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MACRO NEWS

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## UK HEADING FOR LONG BREXIT DELAY AFTER SPEAKER INTERVENTION?

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**Another spanner in the works for May's deal:** By making it more difficult for UK Prime Minister Theresa May to hold a third vote on her Brexit deal, the speaker of the House of Commons has raised the chance that May will now be forced to head to Brussels cap-in-hand on Thursday to ask for a lengthy delay (possibly until the end of 2020) to give the UK the time it needs to resolve its internal Brexit squabbles. While the EU will probably accept such a request from the UK, the latter's hand would be severely weakened as all 27 other EU members have to agree to it. Even more than before, it will be the EU's prerogative to set the terms of such an agreement.

**What happened?** UK parliamentary rules dictate that a vote of the same 'substance' cannot be repeated once parliament has voted against it. May was able to bring her deal back for a second vote as the additional agreements with the EU on the Brexit deal changed the substance. While there are ways May can get around this obstacle, it will not be a walk in the park. Her options include renegotiating part of the deal with the EU (highly unlikely), dissolving and then reinstating a new session of parliament, or by getting MPs to vote in favour of having a third vote on her deal - thereby overruling the speaker. All options imply further delay while the final option would have a low chance of success. After all, why would MPs back having a third vote on a deal if they plan to reject it anyway?

**Things now have to move fast:** On the UK side, the politics of Brexit has lots of moving parts that change day by day. However, with the UK due to leave the EU in just ten days, any agreement on the delay that parliament voted for last Thursday must happen soon.

### What is the end game?

We see four paths forward:

- 1. A majority of MPs backs May's deal, tables a third vote which May wins, then the UK seeks a short delay until the end of June;*
- 2. UK and EU agree a long delay, but shortly thereafter MPs vote in favour of May's deal, the customs union model or the Norway model;*
- 3. UK and EU agree a long delay, and a lot of time passes before MPs eventually vote in favour of May's deal, the customs union model or the Norway model;*
- 4. UK and EU agree a long delay that results in a second Brexit referendum after MPs conclude they cannot find a majority for any other outcome.*



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**It is unclear which path we are on.** If May fails to get around the speaker's ruling to enable her to hold a third vote on her deal within the next few days, we are probably on path two with risks skewed towards path three and four. In the end, all paths would be positive for markets and the UK economy eventually with the exception of path four if it ended with a hard-Brexit. As the situation is in flux, at this stage we are not changing our probabilities for the potential Brexit outcomes; hard Brexit (15%); May's deal (10%); customs union model (35%); Norway model (15%); and no Brexit (25%).

### What are the risks to our calls?

- **Hard Brexit and no Brexit to the downside:** Parliament seems to have a low appetite for a second referendum. Last week 334 MPs voted against a second Brexit vote, slightly more than the 320 needed for a majority.
- **May's deal to the upside:** That is, if she can get manage to hold a vote before a lengthy delay is agreed with the EU. Fearing a much softer Brexit outcome, or even an exit from Brexit, the pro-Brexit Northern Irish Democratic Unionist Party (DUP) and some influential EU-sceptic hardliners in the Conservative Party seem to be warming to May's deal.

### Further reading

[Brexit: progress in the week that matters](#)

[Brexit mess: the EU angle](#)

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