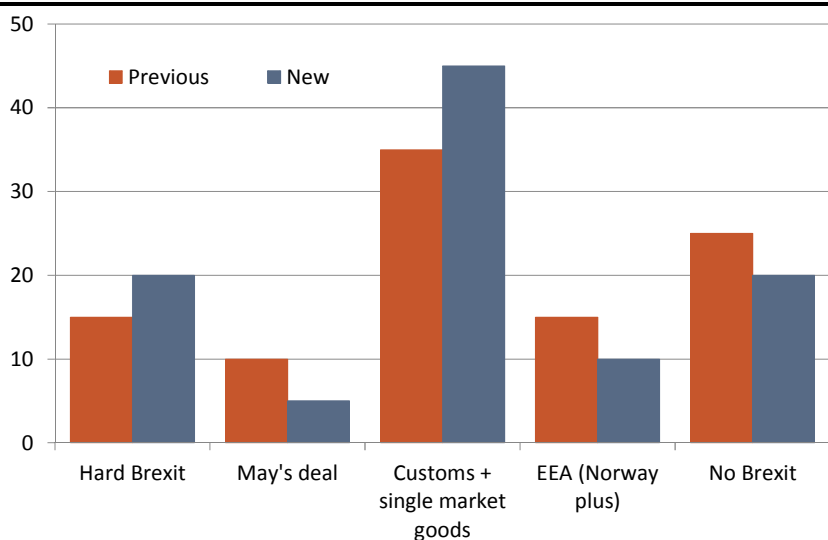


3 April 2019

Brexit: stakes rise as May forges a path through the gridlock

Potential Brexit outcomes and probabilities (%)



Source: Berenberg

- **A game-changer?** Yesterday, UK Prime Minister Theresa May announced she would seek a further – unspecified, but short – delay to Brexit. May added that she wants to work with Labour leader Jeremy Corbyn to agree on one or a number of options and that she “stands ready” to abide by whatever Brexit option the UK Parliament could then back with a majority.
- **Heading for a customs union?** May’s speech signals a pivot away from her own idea of a free trade agreement with the EU towards a softer Brexit that could win a majority in parliament. We thus lower the probability that May’s deal will be adopted to 5% from 10%. We raise the probability of the customs union option further to 45% from 35%. It is backed by Labour and came close to a majority in Parliament’s last indicative vote on Monday.
- **Soft and no Brexit probabilities down:** Many Labour constituencies in the north of England backed Brexit in order to end free movement of people. If the UK stayed in the full single market, its border would remain open to EU migrants. Labour leaders may try to avoid that. We thus reduce the probability of the Norway plus option to 10% from 15%. We also lower the chance of no Brexit to 20% from 25%. This implies a 30% likelihood of a new referendum which would probably, but not surely, revoke Brexit.
- **Will the EU27 accept another delay?** May hopes to show the EU27 at the 10 April emergency summit that she a) has the backing of Parliament for a model for future relations and b) can pass the withdrawal agreement in Parliament by 22 May on that basis. Unless the UK prepares to participate in the European elections on 23-26 May, which May continues to oppose, the EU may only agree to such a delay if the UK passes the withdrawal agreement before or shortly after 12 April already.
- **Too many options:** As long as MPs believe that their own preferred option is still possible, they are less inclined to compromise and vote for their second or third choice. While May has not fully abandoned her own deal yet, her initiative could finally reduce the number of potential options if – and this is a very big if – she can agree with Corbyn on one or a limited range of options.
- **May has put herself at the mercy of the EU27 and Labour:** Corbyn could refuse to offer a compromise acceptable to moderate Conservatives and/or insist on a confirmatory referendum in the hope of fracturing the Conservative party and trigger a snap election. We thus raise the risk of a Corbyn-led government to 20% from 15%. Around 170 Conservative MPs seem to prefer a hard Brexit over any Brexit that is softer than May’s deal and could thus be acceptable to Labour and/or a majority in parliament. If May is unable to present the EU with a credible plan on 10 April, the EU may refuse her request for a further delay. We thus raise the risk of a hard Brexit to 20% from 15% that could come as soon as 12 April.

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