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Never waste a good crisis

EU and UK are still in negotiation mode. In absence of an extension of the transition period, a no-deal Brexit has once again become a plausible scenario. The advice "hope for the best and prepare for the worst" is as valid as ever in this saga.

We advise financial institution to not plan based on equivalence. Even in the best of cases, equivalence doesn`t cover all relevant areas. What's more, neither the very rational of the Brexit - taking back control - nor the way negotiations are going, point to equivalence as a solution.

Market participants acted accordingly. The loss of passporting rights will lead to a shift of roughly 50 percent of EU business on UK based bank balance sheets to the continent. We have seen bookings move into Frankfurt of about €300 billion so far. We expect another €100 billion before the end of the year and we know of another €400 billion ready to move.

Will all that lead to more inefficiencies? Not necessarily. Fragmentation may, but does not necessarily, lead to higher costs. Notto forget that costs occur not only on banks profit and loss accounts, but eventually also in state-budgets. Given the impact on financial stability, standing on your own two feet is better than standing on one, especially if that one is beyond your control.

It was a key project of the G20 under the stewardship of Japan fighting global fragmentation of financial markets and rightly so. At the very same time Japan continued on its endeavour in bringing the Yen clearing back to Tokyo, at least to a sufficient degree.

Take Eurex as an example: We are nearing 20 percent of Euro denominated interest rates swaps, were clearing moved from London to Frankfurt, and growing. This was achieved with costs and spreads on par for market participants. Social risks could be reduced and at the same time costs for market participants been avoided. If it sounds like the holy grail, it probably is. Let's remember the scaremongering numbers of up to €100 billion additional costs European banks would have to bear once clearing would have to move. So clearly there can be a good fragmentation, leading to a healthy competition and more financial stability – at no additional costs for the industry. Fragmentation can, but doesn't have to be bad and may even be good.

The train of shifting business is in motion. In a world ever more polarized and global powers increasingly self serving, Europe can ill afford to loose control of it's financial ecosystem, given the geopolitically relevance of the industry. Naturally the UK will always be invited to be the EU's preferred partner.

The corona virus created a push towards digitalization and solidarity in Europe, at a spead, that was surprising even for optimists. As a result, we need to ask ourselves: Do we witness the early days of a new European safe asset class? And if so, could it accelerate the creation of the common EU capital market. Europe's ability to move under stress has repeatedly been underestimated. I'm bullish on Europe living up to its challenges, not wasting this crisis. ●