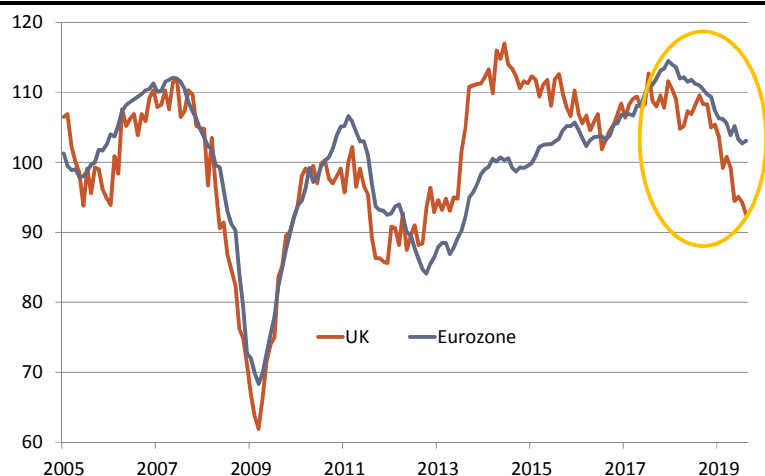


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30 August 2019

Brexit: turning up the heat

UK sentiment is sliding more than elsewhere – Brexit adds to global concerns



European Commission economic sentiment. Monthly data. Source: European Commission.

- Things are moving fast:** After a summer of mostly noise and posturing from UK Prime Minister Boris Johnson and some of his opponents, the ground has started to shift again. On the UK side, three recent developments matter most: (1) Johnson asked the queen to shut down parliament for longer than anticipated; (2) moderate members of parliament (MPs) are likely to make a move soon to block a hard Brexit on 31 October; and (3) Johnson's team will head to Brussels for two meetings per week over the next month to try to get changes to the Irish backstop.
- Playing with fire:** On several occasions throughout the Brexit process so far, the UK constitution and the rules that govern parliament have been bent here and there. Until recently, this had been done mostly in favour of moderates by the speaker of the House of Commons, John Bercow, who has thwarted earlier government attempts to constrain the influence of parliament over the Brexit outcome. Seen from this angle, Johnson's latest move is less severe than some of the headlines suggest. Parliament will be closed between 9 and 12 September until 14 October, the longest time it has been shut down during the party conference season since 1945. Johnson has limited the already short time parliament has to prevent a hard Brexit on 31 October. On its own, this raises the hard Brexit risk.
- Moderates strike back:** Parliament will open on 3 September. MPs are due to hold just one "neutral" debate on the Northern Ireland Assembly on 9 September before the planned shutdown. But angered by Johnson's move, moderates will try to win more time for parliament to discuss Brexit beforehand. Conservative moderates and opposition party MPs will likely seek an emergency debate next week. Against the usual convention, Bercow could turn this into a debate with legally binding votes at the end. MPs may have a chance to back a motion that could force Johnson to ask the EU for a further extension. On its own, the momentum to thwart Johnson raises the odds of another delay.
- Johnson's team goes to Brussels:** Johnson is sending his team to Brussels through September to try to secure changes to the Withdrawal Agreement (WA). He has backed away from his earlier threat to not even negotiate with the EU until the EU dropped the Irish backstop from the WA. The EU has done no such thing. Most importantly, Ireland has not changed its stance. Instead, Johnson seems to have softened his position, perhaps due to fears that he could be toppled soon. On its own, this raises the chance of a compromise and an orderly Brexit on 31 October.
- Net-net-net=zero(ish):** Each of these key developments matters. However, when taken together the overall impact is probably neutral, with risks of a hard Brexit tilted towards the upside. Our Brexit probabilities therefore remain unchanged for now. For 31 October, we see a 30% risk of a hard Brexit; a 30% chance of a deal and a 40% probability of a further extension – de facto implying a 70% chance of chaos at the end of October. As our chart shows, the Brexit uncertainty is really starting to hurt confidence. On top of existing global risks, the near-term outlook for the UK looks bleak unless Brexit is sorted fast.

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