

## How Will Brexit Affect The UAE?

British Prime Minister, Theresa May, is running out of time. March 29, the Brexit deadline, draws ever nearer and there are more roadblocks on the way.

As the UK's fifth-largest trading partner, Brexit is likely to affect the UAE significantly, not least by giving Britain a strong motive to boost its UAE relations in the context of renewed efforts to strengthen its global influence.

Most of the turmoil over Brexit concentrates on the issues of free movement and trade between the UK and the EU. These issues get so much attention in the media, it's an overlooked benefit that after March 29 the UK will no longer have to worry about the EU's long-drawn out approval processes to make trade deals directly with other blocs like the UAE. It's not a small thing to be flexible in the world of investments and trading. Having said that, there will also be stronger competition from EU countries to boost their trade relations with the UAE and beat the UK to the punch.

In terms of currency changes, if there's a worst-case hard Brexit, the Sterling may take a pounding against the USD on the basis that it could take the UK years to recover from the overnight loss of its export markets in the EU. If this happens, British goods would be cheaper and more easily imported into the UAE because the USD-pegged Dirham would gain buying power. Other sectors may not fare so well. Britons are in the top four purchasers of real estate in Dubai, for example, accounting for over \$900 million in the first nine months of 2018 alone. A weaker Sterling could have a negative impact on real estate investments in the UAE because they would be less affordable given the exchange rate to the USD. Tourism could also take a knock as UK citizens would have less buying power when it comes to travel. This could weigh on the UAE's economy because tourists from the UK are the third-biggest spenders overall.

If the UK does a U-turn and remains in the EU, the Sterling could strengthen against the USD, meaning more expensive export prices to the UAE and a buyer's market for UAE products in the UK. A weaker USD versus Sterling could stimulate crude oil sales to the UK, particularly if global demand fundamentals continue to decline, further lowering the price of oil. Real estate in the UAE could see a boost because of a potentially stronger Sterling, and tourism would likely increase because of travel bargains based on a favorable exchange rate.

The essential building block of the UAE's economy—crude oil—would see different treatment in each case. Brexit could see Sterling in a weaker position against the USD, meaning that crude oil exports to the UK would be pressured because they'd be less affordable. If the UK remains in the EU and Sterling strengthens against the USD, then crude oil imports from the UAE to the UK would likely be more attractive because they would be affordable.

Brexit would likely affect the UAE's economy for as long as the UK takes to recover from the economic earthquake splitting it from mainland Europe's economy. It could take at least

two to three years until the UK's economy adapts to the new conditions and rebuilds relations with its trading partners. Meanwhile, investors ought to closely monitor the most sensitive economic sectors in the UAE: tourism, real estate and stocks.

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