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September 12, 2014 - British Pound To Take A Hit With Scottish Referendum- By Jeffrey Hagenmeier



The independence vote for Scotland arrives next week on the 18th of September. As we get closer to the date of the referendum, an investor can expect a couple of things. One the polls will continue to tighten between the individuals who prefer independence, and those who oppose it. The undecided vote will rapidly dwindle as citizens line up with the aforementioned choices. The second thing that will occur is, a plunge in the value of the British pound.

If the polls showed 60/40 in opposition to independence for Scotland there would be little effect on the value of the British pound in relation to other currencies. However, the polls at present show that the vote may be actually much closer. Look for analysts to draw this conclusion early next week. One should expect the lowest value for British sterling this year so far.

An investor might wish to short the British pound at this time much like George Soros did in the past. There is little the Central Bank in London can do to prevent what is about to occur. Uncertainty in the markets will put pressure on the currency, regardless of what government and bank officials may choose to do.

The British economy would take a further hit if the vote favors independence. Within 2 years Scotland will leave the United Kingdom. The loss of 5.3 million residents and 78,387 km² (30,265 square miles) is only the beginning.

The British nuclear submarines are all located in Scotland and steps would be need to be taken to relocate them, with new military installations further south in England. The cost of these new bases will be dear.



The United Kingdom would also lose a share of the North Sea gas /oil production and reserves. This would be bad enough, but there are other considerations. Although most of the industry drilling platforms are located geographically to the north, the United Kingdom will attempt to hold on to a number of them. The problem is most of the processing facilities are in Scotland. Once again, new facilities for processing and storage will need to be constructed in other parts of the United Kingdom.

There will be other costs as well. Many companies located in Scotland particularly banks and other financial institutions will choose to migrate to England. The reimbursement of relocation will need to eventually come from customers. This will add a financial burden to the British economy at large.



Other companies may well follow suit, once they discover that most of their market and customer base is located in England. Again, costs for this process will need to be passed onto the consumer.

The Royal Bank of Scotland In addition, there may well be a small population transfer. This is the result of citizens of the United Kingdom who may not wish to live, in a soon to be foreign country. The end result is a dislocation to businesses and the real estate market. It brings even more uncertainty to the British economy as a whole.

Political talk in Scotland of possible repudiation of the national debt creates even more chaos in the markets. If this were to occur total debt would rise in the remaining part of the United Kingdom. The percentage rise in relation to GDP (Gross Domestic Product) would move from 77% to 86%. This would place increasing pressure on the pound.



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Finally, the general loss of prestige and power if Scotland leaves the Union, would also take it's portion of value from the British pound.

All of these events provide a perfect opportunity for investors in currency, to short the British pound at least in the near term. Look for deprecation of at least 5% or more as the date of the referendum approaches. Since the vote may be close, the best bet would be to liquidate your position the day before the actual vote.

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