

Market Bulletin

October 14, 2019

Brexit in the week ahead – crunch time

17-18 October – EU Summit – can a new deal be agreed?

At the European Union (EU) summit on 17-18 October, we will learn decisively whether a new Brexit deal has been reached between the UK and EU. As a reminder, the existing deal consists of two parts:

1. A legally binding withdrawal agreement, consisting of:
 - The financial settlement between the UK and the EU;
 - The rights of EU citizens in the UK;
 - The backstop for the future relationship between the UK and the EU in case a comprehensive free trade agreement (FTA) cannot be reached;
 - The transition period (previously agreed until December 2020).
2. A political declaration to work in good faith towards an FTA over the period of transition.

The problem has been the backstop. In simple terms the issue is where to put the EU's border once the UK leaves given naturally it would sit between Northern Ireland and the Republic of Ireland. However, for historical reasons all sides are committed to not having physical infrastructure on the border.

The only simple solution, from a logistical perspective, is for the UK to remain in the customs union with the EU. But remaining in the customs union means that the UK does not regain full sovereignty after Brexit, because the UK would have to accept EU regulations on goods. This solution has not been acceptable to what under Theresa May was the Conservative backbench, and under Prime Minister Boris Johnson is the Conservative frontbench.

Recent news on hopes of a deal is based on the idea of effectively leaving Northern Ireland in the customs union and thus drawing the border in the Irish Sea, or a technological solution – the details are still unclear at this point in time, but it seems to have been given a green light by Leo Varadkar, Prime Minister of the Republic of Ireland.



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19 October – In the event of a deal, will Parliament pass it? In the event of no deal, what should we expect from a general election?

The UK parliament will sit on Saturday 19 October.

If a deal is on the table, there is still a question of whether parliament will approve it. The Democratic Unionist Party (DUP) may not support a deal that effectively leaves Northern Ireland in the customs union, but we believe the prime minister will most likely get the numbers he needs with support from across the Conservative Party (including those members of parliament that lost or resigned the Conservative Party whip in recent months) and from a proportion of the opposition Labor Party that does not want to campaign in a general election on an unclear Labor Brexit policy. However, there is still some degree of uncertainty that the deal will pass.

If the deal passes, one remaining question is whether the period of transition will be extended. If the transition period is extended from December 2020 to something substantially later, then the UK will have a significant Brexit reprieve, which could release some pent up Brexit spending. However, given the new backstop would not guarantee the UK staying in a customs union as a worst case scenario, there could still be moves from businesses to relocate supply chains to the EU, and this might serve as a drag on growth.

We still think the Conservatives will want a general election before too long, to establish a majority to govern. Indeed having ‘delivered’ Brexit the Conservatives are likely to feel more confident about heading to the polls. However, this general election will be a return to politics as usual rather than effectively serving as another Brexit referendum.

If a Brexit deal is not reached, or if a new deal is not agreed by parliament, then under the recent parliamentary legislation known as the Benn Act, the prime minister must seek an extension to the 31 October deadline by which the UK must currently leave the EU. This is expected to be to 31 January 2020. It must be agreed unanimously by all 27 EU member states.

Shortly after an extension is requested we believe the prime minister will call a general election and achieve the two-thirds majority required in the House of Commons for it to happen.

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