



**BERENBERG**

PARTNERSHIP SINCE 1590

MACRO NEWS

02/10/19

Kallum Pickering, Senior Economist | [Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com) | +44 203 465 2672

## THE UK'S CHOICE - NO DEAL OR NEW GOVERNMENT

### Berenberg Macro Flash

**UK Prime Minister Boris Johnson's latest plan for the Irish border (details below) is very likely a non-starter.** Relative to what the EU and the Republic of Ireland could reasonably accept, Johnson offer does not look like the basis for an orderly Brexit on 31 October. By presenting it as his "final offer", Johnson partly gives the impression that he is not really serious about a deal before 31 October. In our view, the UK parliament now faces a straight choice: unless is it ready to back the Brexit agreement largely as it stands, it must either accept a hard Brexit or topple Johnson and ask the EU for an extension that it will very likely grant.

**The "two borders for four years" plan:** According to the *Daily Telegraph*, the plan envisages a regulatory border down the Irish Sea between Northern Ireland and mainland Great Britain and a customs border on the island of Ireland between Northern Ireland and the Republic of Ireland. It would keep Northern Ireland in the single market for agriculture and industrial goods. [As we outlined yesterday](#), the checks in Ireland would take place away from the border and make use of technologies to track traders in real time. Great Britain would leave the EU single market and customs union with a free-trade agreement in 2021 when the transitional period ends. Then for four years after that, Northern Ireland would remain in the two-border arrangement. This would be a rough deal for the small country. It would not have frictionless trade with any other country during that period. When the four years end, the Northern Ireland assembly would decide whether to keep the existing two-border arrangement or, instead, realign with the market and regulations of the UK. That would imply a further hardening of the Irish border if Northern Ireland chose to align with Great Britain – if Great Britain had diverged a lot from EU single market rules and regulations during the four-year period.

**Early EU reaction is not positive:** Johnson is due to brief EU leaders on the plan later today. But based on the leaked details, the *Times* reports that Irish Foreign Minister Simon Coveney said the plans did not "look like the basis for an agreement". The newspaper reports another senior EU official as saying "if this is the final offer, then it is no deal." Of course, the EU will remain open to talks with the UK right up to the final hour. But, in our view, the next major development in the Brexit saga will likely take place on the UK side. Namely, that the UK will seek a further Brexit delay to sort out its own affairs.

**What happens next?** Johnson's options are limited. He has no majority and no control over the election timetable. All he can do is try to provoke the opposition in the House of Commons into giving him an election sooner rather than later. Hence, Johnson is now trying to frame the likely election as a vote by the people versus the establishment – with him as the only person who can deliver Brexit. If, as looks likely, the EU officially dismisses his proposals in the coming hours/days, Johnson may not even attend the 17-18 October EU Council and instead go gung-ho for a hard Brexit on 31 October. This would likely provoke a reaction by the "rebel alliance" in parliament who may see to it that Johnson is forced to go to the EU to ask for an extension sooner than the current 19 October deadline. We would expect Johnson to resign before going to the EU to ask for an extension, as doing that would wreck his pro-Brexit credentials. It is not completely unimaginable that he tries to somehow ignore the law until, probably, it is settled by the courts (again). Parliament may therefore have to find someone else to ask the EU for an extension – House of Commons Speaker John Bercow perhaps? Failing that, the rebels may have to topple Johnson and temporarily form a new governing alliance in the Commons. For the moderate MPs among the rebels, mainly the newly independent ex-Conservatives and the Liberal Democrats, this may be difficult if far-left Labour leader Jeremy Corbyn insists he should be interim prime minister. Whether the UK heads for a general election soon after



## MACRO NEWS

securing an extension or opts for a second EU referendum largely depends on whether the rebels can unite and organise, and for how long, if and when the current Johnson government is toppled.

See this [report](#) for our detailed probabilities on the various Brexit outcomes.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co.  
KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7889  
[www.berenberg.com](http://www.berenberg.com)  
[holger.schmieding@berenberg.com](mailto:holger.schmieding@berenberg.com)