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## UK POLITICAL UPDATE: A KEY WEEK FOR BREXIT

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**AND THEY ARE OFF!** After the UK wasted almost three months of the short twenty four months to agree the terms of its divorce from the EU, the wheels of Brexit are finally turning. UK Brexit Minister David Davis will today kick-off negotiations with the EU in Brussels. The EU will not negotiate any post-Brexit trade terms until the UK settles its divorce, which will include agreeing to the calculation for the Brexit divorce bill, and to the EU's demands on the rights of EU citizens living in the UK. The EU will not compromise on either account and no talk of trade deals will begin until the UK signs on the dotted line. Since the UK's leading Conservative Party lost its majority in snap elections some two weeks ago, you rarely find one of their MPs echoing May's 'no deal is better than a bad deal' threat anymore. That is real progress. It can mean less scope for a messy fallout between the UK and the EU over the divorce settlement. Furthermore, that key pro-EU Conservative MPs, including the Chancellor Philip Hammond, are more active than before in pushing for an exit that puts the economy and jobs first makes a softer Brexit more likely.

**A BUMPY ROAD TO A SOFTER BREXIT** It seems that Theresa May is increasingly perceived as a lame duck by her party. Neither the Brexiteers nor the pro-EU Tories are happy with the PM's post-election performance. As we argued before, after she squandered her 17 seat majority at the snap election, it is not a question if, but when, she is out. With luck, the Conservatives will use May to concede on the key parts of the Brexit divorce that are important for the EU, and let her take the flak before getting the chop. That would enable enough time before negotiations end in March 2019 for the UK and EU to agree a lengthy transitional period where the UK remains de facto inside the Single Market while the new terms of UK-EU trade are hammered out, leaving the next Conservative leader and PM a free run at negotiating a trade-deal with the EU. This would be by far the best outcome for the UK economy.

**DON'T FORGET THE QUEEN'S SPEECH** After starting talks over a week ago, the Conservatives and the Northern Irish DUP have still not officially agreed on a format for cooperation that ensures a workable majority for the Conservatives in the House of Commons. That leaves the open question if the Queen's speech - due on Wednesday - to open parliament will even pass in the Commons at all. The Conservatives with their 318 seats will require the backing of the 10 DUP MPs to secure the 326 majority. Could the DUP hamstring the Tories? That seems unlikely. Voting against the Tories on Wednesday would risk early elections. Momentum currently is with far-left Corbyn's Labour Party. Because of Mr Corbyn's past views on the Northern Ireland conflict, the DUP would want to avoid the risk of Mr. Corbyn at No. 10 just as much as the Conservatives. Even if the Tories and DUP do not have a formal deal in place by Wednesday, the DUP will probably back the Tories just to keep the fresh election threat at bay for now. Even so, the government would remain fragile. After all, since the DUP are unlikely to agree to a formal coalition but rather a piecemeal partnership, 'confidence and supply', they will have ample opportunity to hold the Conservatives to ransom in the future if they wanted.

Stay tuned, this summer could get hot!



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## MACRO NEWS

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