

WITH "VICTORIES" LIKE THIS...

Prime Minister Boris Johnson won a rare half-victory in the House of Commons. This has prompted us to revise our DWS Brexit scenario probabilities.

IN A NUTSHELL

- _ The prize of Johnson's recent Brexit "victories" may turn out to be quite high.
- _ It remains all too easy to imagine the many ways the Johnson deal might unravel in the coming days.
- _ It has become increasingly hard to envision scenarios leading to a "No Deal," and not just as far as the current deadline of October 31 is concerned.

Prime Minister Boris Johnson won a rare half-victory in the House of Commons on Tuesday, October 22. Parliament agreed to continue scrutinizing his draft withdrawal agreement. That is further than Theresa May ever got. However, the government then lost the vote on the program motion, which sets out the legislative timetable. The plan to rush through the bill was voted down, with only 308 members of parliament (MPs) in favor and 322 against. This suggests more troubles ahead. Indeed, the prize of recent "victories" may turn out to be quite high.

Tory strategists hope that voter anger against parliament may help their cause. We remain skeptical, not least in light of electoral results (local elections, European parliament, by-elections) earlier this year. It is typically the party in power that gets blamed for whatever voters are angry about. That makes it easy to imagine an election, in which voter anger among those wanting to remain in the European Union (EU) causes plenty of tactical voting. The result could be plenty of Tory losses not just in big metropolitan cities, such as London, as well as Scotland, Southern England but even places like rural Wales, if the Brecon and Radnorshire¹ by-election at the start of Johnson's tenure was any guide.

Brexit Party voters, meanwhile, might decide to sit out the vote if they perceive Johnson to have delivered Brexit in name only. Missing the October 31 deadline has the potential to harm Tory prospects. It is also worth noting that the polling remains very ambiguous and that the British electorate appears to have become increasingly volatile in recent years (in the last two weeks alone, various surveys suggested a Tory lead over Labour as narrow as 4% and as wide as 15%)².

Johnson did not immediately renew his push for a snap general election, as he had once threatened to do. He might well change his mind again. The most immediate consequence of the votes is likely to be an extension to Article 50 beyond October 31.

Before considering this, though, cast your mind back to August, and consider how badly Boris Johnson has so far played an admittedly bad hand. His halfhearted attempt to suspend Parliament backfired, as we warned it might (see [CIO Flash "Bumps in the road"](#) as of 8/30/19). Not only was the suspension (or "prorogation" Parliament as British legal parlance) ruled "unlawful and thus null and of no effect" by the UK Supreme Court³. Before the judges even got around to blocking the attempt to "stymie" Parliament, it sufficiently angered MPs back in early September to swiftly pass an act forcing Johnson to seek an extension, if he failed to get a deal passed by October 19.

On October 19, Tory rebels and their various allies were at it again. Unsurprisingly Parliament passed another Letwin amendment, forcing Johnson to request an extension to Article 50. Though nominally only a humble back bencher, Sir Oliver Letwin has arguably shaped the UK's Brexit policy throughout 2019 more than anyone else. Certainly more so than either of the two official residents Nr. 10 Downing Street has seen this year, we believe.

The current prime minister in name only may think he has done rather better so far than his hapless predecessor. If he does, he and his advisors will probably turn out to have been even more misguided than she ever was⁴. Johnson's first big "achievement" was negotiating a "new" deal. As we

¹ It is a county constituency of the House of Commons and elects one MP.

² <https://ukpollingreport.co.uk/>

³ <https://commonslibrary.parliament.uk/parliament-and-elections/parliament/decision-of-the-supreme-court-on-the-prorogation-of-parliament/>

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Source: DWS Investment GmbH

pointed out before, however, the Johnson idea of enshrining a customs border down the Irish Sea between Northern Ireland and Great Britain (GB), "looks suspiciously like the EU version of a draft withdrawal agreement presented back in February 2018" (see [CIO Flash "A new Brexit deal? That was the easy bit!"](#) as of 10/18/19). That prompted cries of betrayal from Northern Ireland's Democratic Unionist Party (DUP), which had propped up Johnson's minority government.⁵ Losing the DUP, on top of the Tory rebels he chucked out of the parliamentary party, makes more defeats in the commons likely. That could include upcoming votes on the Queen's Speech, which was supposed to outline Johnson's legislative agenda.

Johnson's second "achievement" was to cobble together a temporary coalition big enough to avoid Parliament killing off his deal altogether at the first opportunity on Tuesday. Unfortunately, the MPs who agreed to continue scrutinizing his draft withdrawal agreement have widely different objectives. Some Labour MPs probably simply wanted to be able to tell their Eurosceptic constituents that they voted for Brexit, at least once. Others may hope to soften the deal in the committee stages.

Worse still, if recent press reports are to be believed, different camps within Downing Street are increasingly at war with each other.⁶ With the benefit of hindsight, there will probably be plenty of blame to go around.

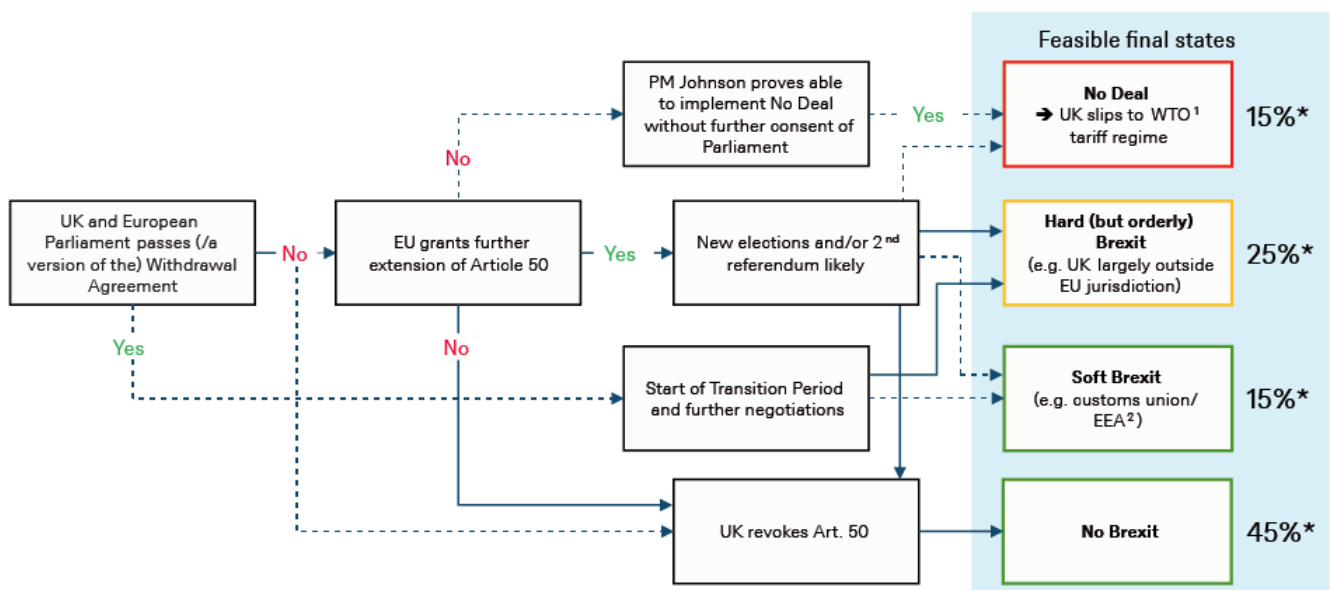
In light of recent events, we have updated our DWS Brexit scenario probabilities:

- No Deal 15%** (minus 5% compared to August 2019): It has become very hard to envision scenarios leading to "No Deal" on October 31. More subtly, both Boris Johnson and other Tory Brexiteers are now on record as preferring "their deal" to "No Deal".
- Hard Deal 25%** (unchanged): Effectively, this means the Johnson deal passing without too many further changes. That's possible, but Johnson has not done a good job at steering parliament so far. If he lets the process continue, he may find it increasingly hard to keep control over the outcome that eventually emerges.
- Soft Deal 15%** (unchanged): There are still plenty of ways a "Soft" Brexit could happen. For example, from the DUP perspective, the Johnson deal is much worse than any softer Brexit, precisely because a customs union that includes Great Britain would avoid a customs border down the Irish Sea. A "Soft Deal" could also easily become the consensus the UK ends up with after a snap election, in which Labour does unexpectedly well.
- No Brexit 45%** (plus 5% compared to August 2019): In recent months, a confirmatory second referendum has arguably become more likely. In such a case (esp. if the alternative is a hard version of the Johnson deal), we would expect "Vote Leave" to start with a severe disadvantage compared to "Remain". Other paths towards "No Brexit" include snap elections and/or revoking Article 50 if, at some point, that is the only way to stop "No Deal".

⁴ As we put it back in April, "Ms. May has made a habit of making risky decisions that might appear foolish to anyone not in her inner circle of trusted advisors." (see [CIO Flash "Good-bye Brexit?"](#) as of 4/1/19). The same could increasingly be said of Mr. Johnson.

⁵ <https://www.conservativehome.com/thetorydiary/2019/10/the-englishmans-betrayal.html>

⁶ <https://www.buzzfeed.com/alexwickham/boris-johnson-top-team-war-election>



* Reflects our assessment of the likelihood of each scenario.

¹ World Trade Organization

² European Economic Area

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GLOSSARY

Article 50 of the Lisbon Treaty governs the withdrawal of a member state from the European Union.

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

The **Conservative Party**, also referred to as "Tories", is a center-right political party in the United Kingdom.

The **European Economic Area (EEA)**, established in 1992, extends the European Union's single market to specific non-EU member countries.

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

The **House of Commons** is the lower chamber of the United Kingdom's parliament.

The **Labour Party** is a center-left political party and one of the three biggest parties in the United Kingdom.

The **World Trade Organization (WTO)** is an international organization based in Switzerland, which regulates commerce between nations through mutually agreed rules.

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