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MACRO NEWS

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A RAY OF HOPE FOR MAY'S DEAL?

Berenberg Macro Flash

The last minute agreements between the UK and EU regarding the contentious 'backstop' for the Irish Border gives May's deal an outsider's chance of getting a majority backing when the House of Commons votes on it tonight (c7.00pm GMT). While our base case remains that May will fall short of a majority, the news tilts the risk to our 10% probability for May's deal to the upside.

What is in the new agreement?

- 1) UK-EU joint instrument stating that the EU cannot seek to trap the UK in the backstop by failing to negotiate on the future trade agreement in good faith. The vow that the Irish backstop will not, if it is ever triggered at all, become definite, first came via a letter from the EU to the UK in January, but is now in a joint instrument.
- 2) UK-EU joint statement as part of the political declaration on the future relationship that commits both sides to develop technologies or other alternative arrangements to manage the Irish border after the transitional period is set to end at the end of 2020, so the backstop will not be needed.
- 3) UK declaration with an explicit reference that there is nothing to prevent the UK launching a procedure to exit the backstop if the EU does not act in good faith.

Key observations

- While May has probably done enough to reduce the size of the defeat - vote one was 230 MPs - she will probably still fall well short of a majority when parliament votes on her deal tonight.
- This is probably May's last chance to get her deal through the UK parliament. The EU has made clear that it cannot go further than these new agreements on the Irish border. If the UK parliament votes down May's deal tonight she will be under huge pressure to give MPs a chance to debate and vote on alternative models for future UK-EU relations.
- May had sought changes on the backstop to secure support from the hardline eurosceptics in the Conservative Party and its parliamentary partner the Northern Irish DUP. Both of these government factions had voted against May's deal in the first vote over fears that the Irish backstop - if triggered - could become a permanent arrangement that the U.K. could not exit. Whether the new agreements will be enough to bring these groups on board remains an open question. Both groups will probably wait to see Attorney General Geoffrey Cox' legal analysis of the new arrangements and whether he will judge that the UK can no longer be trapped in the backstop.
- Even if May achieves to win over the hardline eurosceptics in the Conservative Party and the DUP, she still needs to win over the moderates and Remainers in her party. Apparently, she is using the upcoming fiscal announcements at the Spring Statement on 13 March to promise a Brexit dividend in the form of ending austerity if MPs back her deal.
- If parliament passed May's deal it would eliminate the hard Brexit uncertainty and probably trigger a rebound in U.K. domestic economic activity sooner than we currently expect, say Q2 rather than Q3. This would present upside risk to our call for 1.4pc real GDP growth in 2019 (see [Hard Brexit risk down](#)).

For our preview of this week's votes, please see [Brexit vote trilogy](#).



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