Critical Point For UK Approaching

- No majority for any alternative approach to Brexit in Parliament
- No indication that a majority yet for withdrawal deal
- Waiting signs of government’s strategy now

Simon Derrick
Chief Currency Strategist, BNY Mellon

With just a week and a half to go before it is scheduled to leave the EU, the UK remains without a clear approach to Brexit. This is what's known this morning.

What happened last night?

- No majority for any of the alternative approaches to Brexit emerged in the indicative votes.
- Bloomberg's Rob Hutton (@RobDotHutton) tweeted: “Conservatives voted seven to one against both customs union and Norway Plus. Neither got to 40 Tory votes. Unless someone shifts, there is no compromise that can pass parliament that a Conservative prime minister can deliver.”
- Over 200 Conservative MPs have now reportedly signed the Heaton -Harris letter to PM insisting there must be no long exit delay and no EU elections fought. This represents nearly 2/3rds on the parliamentary party.

- This indicates that while the UK PM could pivot towards one of the alternative approaches voted on last night, she would likely do so against the wishes of a significant number of Conservative MPs.
**Why this might matter**

- After the resignation of another Conservative MP from the party last night there are now 312 active lawmakers on the Conservative benches. In addition there are 10 members of the Democratic Unionist Party which supports the government by a confidence and supply agreement.

- The 11 members of the newly formed Independent Group of MPs did indicate several weeks ago that they would vote with the government in a confidence motion. However, this remains to be seen given the current environment of uncertainty.

- Active Labour lawmakers combined with MPs from the Scottish National Party, Plaid Cymru, Green Party, Liberal Democrats and the remainder of the independent MPs, number 306. It would therefore likely take 14 rebel Conservative MPs at most to actually vote against the government to bring it down.

**What has been the EU’s response?**

- Michele Barnier was very clear this morning that the EU would not renegotiate the already-agreed withdrawal deal if Brexit was delayed again. He also reiterated that there cannot be a transition period unless London accepts the deal.

- Guy Verhofstadt (@guyverhofstadt) tweeted last night that “a hard #Brexit becomes nearly inevitable”.

**What options are left to the government?**

1. Put the existing withdrawal deal to another vote in the hope it can persuade 30 MPs on both side of the House to change their votes from last Friday. However, the government has said it will not bring the vote again unless it believes it has the support to get it through the House of Commons (via Reuters). If it cannot do this then it could:

2. Go with one of the softer Brexit options voted on last night (another vote is expected tomorrow). However, as noted above, this could be a high risk option. Alternatively, it could:

3. Decide to seize the moment and call a general election. However, polling numbers have become rather more mixed over the past two weeks.

The alternative to all these is that parliament continues in state of paralysis and ends up with no deal Brexit (as indicated by Guy Verhofstadt last night)

**When will they decide a strategy?**

- Two Cabinet meetings were scheduled to place today, lasting around five hours (@SamCoatesTimes has tweeted this morning that the meeting has been shortened to more like three and a half hours). These are supposed to be for the government to sort out its strategy in light of last night’s vote. Some have suggested that they may discuss a general election.

**When could early clues emerge?**
• The cabinet meeting commenced at 9:30 am (London). It’s therefore possible that something could emerge around 1pm (London time).

FX

• GBP remains at almost exactly its post referendum average against the USD (i.e. the price that most fairly reflects the lack of certainty). This therefore suggests that any significant development in any direction (and almost all developments now will be significant) could have a substantial impact.

• One measure of this is that the decline seen in GBP against the USD on Thursday and Friday was the equal of any since the leadership challenge in mid-December (when it fell close to 2%). Given this it’s worth highlighting that prior to December the sharpest post referendum decline over a two day period (once the initial volatility had subsided) came at the time of the flash crash in October 2016 (2.5% close/close) while the post referendum drop was a record breaking 11% (easily beating the previous record of 6.2% set at the time of the collapse out of the ERM in September 92).

• It’s also noticeable that EUR has been reacting increasingly negatively to Brexit related news. This is hardly surprising given the increasing evidence of slowdown in EU (see yesterday’s PMI numbers). It’s also worth noting that after six months of not much happening, this market is likely not prepared for a substantial move (see chart below).

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