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## UK TRADE: WIDENING EU GOODS DEFICIT WILL ADD FUEL TO THE BREXIT CAMP

### Berenberg Macro Flash

#### Trade balance, £, January

Actual	-3.5b
Previous	-3.7b (revised from -2.7)
Consensus	-3.0b
Berenberg	-3.1b

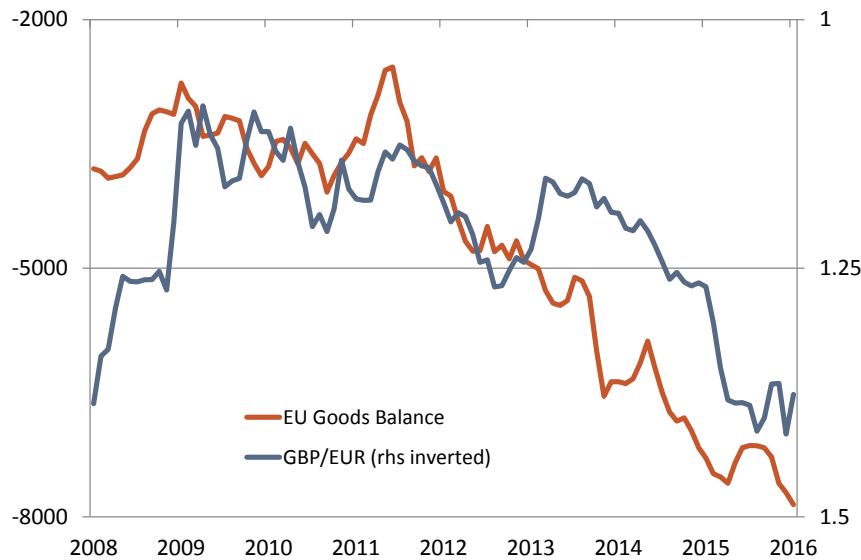
**Trade deficit may ease further in coming months before widening in H2:** After sharp downward revisions to back data, the UK trade deficit in goods and services narrowed to a five month low of £3.5b in January from £3.7bn in December, mostly due to a reduction in imports. Comparing January to the average monthly balance for the final quarter of last year, the trade balance improved by £700m with imports down by around £1b. The sharp fall in sterling in recent months, due to Brexit uncertainty and dovish comments by the Bank of England, probably explains some of the fall in demand for imports. Going forward, Brexit risk will continue to exert downward pressure on sterling until after the June 23 referendum – we see a 35% chance of a Brexit. Therefore, the UK's trade balance may narrow further in the coming months before widening again in the second half of the year. As long as UK stays in the EU, we expect sterling to strengthen and domestic demand to pick-up.

**EU goods deficit continues to widen:** As Chart 1 shows, the UK goods deficit with the EU rose again in January. This will play nicely in to the hands of the 'out' camp in the lead up to the EU referendum. But this is an example of another misdirected argument that somehow the EU needs the UK more than the UK needs the EU. Two points are noteworthy. First, the weaker Euro since summer 2015 has played its part in this story – aggressive policy from the ECB has made Euro area goods more competitive. More importantly, when total exports (service and goods) are considered as a proportion of GDP, the story changes dramatically. Total UK exports to the EU are around 15% of UK GDP whereas EU exports to the UK are less than 5% of EU GDP. It is this relative difference that really counts.



## MACRO NEWS

**Chart 1: Good balance to EU continues to fall**



*£ million for left-hand-side*

Source: ONS

### Trade

£ (bn)	JAN	DEC	NOV	OCT	SEP	AUG
Exports	41.4	41.4	41.6	42.3	43.2	42.5
Imports	44.4	45.1	46.3	46.4	44.4	45.6
Trade Balance	-3.5	-3.7	-4.7	-4.0	-1.2	-3.1

Source: ONS

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