

Market Bulletin

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Brexit: Third vote fails. What happens next?

The existing Brexit deal has once again failed to win the backing of a majority in parliament. It is worth remembering that those Members of Parliament (MPs) across the house who oppose this deal do so for different reasons:

1. One group of MPs don't like the deal because they want a harder Brexit. Their priority is for the UK to emerge "sovereign"—for the UK to set its own rules and regulations and be able to negotiate its own trade deals. They do not like the backstop arrangement, for fear of being trapped in a customs union.
2. The second group—spanning a number of parties—don't like the deal because they want a softer Brexit. They are not convinced that the UK could offset damage to its trading relationship with the EU with trade deals with other parts of the world, and thus want to guarantee that the UK maintains at least a customs union with the EU.



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The second group by far outweighs the first—which itself is a group that is getting progressively smaller. The “no deal” holdouts were 34 members of the Conservative Party. The Democratic Unionist Party (DUP) did not support the deal, but not because they want a hard Brexit. They simply do not want the additional regulatory checks that are detailed in the backstop arrangement.

What next?

On Monday, the indicative vote process will continue in Parliament. This process is not binding on the government, but provides individual MPs with an opportunity to demonstrate the form of Brexit they find appealing.

In last Wednesday's round of voting, the second most popular of the indicative vote options was an amendment to the current deal so that the future partnership is more clearly founded on a customs union—a softer Brexit than that currently outlined in the political declaration. The most popular was for another referendum, though the exact question that would be asked is unspecified. We suspect that a customs union is the option most likely to be able to command a majority, if anything can.

In practice a shift to a customs union would be easy. The changes required to the wording of the deal are minimal and the EU is likely to promptly accept. But to make the change would require the prime minister to abandon the Conservative backbench, which neither Theresa May nor an alternative conservative leader seems likely to do.

And so the problem, it is increasingly clear, is that the Conservative government does not have enough seats, nor ability to agree, to move the process forward. We have consistently argued that, in the midnight hour, the Conservative backbench would realize that the deal on the table was the hardest form of Brexit that Parliament would accept, and come into line.

Unless the deal is approved by 12 April, we will have been proved wrong. It seems increasingly likely that a lengthy extension will be required, and in some way parliament will need a clearer mandate from the population. This could come in the form of a new referendum (again, the exact design of the question is unclear), but more likely via a general election, which would essentially serve as a new referendum, with manifestos being dominated by Brexit options. Current polling suggest that the Conservatives would gain seats, though polls have not proved reliable indicators in many instances in recent years. The changing landscape of UK politics, and the rise of the Independent Group, adds yet another element of uncertainty.

In summary, we believe that the end result will be a relatively soft Brexit—one that is founded on a customs union, simply because that is the only solution to both the Northern Ireland border and the supply chain links between the UK and EU. But we are less certain than ever how quickly we will get to that outcome, or how much further volatility sterling markets might experience along the way. We do, however, think the EU will be accommodating of further extensions as it has similarly little appetite for a no-deal scenario.

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