UK Update

- UK government will attempt to craft common approach to Brexit with Labour party
- Initial talks will take place later today
- Response from DUP and euro-sceptic Conservative MPs to results will be critical

Key headlines

- PM Theresa May will hold talks with Labour leader Jeremy Corbyn later today.
- DUP MP Jeffrey Donaldson said that the DUP would need at the very least a time limit on the Northern Irish backstop. He added that the DUP continues to be in a very strong and influential position.
- The FT reported that “the EU is preparing to offer Theresa May a long Brexit delay with strict conditions attached, including the need to hold European Parliament elections and a possible “gentleman’s agreement” over Britain’s future conduct as a member state.”

What did the government decide on yesterday?

A number of options were open to the government yesterday morning. Among them were:

1. Putting the existing withdrawal deal to another vote in the hope it could persuade 30 MPs on both side of the House to change their votes from last Friday.

2. Going with one of the softer Brexit options.
3. Calling a general election.

The alternative to all these was that parliament continued in state of paralysis and ended up with no deal Brexit.

Although there was a report that Chancellor Philip Hammond suggested that either a second Brexit referendum or a general election might be needed to resolve the parliamentary deadlock, the cabinet in the end decided to back an attempt to work with the Labour party to craft an approach that might pass through Parliament. This, in effect, was option 2 from the list.

**The withdrawal deal**

Labour will be aware going into the negotiations today that 34 Conservative MPs voted against the withdrawal deal last week and will also know that former Brexit secretary David Davis said yesterday that up to 20 Conservatives could vote against the government in a confidence motion to stop a soft Brexit or a long delay. They will also have seen that DUP MP Jeffrey Donaldson reiterated this morning that his party would need at the very least a time limit on the Northern Irish backstop (a central part of the withdrawal deal) and that he reminded the government (which the DUP supports in parliament via a confidence and supply motion) that they continue to be in a very strong and influential position.

Labour leader Jeremy Corbyn said in a broadcast interview yesterday: “We hold in reserve the right to bring a motion of no-confidence in the government if the government proves it's incapable of commanding a majority in the House of Commons - time will tell on that.”

**The numbers in Parliament**

After the resignation of another Conservative MP from the party on Monday 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.

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 Conservative MPs at most to actually vote against the government to bring it down.

Were the Independent Group to vote with the government but the DUP were to exit the confidence and supply agreement and vote against the government then it would take just 4 Conservative MPs to bring it down. Were the DUP to abstain then it would take 9.

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GBP has reacted positively to the perception that a softer Brexit is now possible as has
implied volatility. However, it’s also noticeable that the move higher in GBP has been relatively muted, currently standing around ½% up against the USD from where it stood at COB Monday and remains well below where it traded through much of March. It’s also noticeable that realised volatility remains subdued when compared to some of the more active days in March. This suggests a market that remains collectively aware that the risks around Brexit remain high. With this in mind it seems reasonable to say that the next key moment will come once it becomes clear how the initial negotiations between the two main party leaders have gone.

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