

FINALLY, SOMETHING GOOD

The chances for an orderly and reasonably quick resolution to the Brexit drama have gone up.

In all the twists and turns of the ongoing Brexit drama, it is all too easy for market observers to overlook important turning points. Monday was one such moment. Parliament wrestled control of the Brexit process away from the government. The pound, a good indicator of market sentiment on Brexit, barely moved, rising a modest 0.2% against the dollar in the hours after. But there are good reasons to pay attention – and perhaps more so than to the latest thoughts from Jacob Rees-Mogg, a Brexiteer who did end up moving the pound too.

WHAT HAPPENED — AND WHY

Vote after vote, and motion after motion, it seems that Members of Parliament (MPs) have been all too keen on stating what they do not want. They have defeated the deal of Prime Minister Theresa May twice by historic margins.¹ Yet, MPs have tried to rule out a no-deal Brexit. They failed – so far, in any case – to muster much enthusiasm for a second referendum asking voters whether they might want to stay in the European Union (EU) after all. Seen from Brussels, Paris or indeed Frankfurt, it has been a lot less clear what sort of a Brexit proposal might command a majority in the House of Commons.

In coming days, that might change – at last. The criticism that MPs simply cannot make up their minds has always been a touch unfair. It was the decision of Theresa May not to seek a cross-party consensus at the start of the Brexit process, rather than at the end. Among her many missteps in judgment leading to the current impasse, the most fateful one has probably been to preempt an open and honest evaluation of all the potential ways the UK might leave the EU.

On Monday, MPs finally had enough. An amendment by Oliver Letwin, the conservative former cabinet minister, will give MPs the opportunity to develop and state their preferences through a series of indicative, non-binding votes in the coming days.

Another amendment, by former Labour foreign secretary Margaret Beckett was very narrowly defeated. Taken together, we believe these offer important points of what might happen next.

WHAT IT MIGHT MEAN

Start with the Beckett amendment. It sought to ensure that a no-deal Brexit doesn't happen without the Commons having a chance to stop it and was defeated by 314 to 311 votes. The Beckett amendment should serve as a reminder that a chaotic Brexit, with all the potential economic fallout remains a very real risk. As we have been arguing for months, that could still easily happen by accident.²

All recent developments need to be seen against this backdrop. Last weekend, for example, an estimated million or so supporters of a second referendum turned out in London.³ Investors hoping for a reversal of the Brexit decision might take comfort from this.

However, such shows of support for continued membership might also embolden pro-EU MPs to hold out for a referendum. The danger is that pro-EU MPs may be sufficiently numerous to block compromises that support the UK leaving – but not numerous enough to force anything else than another extension request through the House of Commons.

In order to get to a chaotic, no-deal Brexit, it seems as if all one needs to do is imagine that until April 12 MPs continue to fail to support either Theresa May's deal, without coming up with an alternative path forward which the EU finds credible. April 12 is the deadline the EU imposed at last week's summit for the UK. There seems to be very little appetite on the European side to grant a further extension, simply to allow the UK even more time to make up its mind. The EU summit and initial French resistance to any extension from the original Brexit date of March 29 also serves as a reminder that such moves require unanimity.

¹<https://dws.com/insights/cio-view/emea-en/brexit-tis-but-a-scratch/>

²<https://dws.com/insights/cio-view/emea-en/westminster-in-turmoil/>

³<https://www.ft.com/content/0b3b7b32-4d88-11e9-b401-8d9ef1626294>

REALITY CHECK

This reality is not yet widely appreciated in markets. Indeed, it is only wearing down Westminster MPs. As one commentator astutely puts it, "The MPs who could cause no-deal aren't the ones you think."⁴ Don't feel too reassured by some ardent Tory Brexiteers who might yet be browbeaten to support May's deal. It probably would not be enough. Getting the withdrawal agreement passed always looked hard. It has gotten harder, following the prime minister's latest series of missteps. These include trying to blame MPs in general in a televised address to the nation; and ill-judged comments on devolved government in Northern Ireland, which offended Ulster Unionists on whose votes May depends.

There has always been an obvious potential pathway out of the current impasse. That is where the Letwin amendment comes in. It may allow MPs to consider and potentially coalesce around some softer version of Brexit, such as staying in a customs union or even the single market, along similar lines as Norway. As part of such a package and an amended political declaration, the withdrawal agreement might well command broad cross-party support.

Of course, there is no guarantee of this. Prior parliamentary experience in the UK and elsewhere gives limited comfort that such a complex set of questions can be quickly resolved by MPs. Indeed, one of the reasons we have long been concerned about a chaotic Brexit is that time is simply running out. Finding a consensus at this late stage may be impossible. But if anyone can, it might well be Sir Oliver Letwin, given his well-deserved reputation as a cerebral problem solver, who has been able to build cross-party consensus across party lines before.⁵ Crucially, he is well-liked, trusted and respected not just by the opposition but also even within his fractious party.

The Letwin amendment was passed by 329 votes to 302, a larger margin of victory than had been expected. 30 Tories rebelled, suggesting that the center of gravity in the party may be starting to shift. One contributing factor could be a petition to parliament to "Revoke Article 50 and remain in the EU". So far, it has been signed by 5.7 million UK voters and residents – by far the largest number of signatures of any such effort in the past.⁶

We wouldn't overstate the importance of the headline figure. It is worth pointing out, though, that this is already well above the 4.4 million votes with which the UK Independence Party (UKIP) won the (relatively low-turnout) 2014 election to the European Parliament.⁷ That election helped pave the way to the initial Brexit referendum. Tory MPs in marginal seats were anxiously comparing UKIP votes in their own constituencies to the size of their majority in the previous general election – and worried about being tossed out. The petition might now exert a similar pull in the opposite direction.

For a majority of MPs, voting to revoke Article 50 altogether might still be a step too far, unless the situation gets truly desperate. Initial market euphoria notwithstanding, such a move could also create problems for both the UK and its European partners in the longer term, as well as raise some interesting legal questions.⁸ In particular, it could risk other countries trying to follow the UK example whenever trying to secure concessions – remote as that risk might seem after all the dislocation Brexit has entailed so far. And the risk of a no-deal Brexit by accident remains very real. That said, we are more sanguine of the prospects for an orderly and fairly quick end to the Brexit saga than we have been for months.

⁴<https://www.newstatesman.com/politics/staggers/2019/03/mps-who-could-cause-no-deal-aren-t-ones-you-think>

⁵<https://www.conservativehome.com/thetorydiary/2019/03/andrew-gimsons-commons-sketch-letwin-the-optimist-says-mps-can-still-find-a-brexiteer-which-commands-a-majority.html>

⁶<https://petition.parliament.uk/petitions/241584>

⁷<http://www.europarl.europa.eu/elections2014-results/en/country-results-uk-2014.html#table02>

⁸<https://ukconstitutionalallaw.org/2018/12/10/gavin-phillipson-and-alison-l-young-wightman-what-would-be-the-uks-constitutional-requirements-to-revoke-article-50/>

GLOSSARY

Article 50 of the Lisbon Treaty

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

Brexit

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

European Union (EU)

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

House of Commons

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

Labour Party

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

Pound sterling (GBP)

The **pound sterling (GBP)**, or simply the pound, is the official currency of the United Kingdom and its territories.

UK Independence Party (UKIP)

The **UK Independence Party (UKIP)** is a right-wing political party in the United Kingdom long in favour of ending the country's membership of the European Union.

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