

## Flash Note 15/11/2018

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### The UK cabinet yesterday approved May's exit deal. What next? Our outlook in just 5 points.

1. **What the European leaders will do?** On November 25 summit, the EU leaders will be asked for their assent to this compromise deal that would leave Britain as a rule-taking part of the EU. They will likely say, yes.
2. **What the British House of Commons will decide?** Shortly afterwards, also in November, the UK parliament will have its say. Here, our sources say that despite challenging math in the House of Commons, a “national interest” argument will likely prevail and the House will pass the compromise deal.
3. **Why?** Simple. Not signing this deal would mean three possible outcomes:
  - i. A No-deal scenario means a disorderly hard Brexit. The UK would exit the EU on World Trade Organization terms (which would represent a strong deterioration of trade conditions). Honestly, I don't think that these parliamentarians have the courage to push the UK off the cliff.
  - ii. Should her deal be rejected by conservative Brexiteers, one possible outcome (before outright hard Brexit) could be the call for a new referendum. I am sure that the parliamentarians who oppose the agreement are aware that the voting outcome could be a reversal of the 2016 vote and a “No-Brexit at all” scenario could happen.
  - iii. Tory ultras also know that a rejection of this agreement risks an even more tepid agreement (this time negotiated by a Labour government). That's why I think the House will probably pass the deal. Of course I can be wrong, but considering all the elements, this is what I think.
4. **What next after the House passes the agreement?** What would be the implications?
  - i. The signature of the agreement would leave us in a two-year exit transition that may, in fact, never end. A Norwegian-style endless but stable transition period in which commercial framework is negotiated.

ii. If the House approves the text, what we actually have is a “Brexit in name only” scenario for the next two years. In practice, **this amounts to say that one of the big risks that had been punishing the markets would have been deactivated.** At least for the next two years. Admittedly, there are some aspects to be considered: Under the terms of the deal, UK asset managers and other financial services firms could face more restricted access to EU markets under the bloc’s equivalence regime.

5. **Are there risks to this favorable scenario?** The risk is that enough ministers quit the government to spur a leadership challenge within the conservatives that could lead to a change of Brexit policy. No significant resignations materialized yesterday, although a string of “minor” resignations started today, causing some volatility. The most significant has been the one of Dominic Raab (the Brexit secretary), followed by the resignation of Shailesh Vara (Northern Ireland minister) and Esther Mc Vey (secretary of State for Work & Pensions). By its part, some of the members loyal to the Cabinet (such as Chancellor Philip Hammond and business secretary Greg Clark) have urged business leaders to support it.

Just hope it helps