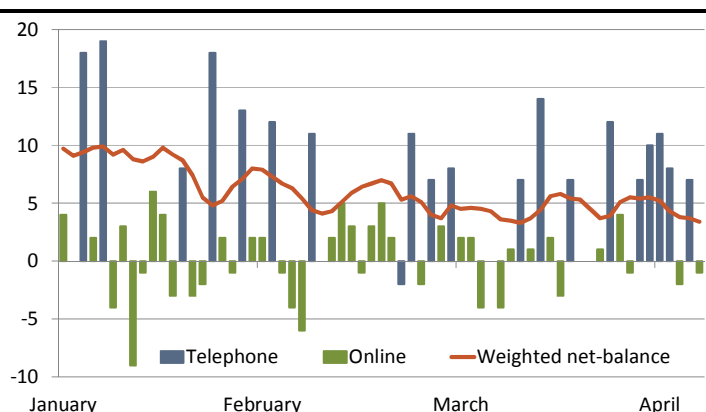


29 April 2016

## Brexit polls: beware of apples and oranges

2016 Opinion polls - net balance



Source: various, Berenberg calculations. Net balance weighted 50/50 for online and telephone. Net balance = remain votes – leave votes. 5 survey moving average.

- Is the Brexit risk receding?** The sterling exchange rate, bookmakers' odds and opinion polls have moved that way in recent weeks. But the actual shift in opinion polls has been smaller than some of the press reports may suggest. The impression of a significant shift partly stems from an unusual concentration of telephone polls in the last couple of weeks (see chart). Telephone polls consistently give a sizeable lead to the Remain camp. This compares to the online polls that, on average, show an even split. Online polls seem to attract many people who are passionately opposed to the EU, whereas telephone polls reach more of the standard voters who have no strong preference but, if asked, tend to favour the status quo. Underlying the noise is a fairly stable trend. If we take an average of the most recent online and telephone polls (attaching equal weights), the Remain camp is ahead by 3ppt.
- What is the money saying?** The trade weighted sterling exchange rate has appreciated by 4% since the start of the month and bookmakers have marginally reduced their odds of a Brexit. This suggests that the perception of risk has fallen. However, sterling's rebound partly reflects the unrelated overall drop in the US dollar rather than any major change in the UK. Also, the prior 10% fall in sterling between November and April was probably excessive, given that a Brexit was never – according to consensus – the most likely outcome. Bookmakers' odds have fallen by 8ppt since they briefly rose in the wake of the Panama papers scandal. But the current assessment of a Brexit risk is just 3ppt below the 2016 average of 32% – a range of around 5ppt either side is normal.
- Polls, sterling and betting odds are volatile:** As our chart shows, the results from the latest online and telephone polls do not differ much from previous online and telephone polls. Our weighted average moves within a fairly narrow range that flickers temporarily with the impact of big events, such as the Panama papers scandal or the pro-EU speech by US President Barack Obama on 22 April. Betting odds move with demand for bets as much as with the underlying probabilities. And there is more to sterling pricing than just Brexit risk. We thus keep our risk of a Brexit at 35% for the time being. The evidence pointing to a lower risk is still too tentative.
- As the dust settles, the Remain camp can creep further ahead:** A lot has happened in the weeks since the official campaigns started on 15 April. So far, the net impact on the polls has been modest. Whereas President Obama's "special relationship" speech helped the polls recover from the Panama-related dip, the overall effect has been limited. As the 23 June referendum nears, the economic and political reality of a Brexit will begin to matter more. That could translate into a lead of a few extra points for the Remain camp. This would shift the balance of risks towards a smaller Brexit risk. In addition, a lively debate about Brexit, to which Mr Obama has contributed, could mobilise more people to actually cast their vote. A high turnout would probably favour the Remain camp.
- There is light beyond the referendum:** UK growth slowed between Q4 and Q1. It will probably remain subdued until after the referendum. This need not be a cause for concern. If the UK votes to stay in the EU, confidence should recover and consumption and investment patterns will normalise. If the UK votes itself out of its major market, though, all bets on the economic outlook would be off. But that is the tail risk, not our base case.

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