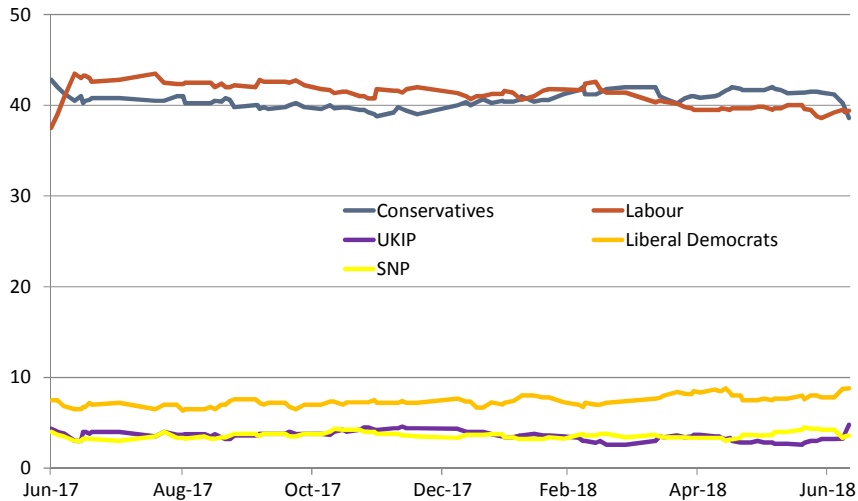


18 July 2018

Brexit: Tory infighting changes the balance of risks

The threat from the left – Labour has edged ahead again in UK opinion polls



UK opinion polls, support for political parties in %. Source: National polls. Three-poll moving average.

- Like herding cats:** Once again, the Brexiteers have laid bare how difficult it is for UK Prime Minister Theresa May to hold her Conservative government together. Although May had turned her plan for a semi-soft Brexit into the official line of her Cabinet last week, causing prominent dissenters to quit, Brexiteers led by MP Jacob Rees-Mogg forced her on Monday to accept an amendment that would make it even more difficult for the EU to endorse her proposed customs arrangement. The strongly pro-EU House of Lords will probably reject the amendment. After the House of Commons barely passed it anyway (305 for, 302 against), the amendment may not survive a second vote.
- However, the damage is real:** Since PM May's botched election last year, we have argued that the Conservative Party will eventually broker a compromise within its own ranks to avoid fresh elections. Our base case remains that the Conservatives will do so in order to stay in power, ultimately backing any deal she strikes with the EU with a sufficient majority. However, the risk has risen that a significant number of Brexit hardliners will refuse to support her in crucial votes regardless of the consequences. This may bring down her government and lead to snap elections unless parts of the opposition were to lend May a hand and bring her semi-soft Brexit through parliament.
- Corbyn gets a boost:** Amid their bitter infighting, the Tories have fallen behind in the polls (see chart). If Conservative hardliners were to bring down the May government, we would expect Labour as well as the Lib Dems and UKIP to gain support. That would likely allow Labour to beat the Tories in potential snap elections. We raise our probability that a Labour-led government under far-left Jeremy Corbyn could come to power in late 2018 or early 2019 to 25% from 20%. This changes our probabilities for two of our four Brexit scenarios.
- Semi-soft Brexit – 60% (unchanged):** If the UK proves unable to propose a realistic negotiating position on its own, the EU will likely offer the UK a trade deal in goods (custom union-style) that does enough to keep the Irish border open. Upon facing the choice between such a semi-soft Brexit on the EU's terms, a hard Brexit, or fresh elections, we expect the majority of Conservative MPs – with the help of some cross-party support – to back the former.
- No-deal hard Brexit – 20% (unchanged):** Brexiteers within the Conservative Party seem set on digging in their heels to frustrate May's efforts to negotiate a semi-soft Brexit with frictionless trade in goods between the EU27 and the UK after Brexit. If opposition MPs do not support Conservative remainers in securing a semi-soft Brexit, the UK could slide out of the EU in March 2019 without a deal on its future relationship with the EU27.
- Soft Brexit – 10% (down from 15%):** A Labour-led coalition government – with either the Lib Dems or the SNP – would not go for a hard Brexit. Instead, the UK would probably face a choice between a referendum to possibly cancel Brexit and a comprehensive "soft Brexit" under which the UK stays almost completely in the common markets for goods and services and gets only very restricted safeguard clauses to control immigration from the EU27. A semi-soft Brexit, although possible under a Labour-led government, would be unlikely as the Lib Dems or SNP would probably not support it.
- No Brexit – 10% (up from 5%):** The Conservatives would not go for a second referendum. However, if snap elections yielded a Labour-led coalition, the new government may choose to put the question back to the voters. With the higher chance of a Labour-led government, this outcome seems less unlikely than before.

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BERENBERG CAPITAL MARKETS LLC

Member FINRA & SIPC

Internet www.berenberg-us.com

E-mail: firstname.lastname@berenberg-us.com

EQUITY RESEARCH

HEALTHCARE - MED. TECH/SERVICES

Ravi Misra +1 646 949 9028

HEALTHCARE - SPECIALTY PHARMACEUTICALS

Patrick R. Trucchio +1 646 949 9027

LEISURE

Brennan Matthews +1 646 949 9024

INDUSTRIAL MATERIALS

Paretoosh Misra +1 646 949 9031

SHIPPING & TRANSPORTATION

Donald McLee +1 646 949 9026

SOFTWARE & IT SERVICES

Alexander Frankiewicz +1 646 949 9029

Gal Munda +1 646 949 9021

EQUITY SALES

SALES

Albert Aguiar +1 646 949 9218

Enrico DeMatt +1 646 949 9230

Kelleigh Faldi +1 617 292 8288

Ted Franchetti +1 646 949 9231

Shawna Giusti +1 646 949 7216

Rich Harb +1 617 292 8228

Zubin Hubner +1 646 949 9202

Michael Kaye +1 646 949 9216

Jessica London +1 646 949 9203

Anthony Masucci +1 646 949 9217

Ryan McDonnell +1 646 949 9214

Emily Mouret +1 415 802 2525

Peter Nichols +1 646 949 9201

Kieran O'Sullivan +1 617 292 8292

Rodrigo Ortigao +1 646 949 9205

CORPORATE ACCESS

Olivia Lee +1 646 949 9207

Robert Meyers +1 646 949 9215

Panthea O'Connell +1 646 949 9208

CRM

LaJada Gonzales +1 646 949 9213

Monika Kwok +1 646 949 9212

EVENTS

Laura Hawes +1 646 949 9209

ECONOMICS

Mickey Levy +1 646 949 9099

Roiana Reid +1 646 949 9098

SALES TRADING

Ronald Cestra +1 646 949 9104

Mark Corcoran +1 646 949 9105

Michael Haughey +1 646 949 9106

Christopher Kanian +1 646 949 9103

Lars Schwartz +1 646 949 9101

Bob Spillane +1 646 949 9102