

# The week in rev-EU

It was the week before Brexit, until 12 April became the new deadline



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## Key points

- PM May appeared to defy Parliament this week seeking a short extension of Article 50 and ruling out EU elections. This revived the threat of “no deal” Brexit.
- The EU Summit agreed to extend Article 50. This would be until 22 May if Parliament passes the EU deal next week. Otherwise, Article 50 would be extended to 12 April, when the UK could seek further extension (subject to conditions), revoke Article 50, or leave without a deal.
- Next week’s third attempt to pass the deal (MV3) will be preceded by an amendment that could wrest control of the Brexit process from government.
- If this amendment is successful, it could see the UK position shift to seek a longer extension and a different political process to deliver a Brexit with Parliamentary support. It could also boost the chances of passing MV3.
- If unsuccessful, Parliament would see renewed pressure to support the negotiated deal in MV3 to avoid a “no deal” exit on 12 April.
- Even then, we doubt this would be the last word on the subject and continue to expect a longer extension and to avoid an abrupt exit in April.

## Last week, all our troubles seemed so far away...

Last week’s “Week in rev-EU”, left a Parliament that had rejected the UK-EU negotiated Withdrawal Agreement by a large 149 deficit (although improved from the historic 230 vote defeat in January), it had ruled out a “no deal” exit at any time, and it had ruled to seek an extension to Article 50 from the EU. However, beyond the rejection of the Withdrawal Agreement, Parliament’s votes were not legally binding.

## PM May ignores Parliamentary guidance

On Tuesday, PM May held a Cabinet meeting to decide what form of extension to seek. Cabinet was split, but Brexiter Cabinet members threatened resignation if the PM sought a long extension. Late on Monday, the Prime Minister decided to seek a short-extension to 30 June, announcing this on early Tuesday morning. This decision had two effects.

First, in choosing a short extension PM May explicitly put the prospect of “no deal” Brexit back on the table. The key issue here is European elections. If the UK chooses not to hold European elections it is seen as impossible for the UK to remain a member in the new EU Parliament (July onwards). The Prime Minister explicitly ruled out holding these elections, which technically the UK must decide whether to hold by 12 April. In seeking a short extension (and not holding elections), this ruled out the possibility of subsequent, further extension. If the UK could not agree a deal by the extended deadline, it would face a “no deal” exit at this point.

Second, in putting a “no deal” exit back on the table, the Prime Minister eroded support for her own deal. The negotiated deal was rejected by 149 votes in March, from 230 in January with Tory rebels falling to 75 from 118. The threat of a further extension (and other undisclosed negotiations) had seemed to soften the Democratic Unionist Party (DUP) resistance to the deal and European Research Group (ERG, Brexiter Tories) were also apparently increasingly in support of her deal, rather than the long extension alternative. PM May’s decision to revert to a “no deal” threat removed the prospect of long extension and appeared to offer the very outcome that these Tory hold-outs sought. Many have publicly stated that they had voted differently, or would have voted differently, but will now not.

## EU Summit delays Brexit, leaving UK options open

On Wednesday, PM May sent a formal letter seeking approval for a short extension of Article 50 to 30 June to the EU. EU President Donald Tusk responded that the EU would only approve such an extension if the UK passed the Withdrawal Agreement. The risk of a “no deal” Brexit on 29 March was revived. However, Tusk’s reaction was only a preliminary to the EU Summit on Thursday.

The EU Summit began with PM May providing an expansion of her letter seeking an extension. The presentation and subsequent questioning took 90 minutes – the longest of any such meeting. PM May then left the EU Summit for the decision to be made. That decision process appeared to reach a series of interim conclusions that included a conditional offer of extension based on passing the deal to 22 May and an unconditional offer until 7 May. This reflected different views from individual EU members.

The Summit finally presented the UK with a series of choices. If the UK passes the Withdrawal Agreement next week, the EU will extend Article 50 until 22 May to give the UK time to pass the implementation legislation necessary to allow a smooth progress into transition. If the UK does not pass the deal next week, Article 50 will be extended until April 12 (the date by which the UK must have decided whether to hold European elections). At that point, the UK could leave the EU without a deal; could choose to revoke Article 50; or could seek a longer extension (but this would be conditional on holding European elections and considered in the context of what the UK proposed to do next).

The EU’s decision put the ball back in the UK’s court. It has given the UK time to try to pass the deal, but also to consider alternative paths, without closing off, or explicitly influencing the UK’s choices. It also categorically delayed Brexit and pushed back the prospect of a chaotic “no deal” Brexit beyond 29 March (to 12 April at least).

## Next week to break the political stalemate?

The next week will be another telling one for the process. The main course will be a third “meaningful vote” (MV3) on the negotiated deal. However, its outcome will be heavily influenced by Parliamentary action before that.

On Monday, Parliament will vote on an amendment proposing to wrest control of the Brexit from the government. This would begin with Parliamentary debates on alternative forms of Brexit but could begin a process that attempted to deliver a Brexit outcome that had broader backing. This would likely be softer than currently proposed by the government. Moreover, with a realistic risk that such a consensus does not exist, it would likely continue to rule out leaving the EU without a deal. As such, this process could ultimately result in a second referendum to approve a final

deal, or not. Such a course would take time and would likely require Parliament to overturn the Prime Minister’s current position, seeking a longer extension to Article 50 from the EU and accepting the need to hold European Elections. Next week’s amendment is a revival of the Cooper amendment that failed to pass by just three votes earlier this month. It is likely that such a vote would pass this time.

This would influence the dynamics for next week’s MV3. If the amendment does not pass, Conservative Brexiters are likely to continue to withhold support for the deal, hoping to see a “clean break”, now on 12 April. The onus would be on the rest of the House to support the deal and avert “no deal” Brexit. This might result in additional support. If the amendment does pass, then the prospect of a longer-extension could again motivate the DUP and ERG to support her deal. Tory rebels and the DUP totalled 85, more than enough to overturn the 149 defeat in MV2 (although this included Tory Remainers, and a hard-core of ERG members). Also, the prospect of support from Brexit leaning Labour MPs appears to have evaporated after an ill-judged speech by PM May on Tuesday. Passage of the deal appears unlikely.

There is a growing suspicion that failure to pass her deal in MV3, Parliament taking control of the process and the possibility of a longer-term extension could prove too much for PM May. Rumours have increased that she could resign. Her stepping down as Prime Minister would not necessitate a General Election. However, it would significantly increase the chances of one if the Conservative Party was unable to deliver a new, unifying leader.

## Asset volatility

Against this significant political uncertainty, UK asset markets have seen significant moves. Sterling continues to be a barometer of sentiment. The currency moved from a 9-month high, to a 10-day low, over the course of the week. More strikingly, in a bid for safe-havens, UK gilt yields fell to an 18-month low of 1.04%, from 1.30% at the start of March (although global yields also retreated on a more dovish Fed and ongoing German economic weakness, 10-year US Treasuries yields fell by 27bps and German Bund by 18bps).

Ongoing uncertainty over the coming week will maintain asset volatility. Moves to a softer outlook are likely to see a rise in sterling and yields, only insofar as they do not precipitate further domestic political crises. However, perceived increases in the risks of a “no deal” Brexit on 12 April will likely deliver more pressure.

Our central expectation remains that the UK will see a further extension, but ultimately accept a deal that uses the Withdrawal Agreement transition framework. However, the path to get to this end-point is no clearer and the risks of alternative scenarios have risen.

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