

## Flash Note 27/11/2018

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### What next for Brexit

These are the five different ways in which the Brexit could unfold

- Option 1: PM May's deal is passed and the UK becomes a Norway-style membership of EFA & Customs Unions =>The Implications: POSITIVE FOR MARKETS
- Option 2: PM Mays Deal is not passed in the first vote (10<sup>th</sup> December), but survives in a second vote (with some tweaks and minor changes) => The Implications: POSITIVE FOR MARKETS (but some immediate volatility after the rejection in the first vote)
- Option 3: PM May's Deal is NOT passed and the UK Parliament demands an extension of article 50. This would suppose a de facto extension of the UK's stay within the EU to renegotiate a new deal. The Implications: MARKET NEGATIVE
- Option 5: PM May's Deal is rejected and a second referendum is held => The Implications: Short-Term MARKET NEGATIVE // Long-Term market reaction will depend on the result of this new referendum
- Option 6: No Deal and UK's exit. => The Implications:
  - *"Managed" no deal:* the UK leaves the EU without a Withdrawal Agreement, but does have several side agreements in place that keep traffic flowing at ports and airports and limit the risks of financial market dislocation. => NEGATIVE FOR MARKETS (GDP drop of 1% is estimated)
  - *"Disorderly" no deal:* no such agreements are struck => RISK OFF & Temporary disruption. (GDP drop of 3% is estimated)

Scenario 2 seems a likely scenario if we apply reasonable logic. But the stubbornness of the opposition, with the Labour Party having tried to be all things to all people, pushes scenario 3 towards a real possibility. Although this does not mean that the EU allows the extension of Article 50 and use the time for a new negotiation of the exit treaty.

Scenarios 5 and 6 make me think about the concept of entropy. This is, the natural tendency to decay into chaos. I can not (even if I had to) bet on it.

Best