The Week Ahead In The UK

- Reports at start of weekend that cross-party talks had stalled. No sign yet of indicative votes being scheduled.

- Unclear that anything other than very short extension to article 50 likely if UK government has no plan.

- Unclear how UK parliament would vote if choice between no-deal Brexit and revoking article 50.

Cutting to the chase

**What did the UK PM Theresa May propose last week?**

Following a cabinet meeting on Tuesday of last week the PM made a televised statement on the next steps in the Brexit process. **There were three key points.**

1: She would ask for a “further extension” to the Article 50 exit process at the special European Council on Brexit this Wednesday. This extension would be “as short as possible”.

2: She would seek cross-party talks with the Labour party leadership in an attempt to find a mutually acceptable exit deal. She noted that “any plan would have to agree the current Withdrawal Agreement.” This deal (if agreed) would put put to the House for approval and then taken to this week’s European Council meeting.

3: If cross-party talks failed, she would hold a run-off in the Commons between her Brexit deal and so-far undefined alternatives. The government promised to be honour the result provided the Labour Party did likewise.
How is it all going?

1: Article 50 extension: European Council president Donald Tusk is reportedly prepared to offer a 12-month "flexible" extension to Brexit, with the option of cutting it short, if the UK Parliament ratifies a deal. However, there has been a report that the “French ambassador secured the support of Spanish and Belgian colleagues in arguing that there should only be, at most, a short article 50 extension to avoid an instant financial crisis.” Any agreement to extend article 50 must be unanimous.

2: The cross-party talks: There have been reports that the talks stalled on Friday. There have also been reports that the PM is looking to revive the talks by including an aspiration to some form of customs union with the EU and legislating to make it harder for her successor as prime minister to rip up any agreement reached. However, shadow business secretary Rebecca Long-Bailey said that Labour negotiators were “waiting for the government to come back with their customs union proposals in full”. She added that there was no indication so far that No. 10 was willing to change the deal (@robpowellnews).

3: Indicative votes: There is no indication that time has been set aside on Monday in the House of Commons for indicative votes or on what alternatives might be considered or what form the voting might take. No indication emerged on Sunday morning of whether the Labour party would be prepared to honour the outcome of such a vote.

What if the withdrawal deal has still not been approved by Parliament by Friday and no (or only a very short) extension of Article 50 is agreed upon?

At present the UK is scheduled to leave the EU on Friday. Even if the schedule were extended by a further two weeks this would really just leave the possibility of a straight vote in parliament between leaving with no deal and revoking article 50.

It is unclear how such a vote would play out. Perhaps the most direct indication comes from Monday of last week. When a proposal that would have seen Parliament given the power to avoid no-deal by cancelling Brexit if no extension was granted by the EU beyond the current 12 April deadline was put to a vote it was defeated by 292 to 191. However, it is also worth considering that on Wednesday a bill was passed that forces the PM to ask for an extension of article 50 from the EU should the alternative be a no deal Brexit (in the event the PM has approached the EU anyway). The bill passed by 313 to 312.

GBP & Beyond

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.

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).

There is some evidence to support the view that there may be some contagion risk as well. We will look at that further tomorrow.

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