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POLITICAL UPDATE - BREXIT DELAYS, TRADE PROGRESS

Berenberg Macro Flash

BREXIT: ANOTHER DAY, ANOTHER DELAY

For a third time, UK Prime Minister Theresa May is delaying the planned vote in UK parliament that could begin the ratification process for her Brexit deal. May had initially promised that she would seek parliamentary approval for her deal on 27 February 2019. Yesterday she announced that this would be delayed until 12 March 2019, just 17 days before the UK is due to leave the EU. Parliament already rejected May's deal on 15 January 2019 by a historic margin of 230 votes. May hopes that she can extract concessions from the EU on the contentious 'Irish backstop' that could eventually get the hardline Eurosceptic wing of her party to back her deal. As the EU is showing no signs of budging enough to satisfy the UK's Brexit hardliners, [we see just a slim 10% chance that May can pass her deal](#).

A majority of UK MPs is staunchly against a no-deal hard Brexit. By running down the clock, May hopes she can force parliament to back her deal as the only viable option to a hard Brexit. May is playing a dangerous game that could risk a no-deal hard Brexit by accident (25% risk). On Wednesday, parliament will have a chance to influence the outcome of Brexit when May brings a motion to the house that once again seeks support for her negotiating strategy. She lost such a [vote on 14 February 2019](#). On Wednesday, a cross-party majority of MPs will likely vote in favour of giving parliament the ability to force the government to seek an extension to the negotiating window and delay the Brexit day.

How long could the delay be? That depends. Parliament tomorrow will probably vote on two options. One option, put forward by Conservative MP Simon Hart, would seek an extension until 23 May 2019. The second option, proposed by Labour MP Yvette Cooper and Conservative MP Sir Oliver Letwin, would give the House of Commons a legally binding vote on how the government should proceed if no deal is agreed by 13 March. This would give parliament the power to debate and vote on alternative Brexit options, including a second referendum, and seek a lengthy delay to Brexit day. Some 30 Conservative MPs – three of whom are cabinet ministers - have said they could back the Cooper amendment. According to a report in the "Guardian", the EU is currently discussing a lengthy delay of around two years. Unless parliament has made up its mind on what kind of Brexit it wants, the EU may argue that a short delay would not make much sense as it would not provide the time needed for the UK to resolve its divisions over Brexit. A long Brexit delay by, say, two years, would remove the hard Brexit risk for now, lift much of the uncertainty linked to a hard Brexit, and give the UK and EU much more space to discuss serious alternatives to the backstop. It would also leave more room for political developments in the UK to play out, including possibly new elections.



MACRO NEWS

TRADE SKIRMISH: THE FIRST SIGNS OF SPRING

Good news for the global economic outlook: Noting ‘substantial progress’ in US-China negotiations, US President Donald Trump announced yesterday that the US will delay the planned 1 March 2019 increase in tariffs on \$200bn of China goods. The additional announcement that, if the US and China make ‘further progress’, Mr Trump would invite Chinese President Xi Jinping to his Mar-a-Lago resort for a joint summit suits our calls that Trump wants a deal and that the US and China will likely strike such a deal later this year – see Mickey Levy’s [‘US-China negotiations: progress beyond the tariffs’](#) and [‘China’s growth slows; global impact spreads’](#).

However, the separate [US-EU trade talks](#) will likely drag on for a few more months. After the US Department of Commerce submitted its auto tariff probe to Trump eight days ago, Trump has until mid-May to decide whether to levy punitive tariffs of, perhaps, 25% on such car imports. On the EU side, internal discussions are still underway to fix details of the EU negotiating position. While the US and EU face tricky negotiations on politically sensitive issues (like agriculture and autos), the EU – unlike China - presents no geostrategic threat to the US. Furthermore, there is little support outside Mr Trump’s close circle for a costly trade war with the EU. This should help to contain the risk of a major escalation on trade between the US and the EU.

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