

## “Remain” edging ahead: Brexit risk falls to 30%

- Recent trends indicate that the risk of the UK voting to leave the European Union on 23 June has fallen. **We thus reduce our probability of a Brexit from 35% to 30%.** We report on shifts in three risk indicators before discussing their potential underlying causes.
  - **In the past six weeks, sterling has reversed almost half of the Brexit-related losses that had occurred since last November.** After depreciating by 11% between November and April, trade-weighted sterling has risen by 6% since mid-April. The exchange rate can be a useful indicator of the perceived risk associated with an economy and the investable assets within or linked to it. So far, the UK recovery has been relatively strong compared to its peers. This, alongside expectations that the Bank of England could be preparing to hike rates within the next 24 months, explains why trade-weighted sterling had appreciated by over 20% between March 2013 and November 2015, before financial markets first started to seriously consider the Brexit risk. The recent sterling recovery partly signals a fall in markets’ perceived likelihood of a Brexit.
  - **Money talks – bookmakers’ probability of a Brexit has halved in the past fortnight.** Just as currencies and asset prices embody financial market expectations, betting odds are in part determined by the expectations of those in the public who want to bet on given events (the demand for wagers), as well as the expectations of the bookmakers themselves. The big drop in the bookmakers’ implied risk of Brexit in the past two weeks shows that they and the betting public judge that the risk of a Brexit has fallen – betting-odds data indicate that the risk of a Brexit has declined to 18% from 38% over the period. Chart 1 shows the Brexit risk implied by trade-weighted sterling and bookmakers’ odds.
  - **Polls data see “remain” consistently in front:** Since the beginning of the year, one in three polls, on average, has resulted in a victory for the “leave” camp. In the past two weeks, the polls have shifted slightly more in favour of “remain”. In the 10 polls since 13 May, only two have shown a victory for “leave”. Interestingly, six out of these 10 were online polls. This is significant. As we have discussed [before](#), telephone polls consistently give a sizeable lead to the “remain” camp. This compares to the online polls that, on average, show an even split. The victory count for “remain” has increased, despite the higher share of online polls that would typically shift the victory count toward an even draw. Chart 2 shows the net-balance weighted for online and telephone polls since the start of the year.
- **Explaining these trends** – several key factors have driven the risk lower.
  - The playing field for the debate has shifted more onto the issue of the economy, where the “remain” campaign – helped by notable international interventions – has a much stronger argument that appears to be resonating well with the typical “pragmatic” British voter.
  - The boost to the “leave” campaign coming from popular ex-Mayor of London and Conservative MP Boris Johnson has been weaker than expected.
  - One key tail risk – the European migrant crisis – has made fewer headlines than before. In addition, the negotiations over the new terms for Greece’s bailout extension appear to be going smoothly – that helps too.
  - Finally, with every week in which a debate-shifting event – such as a major new terror attack or the re-intensification of the migrant crisis – does not materialise, the probability of a vote for the status quo goes up a little.
- The outcome of the referendum remains open. Potential event risks continue to loom large. But following the recent absence of event risks, the polls showing a narrow-but-stable pro-EU lead and some momentum for the “remain” campaign, the chance of the UK voting to stay in the EU on 23 June has increased. **We thus reduce our risk of a Brexit to 30% from 35%.**

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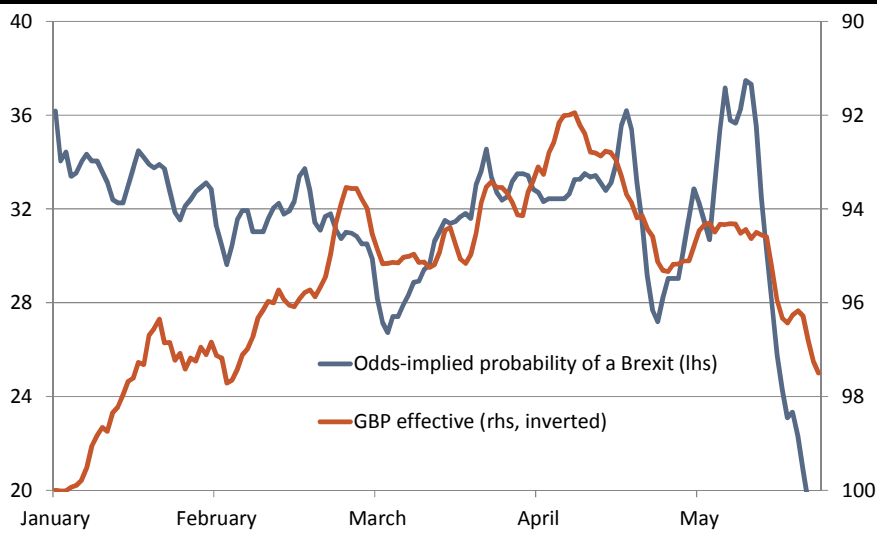
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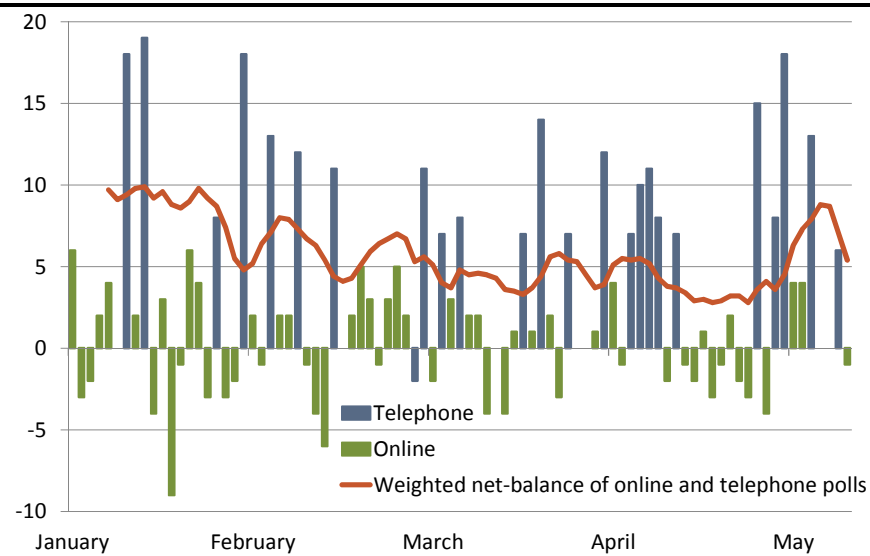
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**Chart 1: Betting odds versus trade weighted sterling**



Source: Bloomberg, Oddschecker, Berenberg calculations. 3 day moving average.

**Chart 2: 2016 telephone versus online polls (net balances)**



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

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