Brexit: The Home Straight

• A roadmap for the upcoming weeks projects meaningful mood swings

• Tentative ranges for cable: 1.10 for worst case; 1.30 for orderly exit; 1.55 for remain

• Ostensible inactivity between October 2 and October 14 may add more uncertainty to the process

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A number of important dates line the route for Brexit negotiations in the next six weeks as inter-party and intra-party jockeying for influence over the executive continues amid few signs that polarized positions in the UK Parliament are being narrowed.

The mood music is believed to be improving on the question of a deal; but then, this rather depends who you ask.

Today
At around 1030 GMT+1, the Supreme Court will give its ruling on the proroguing of Parliament. If the government loses then Parliament could well be recalled (see here).

The Conferences: Present to October 2

The Labour Party is today holding the penultimate day of its annual conference in Brighton. Pro-Remain party factions have failed to topple leader Jeremy Corbyn from his position on the Brexit fence (which, had it been successful, would have constituted a step towards more firmly aligning the two main opposition parties against Brexit).

The Conservative Party holds its annual conference from September 29 – October 2. If proposals put to the EU (see below) are discussed, the question would be one of
tolerance to the likely deviation from a strict single market and customs union exit. However, in March, chair of the pro-Brexit European Research Group, Jacob Rees Mogg notably supported Theresa May’s deal when sensing the possibility of no Brexit at all. Broad conference support for any notional deal would certainly constitute a positive for GBP.

**September 30: Deal Deadline?**

Last Wednesday, Finnish PM Antti Rinne gave the UK just 11 days to produce a credible plan in order for the EU to be able to discuss it by the October 17 summit, otherwise, Mr. Rinne said, it “would be over” (Finland holds the rotating Council of the EU presidency, thereby dictating the agenda). The suggestion of an ‘arbitrary’ schedule was rejected by a Downing Street spokeswoman.

Said spokeswoman also noted that a "series of confidential technical non-papers" had been presented to the Commission which "reflect the ideas the UK has been putting forward". In other words, proposals are being pursued (see below) – but given Mr. Rinne’s comments, their success will, at the very least and almost certainly, require a delay (see below).

**October 14: The Queen’s Speech**

The legislation laid out in the Queen’s Speech will then see two days of compulsory debate in Parliament. The latter’s scheduling is such that votes on the legislation are unlikely to be carried out until after the EU summit.

**October 17/18 - EU Summit: The Brexit Pivot Point**

Well before the summit, we are likely to have a good idea whether the chances of a deal are rising or falling.

If the latter, GBP will retrace much of its September gains as the fuse is lit on a ‘no-deal leverage’ exercise - with Johnson exhorting his EU counterparts to rethink at a very “live” summit. It is unlikely at this point that Johnson will have clarified his standing on the legal mandate to request a delay (Ben Act), with the deadline falling on October 19, the day after the EU summit ends.

The Ben Act may well face a legal challenge prior to the summit, but equally, simple creativity could see it bypassed. Even if a delay is requested it still has to be agreed by an as yet uncommitted European Council, despite its approval in the EU parliament.

Even if the chances of a deal are rising ahead of the summit, there will be a shortage of parliamentary time to approve any deal by October 31. The Prime Minister has already conceded that he does not “expect to be able to reach a full ‘legally operable’ deal covering the Irish border by the summit”.

Hence, the PM’s adherence to the Ben Act – which, politically, could be attributed to a legal ‘straitjacket’ – appears likely under a budding deal scenario and as such, would be likely sought at some point prior to the summit.

The possibility of a deal in conjunction with an accommodating delay would begin to
crystallize the orderly exit scenario for which we anticipate cable trading at or around 1.30.

**Market Probability of Hard Brexit**

Since PM Johnson took office, assuming 1.10 worst case, 1.30 orderly,

Source: BNY Mellon Markets

**October 21/22: The Parliamentary Hurdle**

The current make-up of Parliament poses the risk that the Queen’s Speech legislation is voted down as a precursor to a possible vote of no confidence on October 21/22. This is by no means assured, however, and rather depends whether a deal is being formulated.

On Friday, *The Telegraph* cited Labour’s Stephen Kinnock as saying that up to 30 of his colleagues were prepared to rebel against Jeremy Corbyn and back an agreement negotiated by Mr. Johnson. Under such circumstances, Mr. Corbyn might therefore be compelled to wait it out for an election.

If no signs of a deal are in the pipeline, it should be noted that Boris Johnson has declined to rule out proroguing Parliament once more.

Assuming parliament is sitting, however, a successful vote of no confidence becomes a real possibility, and if so, means that stability then rests with the swift formulation of a coalition government.

If no delay has been secured (courtesy of the government's legal creativity or legal challenges), then it becomes a question of whether opposition enmities can be set aside in favor of a ‘war cabinet’ to secure said delay.

But even with a delay in place, it is questionable whether GBP would better reflect the
diminished prospect of Brexit or the uncertainty posed by an untested coalition, one of whose constituent's success (Labour) would be ill-received by financial markets.

October 23-31: Noise

Deal status makes for two distinct and divergent scenarios during this period – one of growing positivity (pertaining to an orderly exit or Remain, depending on the outcome of any no-confidence vote) and one of growing pessimism, or a brewing hard-exit scenario. The question under the latter scenario then becomes one of likely success in any last minute negotiations between London and Brussels.

Addendum – Backstop Possibilities:

Hopes for a deal have risen a tad as a number of senior British cabinet ministers visited Dublin last week whilst European Commission President Jean-Claude Juncker, who, having warned about the growing risks of a hard deal on Wednesday, commented on Friday that a deal was still possible provided that areas of concern covered by the Irish Backstop were accounted for.

Irish foreign minister Simon Coveney wasn’t quite so sure, however, while the EU's chief Brexit negotiator Michel Barnier said yesterday that it is “difficult to see” how a Brexit deal on the Irish border can be reached.

A NI-Only Backstop
This would leave Northern Ireland alone in the EU’s customs territory and effectively move the border to the Irish Sea. The EU would readily accept such a plan, but the Democratic Unionist Party would not – as emphasized recently amidst speculation that it had softened its stance.

A Multi-Faceted Approach
Belfast agrees to EU rules on plant and animal products while other issues relating to the border - like customs checks and VAT - are addressed via trusted trader schemes and small trader exemptions. This would see NI remain outside the EU's customs territory whilst the rest of the UK would be free to do a separate free trade agreement.

However, this would still mean tariffs, checks and controls at the EU-UK border, which would be hard to accept by Dublin and would be, in effect, a hard Brexit for the UK with all the problems this presents for parliamentary approval.

It has been suggested that were the UK to show willingness to defer rather than replace the backstop, the EU would be placated; but then as this is a reheated version of Theresa May’s deal, it is unclear how this would clear Parliament.

It should be noted that Labour would likely balk at both arrangements which leave the UK outside the EU customs union.

Please direct questions or comments to: