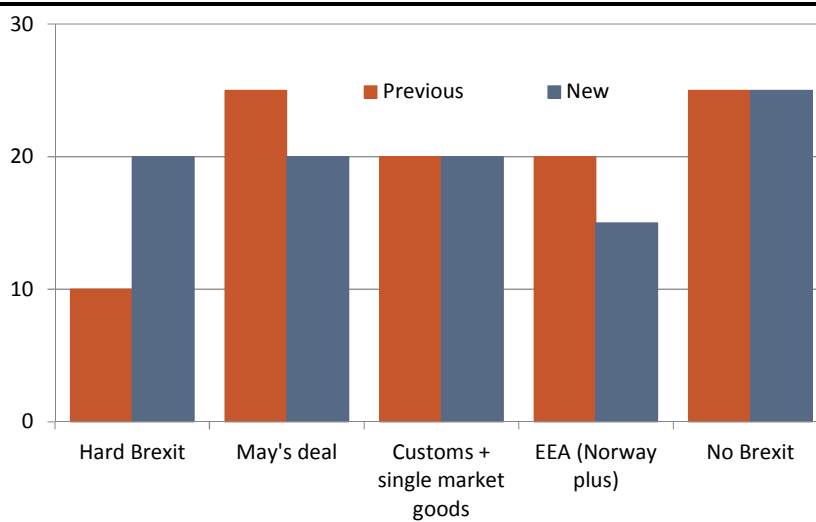


18 December 2018

Brexit update: Squeaky-bum time for Christmas

Potential Brexit outcomes and probabilities



Source: Berenberg

- Brexit means Brexit, sort of:** In little more than three months (29 March 2019) the UK will exit the EU, although parliament has yet to agree a plan to prevent a no-deal hard Brexit. None of the off-the-shelf options for Brexit, such as Prime Minister Theresa May’s deal, full customs union plus single market for goods, or a Norway (plus) agreement, seem to have a majority in parliament. A second referendum seems to be gaining support across the backbenches. However, neither the “tis a scratch” May nor the “cannot benefit much from the Tory malaise” far-left Labour leader Jeremy Corbyn dare to seriously consider this as the obvious way out. After all, one must not undermine democracy by giving the people another vote, or so their argument goes – if facts change, we cannot allow the people to change their mind.
- Keep calm and carry on, apparently:** Markets are nervous. The UK faces a constitutional crisis. Households wonder when they should start stockpiling tinned food. No joke, the situation is dire. Only parliament can resolve the crisis if and when it makes up its mind up about which Brexit option the UK should go for. So is Christmas cancelled in Westminster this year – as Oliver Cromwell once did – to sort the mess out? Apparently not. As planned, parliament will take the usual break, rising on 20 December and returning on 7 January. Is it too late to write to Santa?
- Went to Brussels, came back with sprouts:** Using her prime ministerial privileges, May is taking all steps possible to keep her deal alive. She initially promised parliament that it could vote on her deal on 11 December. However, expecting certain defeat, May cancelled the vote. After she failed to extract concessions on the contentious Irish backstop in Brussels last week, we had hoped that she would get on with it and bring her deal in for a vote this week. Feeling emboldened after winning a vote of confidence within her party, May decided to postpone the vote until the week beginning 14 January instead. Her plan, it seems, is to salvage her deal – which is ready to go and already agreed with the EU – and win the war of attrition by curtailing the time to potentially consider other options.
- May has a habit of renegeing on her promises:** Remember in 2016 and 2017 when May said there would be no snap election? Or when, just last week, she said that she would not postpone the 11 December vote? Now, the PM is emphatically refusing to consider a second referendum. But ultimately, if parliament rejects May’s deal and votes against a hard Brexit shortly thereafter, a second referendum could be the only option with a majority in parliament, in our view. According to the UK press, May’s team has begun preparations for a second vote. Could it be? In the immortal words of Shakespeare: “The lady doth protest too much, methinks!”
- Hard Brexit risk rises:** May increasingly appears toothless in a divided parliament. We thus further reduce the odds that she will get her deal through parliament to 20% from 25%. We also cut the Norway option from 20% to 15% – pro-EU Conservative MPs increasingly back a second referendum. However, amid the timewasting and parliamentary gridlock, we raise the hard Brexit risk to 20% from 10%. Unfortunately, this is not quite the festive cheer we hoped to send! Still, best of luck in 2019. Whatever happens, it is set to be another fascinating year.

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