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MACRO NEWS

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BREXIT UPDATE: DOG CHASES TAIL, AGAIN

Berenberg Macro Flash

In an effort to break the Brexit impasse, UK Prime Minister Theresa May **today announced a series of changes to the Brexit bill**. She is hoping against the odds that she can win over enough members of parliament (MPs) to finally get a majority in parliament for the Withdrawal Agreement. The major changes are: 1) **parliament will get to vote on whether to hold a second referendum** – as long as it passes the Brexit Bill first; and 2) **parliament will get a say on what kind of post-Brexit customs arrangement the UK should seek with the EU**.

May wants MPs to choose between the free-trade arrangement envisioned in her original deal (“delivering the benefits of a customs union”) or a temporary customs union with the EU – subject to change by a future government.

In addition, May announced several concessions: for Labour on workers rights and environmental standards; for the DUP, a promise to keep the mainland UK aligned with Northern Ireland in case the so-called ‘Irish backstop’ came into force; and for the Brexiteers in her party - plans to commit the government to working on arrangements to avoid the need for a hard border in Northern Ireland by 2020.

May said that **the bill will be published in the next few days**. But as the House of Commons will be in recess from 24 May until 4 June, **debating and voting will probably take place in early-mid June**.

On the face of it, she has announced major changes to her approach to Brexit. Months ago, such an attempt to secure support from the Labour Party for the Withdrawal Agreement could have done the trick. But by now, **her authority is so eroded that her latest attempt to finally resolve Brexit will likely fail**. Instead, **her proposal will probably extend the infighting in parliament that has led to the Brexit impasse in the first place**. The House of Commons has long been divided about whether the UK should remain in the Customs Union while past votes to hold a second referendum have fallen short of a majority.

Even if May wins over some Labour MPs who want to push for a second referendum, she will lose Conservatives who fear that a second vote could reverse Brexit.

In an effort to scare her own MPs into backing the Brexit bill she said that, as parliament was against a hard Brexit, the alternatives were a second referendum or a snap election. As MPs expect that May will soon resign the threat is barely credible.

Markets are clearly downbeat about the news with sterling spiking a little ahead of the speech but erasing much of the gains during it. We broadly agree with this assessment.

Neither the UK parliament nor the EU want a hard Brexit. The UK has until the end of October to sort itself out. **This contains the hard Brexit risk at 20%. Today’s news does nothing to reduce the risk, in our view.**



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