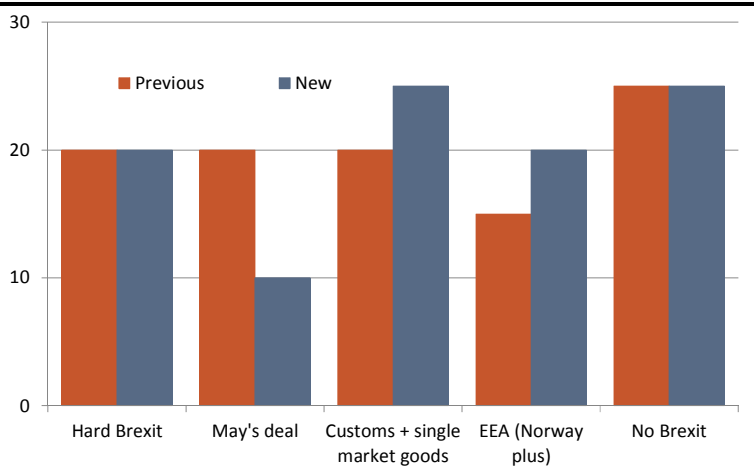


16 January 2019

Brexit update: Corbyn risk down, soft Brexit chance up

Potential Brexit outcomes and probabilities (%)



Source: Berenberg

- No snap election. No surprise:** Tonight the UK government survived a vote of no confidence in parliament that was put forward yesterday by Labour leader Jeremy Corbyn. While Corbyn may try his luck with another vote of no confidence in the government soon, we would not expect him to have any more success a second time around. We reduce the risk of a Corbyn-led government from 30% to 20%. If parliament soon agrees to pursue a soft Brexit outcome, the risk that Corbyn could end up in Number 10 could fall even further.
- Almost game over for May's deal:** The [heavy defeat for May's Brexit deal](#) lowers the chance that she will get her deal through parliament from 20% to 10%. This is a positive development. The dwindling odds for May's deal should soon force the prime minister to explore different Brexit options that could get a majority in parliament.
- Going soft:** With the fading chance of parliament passing May's deal, we raise the probability that the UK eventually seeks one of the softer off-the-shelf options for the future UK-EU partnership. We thus increase the chance of a semi-soft Brexit – a customs union plus full regulatory alignment for goods while the UK leaves the single market for services – to 25% from 20%. We raise the probability of a soft Brexit – the UK stays in the entire single market for goods, services, capital and labour plus the customs union (Norway plus) – from 15% to 20%. As May begins to test parliament's support for alternative outcomes, the critical question remains whether the two-thirds pro-EU parliament can form a majority around any such deal.
- What if parliament cannot decide?** By law, the UK will leave the EU on 29 March 2019. The only ways to avoid a hard Brexit are for parliament support to a deal before exit day or for the government to abandon Brexit by withdrawing Article 50 or seek to extend the negotiation period. However, the fragmented parliament may not be able to find a majority for any of these potential outcomes. If so, the UK may either stumble into a hard Brexit or parliament may give the question back to voters. We continue to assign a 20% probability to a hard Brexit and a 25% probability to no Brexit after a potential new referendum.
- Possible Brexit delay:** Even if parliament decides soon to try to negotiate one of the ready-to-wear options for the future UK-EU partnership, there may not be enough time to ratify and legislate for such an outcome before the currently planned Brexit date. A short – maybe up to two months – extension of the two-year negotiating window for Brexit may be needed – see [Brexit: The real crisis may be yet to come](#). In the unlikely but possible event that the UK goes for a second referendum, which might take 4-6 months to prepare, the UK may even participate in the European elections after all, although the EU and the UK may try to find a way around that.
- Good news for the UK economy and markets:** Financial markets worry about the long-term negative supply-side consequences of Brexit and the threat that a leftist Corbyn-government could take the UK partly back to the 1970s. That both risks have eased is positive for the UK's long-run prospects. If the UK continues to shed such risks in the coming months, the recent uptick in sterling and domestic-orientated UK equities can gain momentum over the medium term. We see up to 10% upside for trade-weighted sterling in 2019 if the UK dodges the hard Brexit bullet and for real GDP growth to rebound from 1.4% in 2018 to 1.8% over the medium term.

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