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AFTER THE BREXIT SHOCK

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KEY NEWS:

- British regret? Over 3 million people sign an online petition to the UK parliament to discuss a second referendum.
- UK Labour Party leader Jeremy Corbyn faces a leadership challenge after his particularly lacklustre pro-EU campaign.
- The Scottish National Party (SNP) wants to prepare for an independence referendum to keep Scotland in the EU without quite saying that they want to call it immediately.
- Ireland reports a surge in applications for its passports from residents of Northern Ireland. Interest in obtaining passports from EU countries has risen in the UK judging by the surge in internet searches about the issue.
- Some top EU officials (European Commission president Juncker, EU parliament president Schulz) want to put pressure on outgoing UK prime minister Cameron to officially file for divorce fast to start the 2-year negotiating period before the UK actually leaves the EU.
- EU foreign policy representative Mogherini wants to present a plan for closer EU cooperation on foreign and security policy at the EU summit on 28-29 June.
- German chancellor Merkel exudes her usual calm. She sees no reason for haste and does not want to be “particularly nasty” to the UK in divorce negotiations. She emphasises that the UK now has to propose how it sees its future relations with the EU before the EU can decide, adding that the UK will remain a “close partner”.

UK: THE TRENDS BEHIND THE NEWS

- **The UK is a country deeply divided.** It will need time to sort itself out. Even if Cameron were to officially tell the EU now that the UK will leave, serious negotiations could not start yet as long as it is unclear who will be in charge in the UK.
- **Out probably means out,** despite the chatter about a repeat referendum. Democracy’s ultimate sovereign has spoken. The Brexiteers won on 23 June partly because they appealed to the anti-establishment sentiment of significant parts of the population. Defying the will of the people could deepen this anger. While nothing may be impossible in the wake of a shock on the scale of the Brexit vote, I do not expect that Cameron’s successor could or would want to do that. Filing for divorce from the EU is up to the prime minister, not the mostly pro-EU UK parliament. Hypothetically speaking, parliament may table a new referendum to ratify the terms of divorce from the EU once they have been negotiated in two years’ time or so, with perhaps a small chance that a popular rejection of such terms could lead to the UK staying in the EU. But that looks very far fetched as of today. Along similar lines, early elections in the UK cannot be ruled out in the wake of the current political upheaval and given the contrast between the referendum result and a mostly pro-EU parliament. But snap elections look unlikely for now..
- **UK politics will remain interesting for a while, to put it mildly.** Almost like Syriza in Greece in early 2015, the Brexiteers won the vote with promises that are virtually impossible to keep. The next prime minister, be it the late convert to the Brexit cause Boris Johnson or the by now probably less divisive home secretary Theresa May, will be in a most difficult job. He – or she – cannot bank on a majority in parliament after the deep fissures within the Conservative Party. Even more importantly, he (or she) won’t be able to deliver the Brexiteers’ promises of saving £350 million by leaving the EU, enjoying favourable trade agreement, “taking control” of immigration while avoiding any significant economic setback at the same time. The backpedalling has already begun. Over time, the contrast between promises and results could get the new UK prime minister into deep trouble.



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Whether this will strengthen moderate forces, or whether this will just deepen the “anti-establishment” anger is an open question.

- **Will immigration into the UK fall?** Possibly yes, but in the worst possible way. A country that looks set to lose some of its economic vigour and has entered period of heightened uncertainty will be less attractive to skilled immigrants, and may see some skilled locals pursuing careers elsewhere.
- **Scotland is a wild card.** But with support for independence in Scotland at or just above 50% in recent polls, we still expect the Scottish National Party (SNP) on balance to bide its time, proclaiming the right to hold a new referendum without actually scheduling it now. For the SNP, an early vote for independence might have two advantages: (i) independence by late 2018 would mean that Scotland could stay in the EU without having to leave it as part of the UK first; and (ii) Edinburgh could be a beneficiary from the shift of some (financial) services out of the City of London if Edinburgh were to stay in the EU. But these arguments are secondary. What counts for the SNP is the probability the SNP sees for actually winning an independence referendum. As long as that does not look clear cut, we don't expect the Scottish parliament to set a date for an independence referendum (and get into deep trouble with London over the right to actually do so).

We'll take a closer look at the political shifts in the UK in a separate message shortly.

EU: THE TRENDS BEHIND THE NEWS

- **For the EU, out is out.** Many policy makers such as Juncker and Schulz reacted angrily to the news that the UK wants to delay its official divorce notice to Brussels until October or later. Juncker and Schulz do not speak for the ultimate decision makers in the EU, the council of leaders of member states who meet 28-29 June. However, this anger suggests one thing very clearly: better terms for the UK will not be on offer. That would apply to a potential “I didn't mean it” attempt by Boris Johnson (trying to stay in the EU on re-negotiated terms) and to any future deal on post-Brexit relations between the EU and the UK
- **The EU has time on its side.** The uncertainty about the fate of the UK poses more risks for the UK economy than for the EU27. That may force the UK to clarify its position before October.
- **The EU will change, but it will do so slowly.** The EU will become more flexible in some areas while groups of members work more closely together on some other areas such as internal and external security. While many see a need to reform the EU, there is little agreement among the EU27 what precisely these changes should be. Beyond likely initiatives to strengthen co-operation on internal and external security among some key members, reforms will take time and will likely not go very far. As the EU finds it difficult to get major changes ratified by all members, formal changes will likely be modest. The way the rules are applied may change more than the rules themselves.
- **The compromise machine.** Its size and economic prowess put Germany in a key position. But in keeping with Merkel's style, Germany will try to build consensus and forge compromises between the various positions within the EU27 in a low-key manner. The EU is a proven compromise machine. Balancing the interests of 27 countries takes time. The only thing that looks virtually certain is that the sort-of common position which the EU27 may find on its future relations with the UK, and on the future shape of the EU, will be less to the liking of the UK than the old EU was in which the UK still had a say over the rules of the club.



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