



Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 203 465 2672

BREXIT: MAY LOSES PARLIAMENT'S BACKING – IMPLICATIONS

Berenberg Macro Flash

No love for May's plan on Valentine's Day: Last night UK parliament rejected Prime Minister Theresa May's ongoing efforts to renegotiate the terms of her Brexit deal (258 for, 303 against). The symbolic vote overturned a similar vote on 29 January in which May had managed to win the support of a slim majority of MPs in parliament to go back to Brussels to try to change the terms of the Brexit deal she had tentatively agreed with the EU back in November 2018.

We draw three conclusions for last night's developments:

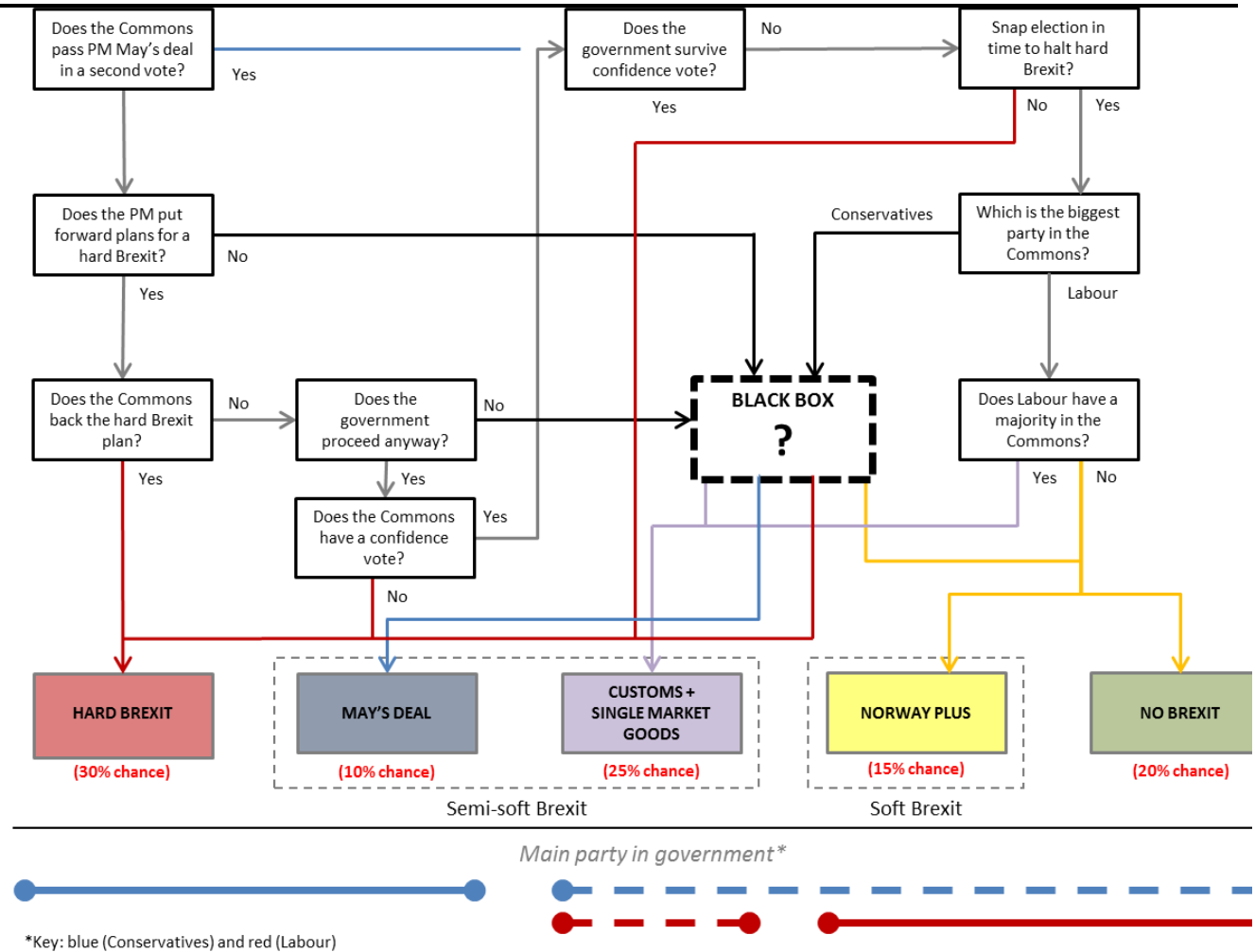
- 1) May's chances of eventually getting a parliamentary majority for her deal are low (10%).** May failed to retain the support of the most pro-Brexit faction of her Conservative party - the European Research Group (ERG) - whose members abstained from last night's vote on the basis that May was failing to negotiate from the mandate that parliament had voted in favour of on Jan 29. The ERG has backed May on the basis that she would seek to remove the contentious 'Irish backstop' from her Brexit deal. Alternatively, the ERG want to see the backstop edited so that it is either time-limited or can be exited unilaterally. As Brussels has consistently said that none of this is possible, May has resorted to exploring with the EU sideline protocols and devices that can provide legal force to the promise by the EU that the backstop, if enacted, would only be a temporary measure.
- 2) May is becoming an obstacle to an eventual agreement that could avert a no-deal hard-Brexit scenario (30% risk).** Weakened by last night's vote, May is even less likely than before to gain any major concessions from the EU. Without a parliamentary majority behind her, May can no longer credibly claim to EU leaders that further tweaks to her deal would do the trick to get the deal passed in the UK. The risk is that May further steps up her ongoing efforts to run-down the clock. By delaying the next meaningful vote on her deal to close to Brexit day on March 29, May could try to present her deal as the only alternative to a hard Brexit - something the mostly pro-EU UK parliament has already signalled it does not want. This would be a high risk strategy that could end with a no deal outcome by accident.
- 3) Parliament will have to step up to avoid a hard Brexit.** May has promised to give parliament a say on the way forward for Brexit if, by 27th February, she has not managed to get a majority for her Brexit deal. As long as May doesn't go back on her word and delay the vote - as she did once already in December - we expect the cross-party majority of MPs that want to retain close ties with the EU to step up and steer the UK away from a hard Brexit. We look for this majority to mandate the government to seek an extension to the negotiation period, thereby setting back Brexit day by at least two months but possibly longer, and to force the government to provide parliament with the sitting time to debate and vote on alternative Brexit options.

See Chart for our Brexit probabilities.



MACRO NEWS

Brexit scenarios and probabilities



Source: Berenberg

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Joh. Berenberg, Gossler & Co. KG
 60 Threadneedle Street
 London EC2R 8HP
 Phone +44 20 3207 7878
www.berenberg.com
kallum.pickering@berenberg.com