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BREXIT: PROGRESS IN THE WEEK THAT MATTERS

Berenberg Macro Flash

UK parliament could be on the cusp of a hat-trick. In the week that matters, parliament has already taken key steps to a) avoid a hard Brexit and b) to ensure that the UK economy retains close ties with the EU. Today, it could start to decide what the final Brexit end-state will be.

We have learned three things so far this week

1) *Prime Minister Theresa May is reaching the end of the road with her deal.* Parliament has no appetite for it having decisively voted it down for a second time on Tuesday. The EU has ruled out any further changes to the deal, especially on the contentious Irish backstop. While that should clear the way for parliament to start working towards an alternative outcome, it is possible that May tries one more time in a third vote on her deal - possibly on 20 March.

2) *A majority in parliament is against a no-deal hard Brexit.* With a slim majority (312 for, 308 against) the House of Commons yesterday amended the wording of its vote on a no-deal Brexit to reject such a hard Brexit under all circumstances. With a sizeable majority (321 for, 278 against) the House of Commons passed this amended motion.

3) *The number of options on the table has fallen.* Having voted against a hard Brexit and May's deal, members of parliament (MPs) now have only two realistic Brexit options to choose from, customs union or Norway plus. The reduced number of options raises the chance that MPs can back one of these two. Of course, parliament could also call a second referendum instead. As this would be highly divisive, though, we view this as unlikely - but not impossible.

The big challenge comes next

Mustering a majority against a hard Brexit is one thing. Getting a majority for something else is a much bigger challenge.

With luck, we will learn within the next two weeks, and possibly as early as today, whether such a majority exists. The idea that parliament should be given indicative votes on alternative Brexit models has been touted across the back benches of all major parties in Westminster for months. We now seem to be on the cusp of this actually happening. If May goes for one final push and vote on her deal, fearing it would waste more of the little time left, it may further incentivise parliament to completely wrest control of Brexit from the prime minister shortly.

Like last night's vote, the vote tonight to delay Brexit - proposed until the end of June - will be amendable. An amendment allows parliament to change the motion that the government brings to a vote. We look for MPs to either support amendments which incorporate a vote for the customs union option or the Norway plus option, or an amendment that allows parliament to hold indicative votes on these options shortly.



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The possible routes ahead

1) If we are very lucky, parliament may back the Brexit delay tonight AND endorse the customs union or Norway model at the same time. This would simultaneously remove the hard Brexit, second referendum and snap election risks from the table. Without a hard Brexit to cause a crisis, we would also have to worry a lot less about the risk that left-wing Labour leader Jeremy Corbyn could ever come to power too. *This would likely trigger a major relief rally in sterling and UK risk assets, and create major upside for the near-term UK growth outlook (rate hike in May?)*

2) In a negative scenario, parliament would back a delay but fail to find a majority for the alternatives to May's deal. That could mean a lengthy delay to Brexit and prolong the uncertainty about the end-game. *This would probably erase the gains managed so far this week and set back any major rebound in UK markets and the economy for months and possibly quarters.*

As in other spheres of life, political decisions often take a lot longer than expected only to then happen quickly. The next two weeks, and possibly even today, may be one of those times. Of course, there are still major hurdles ahead and the outcome remains uncertain. However, as push is finally coming to shove just ahead of the scheduled 29 March Brexit day, the cross-party majority in parliament that apparently wants to retain close ties with the EU is finally asserting itself. Pressed for time, it may now be ready to act fast.

Our previous publications on Brexit and the UK economy:

[Brexit mess: the EU angle](#)

[Brexit vote trilogy: predictions and observations](#)

[Hard Brexit risk down, delay likely: key implications](#)

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