily last week that leaders from about 20 countries have confirmed their participation, representing Asia, Europe, Africa and Latin America, though he did not give names.

One Beijing-based diplomatic source with direct knowledge of the invite list told Reuters that May was among the leaders who had been invited.

"China is choosing the countries it sees as friends and who will be most influential in promoting 'One Belt, One Road'," said the source, speaking on condition of anonymity.

Two other diplomatic sources confirmed May was on the invite list.

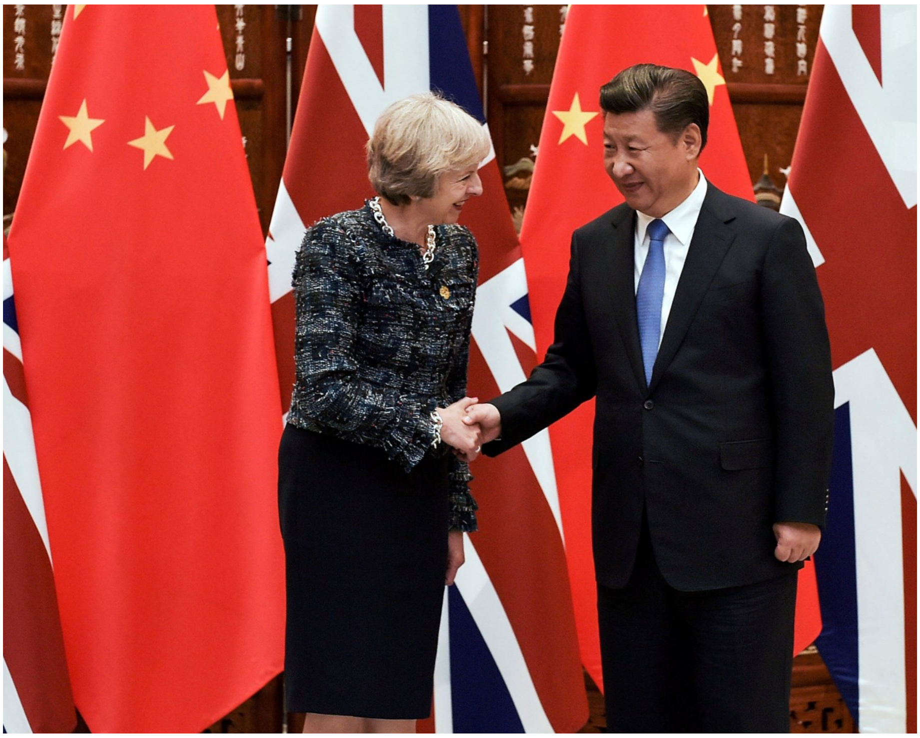
"It's China's most important diplomatic event of the year," one of the sources told Reuters.

Chinese Foreign Ministry spokesman Lu Kang said plans for the summit are proceeding smoothly, and that details of the participants will be announced at a later date.

"China welcomes Prime Minister May to visit China at the appropriate time," Lu told a daily news briefing.

Sri Lanka has already confirmed its prime minister is coming, and China says Philippine President Rodrigo Duterte is also attending.

Foreign leaders often combine attendances at important multilateral events China is hosting with official state visits to China.



Chinese President Xi Jinping (R) shakes hand with British Prime Minister Theresa May before their meeting at the West Lake State House on the sidelines of the G20 Summit, in Hangzhou, Zhejiang province, China, September 5, 2016. REUTERS/Etienne Oliveau/ Pool/File Photo

MAY TO DISCUSS TRADE

Speaking in London, May's aides confirmed she would visit China this year to discuss trade ties, the latest in a series of foreign trips to cement relations with major powers as she negotiates Britain's divorce from the European Union.

May's aides gave few details about the trip, but she is keen to strengthen her hand by securing foreign support before launching Brexit talks, which are set to be among the most complicated Britain has ever undertaken.

"It would be a renewed expression of the close relationship between Britain and China, something that you have seen obviously develop over the past few years," May's spokesman told reporters on Tuesday.

"I would imagine that trade would form some part of the discussions that we have."

The Commerce Ministry has said China has an open attitude towards a free trade deal with Britain once it leaves the EU and was willing to study it, but Chinese officials have otherwise said little publicly about the subject.

May attended a summit in China of the G20 leading economies last September, shortly after she became prime minister following June's referendum vote to leave the EU, and was invited by Xi to visit again.

With May having made clear she plans for Britain to leave the EU's single market, trade has dominated her talks with foreign leaders in recent months.

She has secured assurances from U.S. President Donald Trump, Indian Prime Minister Narendra Modi and other world powers that they are keen to start talks on boosting links.

But her attempts to up the stakes in talks with the EU, which she is due to launch before the end of March, have also drawn criticism.
Some opposition lawmakers have accused May of ducking difficult issues to win promises for trade - a charge repeated when she became the first foreign leader late last month to meet Trump, who has since been criticised over his immigration curbs.
She also came under fire for strengthening ties with Turkish President Tayyip Erdogan, who has been criticised by rights groups for jailing tens of thousands of people after a failed coup in July.

BREAKINGVIEWS

Ireland could join Britain in EU departure lounge

By Carol Ryan

There is a case to take Ireland out of the European Union, even if no one is yet willing to entertain it. Dublin's pro-Brussels stance may be tested if politics see it unmoored from the UK and the United States, its key trading partners. A tough Brexit deal, coupled with an inflated EU budget bill caused by U.S. tax inversions on its soil, could divide Irish loyalties.
For now, calls for EU exit are notable only for their absence. There are good reasons why: the country has been a net beneficiary of European funds since joining in 1973 and used membership to diversify its economy. Ireland sends roughly 15 percent of its exports to Britain, against over 50 percent four decades ago. Leaving would involve a return to dependence on the UK and the historical baggage that entails.
However, the UK and United States remain Ireland's most natural trading partners and still take 44 percent of its exports. A highly interconnected supply chain and shared border with Britain means the kind of punitive Brexit trade deal some member states want could mean a 20 percent drop in trade flows, according to ESRI research. If Dublin's concerns are brushed aside in Brussels, it will get Irish backs up – at a time when they already are following the Commission's ruling that Apple must pay 13 billion euros in back taxes.
Anti-EU forces could also point to Ireland's contribution to the European budget pot.
Tax inversions and the activities of multinationals meant Ireland's 2015 growth in gross national income, on which member states' EU contributions are calculated, was last July revised upwards from 5.7 percent to 18.7 percent. The upshot was an inflation in Ireland's EU budget bill of 280 million euros, without any real economic gains. Europe can legitimately argue that this is the price Dublin pays for pitching itself so aggressively as a low-tax jurisdiction, but it adds to the burden. Ireland is home to just 1 percent of the EU population. Yet its economic recovery makes it an important bailout success story. Crucially, it's one of the few countries in the bloc whose citizens still see the EU as an unalloyed good. Europe can't take that for granted.
The author is a Reuters Breakingviews columnist. The opinions expressed are his own.

BoE, ramping up growth forecast, in no mood for rate hike

By William Schomberg and David Milliken

The Bank of England made its latest sharp increase to forecasts for British economic growth in 2017 on Thursday, but appeared in no rush to raise interest rates, warning of "twists and turns" on the road out of the European Union.
There were signs of a partial split as some of the BoE's nine rate-setters "moved a little closer" to their limits for tolerating an expected overshoot of inflation above their 2 percent goal. But the general message from the BoE was that it remained comfortable with its record low rates even as the pound's slide since June's Brexit vote pushes prices up quickly.


REUTERS/ Suzanne Plunkett

In response, the pound fell and British government 10-year bond yields headed for their biggest one-day decline in two months, suggesting investors were pushing back their bets on when the BoE might raise rates.
The Monetary Policy Committee voted unanimously to keep rates on hold at a record low of 0.25 percent and to leave its other stimulus programmes unchanged.
Governor Mark Carney said that just because the central bank had raised its growth forecasts, it did not mean that the vote to leave the European Union would be painless.
"The Brexit journey is really just beginning. While the direction of travel is clear, there will be twists and turns

along the way," he told a news conference.

REUTERS/Kirsty Wigglesworth/Pool

Significantly, the BoE also said it now believed the unemployment rate could fall to 4.5 percent - down from a previous estimate of 5 percent and below the current rate of 4.8 percent - before it starts to push up inflation.
That could help the central bank to keep rates low for longer despite it announcing the second big increase in three months to its forecast for economic growth in 2017.
After Thursday's announcement, financial markets were pricing in a roughly 36 percent chance of a rate hike by the BoE this year, down from 50 percent last week, according to HSBC, while economists said it would probably not happen until mid-2019.
"The MPC may decide to start its tightening cycle only after the UK is safely out of the EU, despite a short- to medium-term peak in inflation above the MPC target of 2 percent," Yael Selfin, an economist with KPMG said.
Economists with RBC Capital Markets said they still expected the next move by the BoE to be a rate cut next year as the Brexit pressure on inflation hurt spending and growth.
Carney and his fellow policymakers were wrong-footed by the resilience of Britain's economy last year following the referendum decision in June to take the country out of the EU.
Britain's growth in 2016 was faster than in any other Group of Seven big rich economy, confounding the BoE's pre-referendum warnings of a swift Brexit hit to the economy.
"The thing that we missed is the strength of consumer spending and consumer confidence associated with that," Carney told reporters when asked about last year's forecasting failure.

STRONG GROWTH VIEW

The BoE said it now expected economic growth of 2.0 percent this year, higher than the forecasts of all but one of 50 economists polled by Reuters last month and up a lot from its previous forecast of 1.4 percent.
The new 2017 outlook towered above the forecast of 0.8 percent growth made by the bank in the weeks after the Brexit vote, when the economy seemed to be heading for a recession and the BoE cut interest rates to a record low of 0.25 percent.
Since then, Britain's consumers have carried on spending and finance minister Philip Hammond has relaxed the country's austerity drive.
Growth forecasts for 2018 and 2019 were raised by a moderate 0.1 percentage points in each year, and the BoE said it still expected rising inflation to cause household living standards to start stagnating at the end of this year.
On inflation, Carney said he expected price growth to hit the bank's 2 percent target this month but the BoE also said it now expected inflation in two years' time, a key yard-stick, to be slightly lower than it said in November.
The BoE said it eased the inflation outlook in part because of a mini-recovery in the value of sterling and the recent increase in market bets on higher interest rates.
The outlook for Britain's economy remains highly uncertain for political reasons too, related to Brexit and the policies of new U.S. President Donald Trump. Carney said the scope for central banks to dominate the global economy was diminishing, with interest rates already so low.
"In many respects, we're coming to the last seconds of central bankers' 15 minutes of fame, to use the Warhol line, which is a good thing," he said.
U.S. artist Andy Warhol once said that in the future everyone would be world-famous for 15 minutes.

Bank of England back in Brexit spotlight after growth rethink

By William Schomberg

The Bank of England is feeling the heat again after its new, more upbeat picture for Britain's economy put an uncomfortable focus back on its warning last year about a quick and sharp Brexit vote hit to growth.
Governor Mark Carney woke up on Friday to headlines in anti-European Union newspapers that accused him of leading the Bank into a U-turn.
"More humble pie for Bank as economy keeps growing," the Daily Express said.
The BoE surprised investors on Thursday when it hiked its forecast for growth this year to 2.0 percent. That was up from a call of 1.4 percent made just three months ago and represented a leap from its first post-referendum forecast of 0.8 percent.
The new prediction was higher than all but one of 50 forecasts by private economists in a Reuters poll in January, raising some eyebrows in the City of London. The BoE also edged up its growth forecasts for the following two years.
At the same time, Carney and his fellow policymakers lowered their forecasts for inflation over the next three years, potentially making it easier for them not to put Britain's economy to the test of higher interest rates any

time soon.
Asked by a reporter on Thursday whether he was nervous that the BoE's new projections - which influence investments in financial markets and spending decisions by businesses - might turn out to be wayward like its ones in August, Carney said things were different now.
"Last summer we were in pretty exceptional circumstances," he said.
A string of surveys in the weeks after the referendum showed a collapse in confidence among consumers and companies in July and persuaded the BoE that a slump was coming.
In fact, confidence bounced back almost immediately and Britain's economy barely flinched after the referendum.
Yet Carney was unrepentant about the BoE's decision to cut interest rates to a new record low and ramp up its bond-buying programme in August, action that he credited for some of the strong performance of the economy since then.
"The committee took the judgment which in retrospect was correct," he said. "We still have the same policy stance so it's hard to sit here and say, well, we shouldn't have done that."
The BoE's new view on the economy rests in part on factors that would have been hard to call in August, chiefly the victory of Donald Trump in the U.S. presidential elections, which some believe could boost the world economy, and the British government's relaxation of its austerity targets late last year.

DISMAL SCIENCE

Central bankers are no strangers to criticism for failing to predict how their economies will perform.
The U.S. Federal Reserve, like the BoE, failed to see how slow the economic recovery would be after the financial crisis. The European Central Bank raised interest rates in 2011 to head off a rise in inflation only to reverse the decision quickly later that year as the euro zone crisis deepened.
The BoE's chief economist Andy Haldane said last month that it was a "fair cop" to say that the central bank had misread the initial impact of the Brexit vote although he still believed it would weigh on the economy over the long term.
In fairness, many of the world's biggest banks were further off the mark than the BoE with their calls for the Brexit impact on the economy. Most economists who took part in a Reuters poll in August said Britain was heading into a recession while the BoE predicted the economy would still grow, albeit barely.
One lesson for the BoE might be to rely less on surveys of consumers and businesses - which gave the false signals of a slump last July - and more on how momentum in economic growth may withstand political shocks better than widely thought.
BoE Deputy Governor Ben Broadbent said the Bank was due to discuss the links between survey indicators and future growth as part of an annual assessment of its forecasting work in May.
But he conceded that alterations to its models was unlikely to endow the Bank with infallibility.
"Unfortunately we didn't need only the experience of the second half of last year to tell us that forecasting is a hazardous business, when you have done it as long as we have," Broadbent told reporters on Thursday.

The Bank of England is seen in the City of London August 7, 2013. REUTERS/Toby Melville

Hairline cracks emerge in UK consumer spending, pillar of economy

By Andy Bruce

The first post-Brexit vote cracks may be emerging in consumer spending, the cornerstone of Britain's economy, with a series of downbeat retail surveys suggesting inflation pressures are starting to weigh on households.

Britain's economy outperformed expectations after the June 23 vote to leave the European Union, finishing 2016 with the fastest growth among any of its large, advanced-economy peers.

But economists polled by Reuters think the economy will slow markedly this year, mainly because consumer spending looks set to weaken under the strain of higher prices following the pound's near 20 percent slump against the dollar.

Gauges of retail sales - which can be volatile month to month and sometimes contradict each other - are now pointing in the same direction, potentially an early sign that this slowdown may be starting to take effect.

The latest report from the British Retail Consortium on Tuesday showed retail sales in cash terms grew at the weakest pace for any November to January period since 2008/2009, when Britain's economy was its low point after the financial crisis.

The Confederation of British Industry's retail sales balance for January suffered the sharpest one-month drop since records began in 1983, while a European Commission survey of the retail sector and official data for December also weakened.

Bank of England officials will view the figures as justification for their view that household spending looks set to weaken from last year, despite rowing back on some of its more pessimistic forecasts that followed the Brexit vote.

Last week BoE Governor Mark Carney admitted the central bank had been wrong-footed by the strength of consumer spending, thanks to a strong labour market and cheap credit.

"Now that dynamic will start to be tested as this year progresses," he said at a press conference following the BoE's policy decision on Thursday, during which he stressed that the outlook for wages would be key.

For most economists, the only question is how much consumer spending will ebb in the coming months, given it has been driven by rising wages, which will soon be eaten away by surging inflation.

The possibility that consumers may have front-loaded spending to beat the onset of higher prices, or taken advantage of record low interest rates to borrow now rather than later, add to the list of question marks.

"I think it's worth saying that all of these should make me relatively pessimistic about what happens this year," said London School of Economics professor Charles Bean, a former BoE deputy governor, at Fathom Consulting's Monetary Policy Forum hosted by Thomson Reuters last week.

There is little doubt rising prices are on the minds of consumers - a source of concern in itself as their spending accounted for a full 63 percent of economic output in 2015.

Google Trends data show that "inflation" as a search engine term hit an almost five-year high early this year, while consumer sentiment surveys from data company Markit and from the European Commission have also recorded rising concern about inflation.

The BRC survey and Kantar Worldpanel supermarket data published on Tuesday also suggested consumers are now having to pay more for essential goods, which suggests discretionary spending could falter soon.

"The strength of retail sales in the autumn - which prevented GDP growth from slowing after the referendum - appears to have reflected consumers bringing forward expenditure from 2017, due to anticipated price rises," said economist Samuel Tombs at Pantheon Macroeconomics.

Shoppers cross the road in Oxford Street, London, Britain August 14, 2016. REUTERS/ Peter Nicholls/File Photo

Brexit already having negative impact on UK business-survey

More than half of British business leaders believe the vote to leave the European Union has had a negative impact on their companies but most firms are confident they can survive the change, according to a survey on Monday.

Britain's economy has performed more strongly than expected since the Brexit vote last June, but an Ipsos Mori survey of more than 100 of the country's top 500 firms found that 58 percent felt the vote to leave had taken a toll.

According to the survey, more than two thirds of those questioned said they had already taken action to respond to the vote, including putting contingency plans in place and analysing the impact the different relationships Britain could have with the EU following its renegotiation.

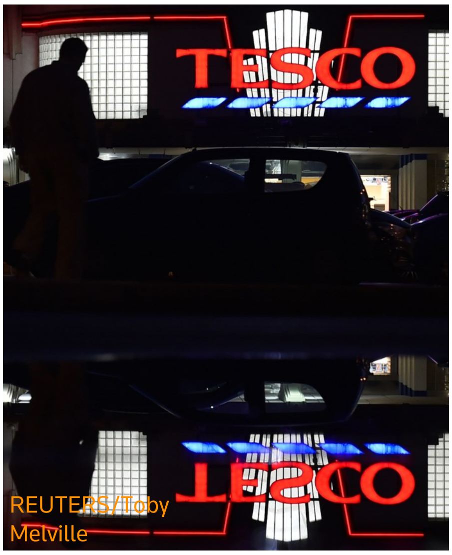
Of those taking action, 10 percent said they were moving business outside of Britain.

"Our annual survey of FTSE 500 business leaders provides a unique insight into what the business world is thinking ahead of Brexit," Ipsos Mori Chief Executive Ben Page said. "Unfortunately, it looks like business in this country is already feeling the pain of the economic upheaval of leaving the EU."

Britain's business leaders were some of the most vocal supporters of EU membership in the run up to the vote, arguing that access to a single market of 500 million people would enable them to grow their companies, and the economy, in the future.

However the survey found a more positive response when asking about the longer term impact on business, with nearly all confident they could adapt to Brexit.

"Thirty tw percent of respondents said they think their business will start to feel the positive effects of leaving the EU in five years' time," Page said. "And the number of (business) captains that think it will remain a negative impact reduces to 45 percent when looking at long range forecast."



REUTERS/Toby Melville

Brexit boosts support for Scottish independence - BMG poll

By Elisabeth O'Leary

Support for Scottish independence rose last month after British Prime Minister Theresa May came out in favour of Britain making a clean break with the European Union, a BMG survey for Herald Scotland showed on Wednesday.

It indicated 49 percent of Scots now support independence - a 3 point rise from a previous poll - with 51 percent opposing it, after "don't know" votes are removed.

However, a majority - 56 percent to 44 percent - still oppose holding another independence vote before Britain leaves the EU.

In 2014, Scots voted roughly 55 percent to 45 percent to remain in the United Kingdom. But last year's Britain-wide vote to leave the EU changed the landscape.

Scotland's devolved parliament rejected May's plans for how to exit the EU in a symbolic, non-binding vote on Tuesday, a demonstration of the divisions between London and Scotland when it comes to Brexit.

A majority of Scots backed staying in the EU, and the Scottish National Party (SNP), the biggest party in Scotland's parliament, has said that there should be another independence vote if its views on Brexit are rejected.

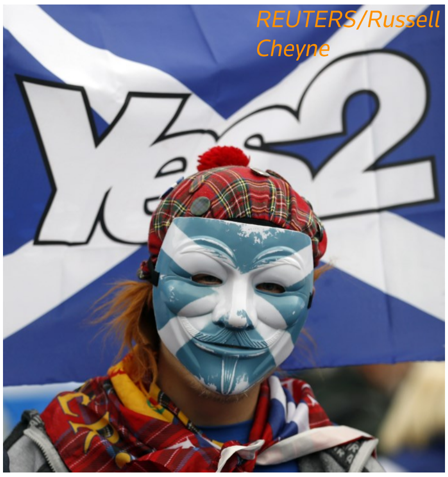
Scottish Greens lawmaker Ross Greer, who backs the devolved nationalist government on independence, told Reuters on Monday that Scotland was almost certainly headed to a new independence referendum after the UK triggers the process to leave the European Union.

A report by Dundee-based newspaper the Courier said that May believes Scottish First Minister Nicola Sturgeon is two weeks away from demanding a second referendum on independence.

It said May is privately working a strategy to deal with this.

Scotland has a population of around 5.3 million, according to the last census, slightly more than 8 percent of the United Kingdom's population as a whole.

It was an independent kingdom until merging into the UK with the Act of Union in 1707.



REUTERS/Russell Cheyne

"Forget it," London tells Scots who want second independence vote

By Elisabeth O'Leary

The UK government told Scotland on Thursday to abandon any hopes of holding another independence referendum before 2020, deepening a row with the devolved pro-independence government in Edinburgh over the impact of Brexit on possible secession.

"No, forget it," Defence Secretary Michael Fallon told the Herald Newspaper when asked whether the government in London would facilitate a new referendum on independence, the stated long-term aim of Scottish First Minister Nicola Sturgeon.

"The respect agenda is two-way," Fallon was quoted by the newspaper as saying, adding that Sturgeon should respect the 2014 referendum in which Scots voted 55-45 to stay in the United Kingdom and the UK-wide 2016 vote to exit the European Union.

Sturgeon "has to respect the decision of Scotland to stay inside the UK in 2014 and the decision of the UK to leave the EU," Fallon told the Glasgow-based newspaper which opposed secession in 2014.

Prime Minister Theresa May has repeatedly said she does not believe there is any need for a second independence referendum in Scotland but Sturgeon has warned that the Brexit plans of the government in London could force Scots to call another vote on the grounds that circumstances had changed since 2014.

The June 23 ballot on Brexit called the future of the United Kingdom into question because England and Wales voted to leave but Scotland and Northern Ireland voted to stay.

Sturgeon has repeatedly demanded that the interests of Scotland are taken into account during the Brexit negotiations with the other 27 members of the European Union and has asked for a special deal for Scotland including full access to the EU's single market.

Britain's Defence Secretary Michael Fallon attends a press conference with U.S. Secretary of Defence Ash Carter at the Foreign Office in London, December 15, 2016. REUTERS/ Hannah McKay

Fallon's remarks, which he later sought to temper, risk fuelling nationalist resentment in Scotland that England is both driving Scotland out of the EU and denying it any chance of an alternative via independence.

Sturgeon said any attempt by the London government to block a second referendum would be a "disastrous move".

While technically the British parliament, which is sovereign, could block another referendum on independence, to do so would provoke a constitutional crisis if polls indicated a majority of Scots were in favour of a ballot.

A Scottish government spokesman said any bid to block a second referendum would be "a democratic outrage" that would only "succeed in boosting support for both a referendum and for independence itself."

While Sturgeon says she wants Scottish independence, she will also seek to avoid triggering another referendum that she would lose; public opinion polls show support for Scottish independence is still at around 45 percent as it was in 2014.

POLL

Sterling to slip again once EU divorce talks start

By Jonathan Cable

A British ten pound note is seen in front of a stock graph in this November 7, 2016 picture illustration. REUTERS/Dado Ruvic/Illustration/File Photo

Sterling's relative upswing over the past few weeks will come to an end when Britain formally begins divorce negotiations with the European Union, and if the talks turn fractious its fall could be steep, a Reuters poll showed on Tuesday.

Since the surprise outcome in a June referendum, when Britons decided to quit the EU, the pound has slumped over 15 percent against the dollar and was trading at $1.237 on Tuesday. The economy, however, has fared much better than had been projected.

The poll suggested the pound will also suffer against the euro, despite the currency bloc's own potential headwinds.

In one month's time a pound will be worth $1.23, in three months $1.21 and in a year $1.21, according to the poll of over 60 foreign exchange strategists taken in the past week.

Those medians are a little stronger than in last month's poll, with the pound up about 1.5 percent this year, but some still thought the pound could fall below $1.10 in a year.

Only around a third predicted a rise to $1.27 or above and none thought it would get anywhere near the $1.48 it was hovering around before the referendum.

Prime Minister Theresa May plans to trigger Article 50 - which starts the two-year countdown to Brexit - by the end of March. Many expect negotiations with the EU to be difficult.

So two thirds of the strategists who answered an extra question said their sterling forecasts over the next three months were more likely to be too high than low.

"If Brexit talks go haywire and/or, the economy begins to slow significantly, a material fall in the pound could result," said Chris Hare at Investec.

Hare was the most optimistic forecaster on sterling in the poll, saying it will reach $1.35 in a year.

"We are fairly bullish on sterling, based on the view that we will see some correction from its significant undervaluation, while we also expect some support from some additional clarity on Brexit," he said.

Sterling's fall has been a boon to exporters and Britain's economy unexpectedly outpaced all its major peers last year, wrongfooting those who expected an immediate hit from June's Brexit vote, and the Bank of England sharply revised up its growth forecast for 2017 last week.

A Reuters poll last month predicted growth would slow after May pulls the trigger on Article 50. The Reuters foreign exchange poll taken ahead of the vote correctly predicted the rate of the pound's slump in the aftermath of an out vote.

The pound has also struggled against the euro but the currency union faces its own headwinds this year, with national elections looming in Germany, France, Italy and the Netherlands which could result in anti -euro political parties gaining significant ground or even taking office.

In one and three months a euro will be worth 86.0 pence, and in a year it will get you 86.9p. It was trading around 86.2p on Tuesday. Two strategists expect the currencies to reach parity with each other over the coming year.

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