

Brextension

The date for Brexit has been pushed out again

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- The scheduled date for Brexit has now been pushed out to 31 October 2019, with the option to leave sooner if the UK Parliament can agree on a path forward.
- Today's extension increases the chances of a 'soft' Brexit that would leave the UK closely tied to the EU.
- However, there is a growing risk of changes in the UK's political landscape. That includes the chances of a leadership change in the Conservative party, as well as a general election or a second referendum.

What happened today?

Two days before the UK's long planned departure from the European Union, Brexit has once again been delayed. The scheduled date for Brexit has now been pushed out to 31 October 2019, with the option to leave sooner if the UK Parliament can agree on a path forward. Previously, Brexit was scheduled to occur on 29 March and had been delayed until 12 April.

Importantly, today's extension avoids the so-called 'cliff edge' Brexit, that would have seen the UK dropping out of the EU in two days' time without having determined new trading arrangements. That would have risked significant disruptions to economic conditions.

Today's extension is a longer delay than embattled UK Prime Minister May had been seeking. She had hoped to secure a short extension to 30 June. However, there was significant doubt in the EU that this would provide enough time for the UK Parliament to decide on a path forward. While many in the EU were reluctant to grant an extension, they were loath to avoid further repeated requests for an extension.

Assuming an agreement is not reached before May 22, the UK will have to participate in EU parliamentary elections - an outcome that will not be popular in the UK.

What could we see going forward?

Today's extension leaves the UK stumbling towards a 'soft' Brexit that would leave them closely tied to the EU. To date, the PM has not been able to secure Parliamentary support for her proposed withdrawal agreement. In an extraordinary move to break the deadlock, she has now

entered into talks with the opposition Labour Party to find a solution that can command the support of Parliament. While reports on progress have been mixed, the opposition tends to favour outcomes which would maintain close links to the continent, such as a customs union.

If no workable solution can be found through her talks with Labour, the PM has said she would ask Parliament to vote on what options they could support. To date, Parliament has voted against all possible paths forward. However, the options that have commanded the most support include keeping the UK in a customs union or a second referendum.

While today's extension likely pushes the UK further down the path towards a soft Brexit, this is far from a certainty. The Prime Minister's support base is crumbling, and her decision to enter into talks with the Labour Party has alienated many of those from within her own party. Speculation is rife that the Conservatives will try and oust her as leader over the coming months (however, their ability to do so is constrained by party rules related to how frequently leadership challenges can be mounted). If Mrs May is replaced as leader of the Conservatives, a new leader is likely to take a 'harder' stance on Brexit. In fact, in recent indicative votes, most members of the Conservative party voted against options that would keep the UK closely linked to the EU.

The duration of today's extension also provides the UK with enough time to have a second referendum or confirmatory vote on a Brexit agreement.

Given the political deadlock, there is also the growing chance of a general election in the UK. A snap election would require a two-thirds majority in Parliament. The earliest polling could be held is 25 working days after the vote is called. However, calling a snap election before Brexit is delivered would risk a significant backlash against the Conservatives, particularly given the public's dissatisfaction with the PM's handling of negotiations.

Today's decision does nothing to alter our expectation for subdued economic activity in the UK over the coming year, with particular softness in investment spending.

Market reaction

There was no reaction in the GBP in response to today's news. Financial markets have been braced for an extension.

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