

A tentative shift: Our latest thoughts on Brexit

There has been a growing sense that the General Election results could result in a softer Brexit. For now it remains hard Brexit, but with softer edges.



Source: Shutterstock

There has been a growing sense that the General Election outcome has strengthened the hand of those seeking a softer version of Brexit than Theresa May had been pursuing. The UK has backed down on the sequencing issue, accepting the need for agreement on the divorce settlement before the future relationship is discussed. The UK will also be publishing a “generous “ offer regarding the rights of EU citizens living in the UK next Monday. Nonetheless, there is still the intention to leave the single market. It is just there is a greater emphasis on limiting the economic fallout and more talk of the need for a long transitional period. For now it remains hard Brexit, but with softer edges.

EU gets its way on sequencing of talks

It was set to be the “row of the summer”, but the disagreement over the sequencing of the talks has reportedly been settled on day one.

The UK had previously been pushing for “parallel” discussions on exit arrangements and future deals. But it now looks like EU Lead Negotiator Barnier’s preferred timetable, of reaching an agreement on exit costs, citizen rights before anything else, will prevail.

Assuming this is completed by December, as Barnier is targeting, then both sides would likely move on to discuss at least the framework of a transition period and trade talks.

What to expect from Brexit over the next few weeks

(Click to enlarge)



Cross-party Brexit co-operation looking more likely

According to The Times, Brexit Secretary David Davis is pushing to get his Labour opposite number, Sir Keir Starmer, onto the Privy Council.

This means he would gain access to sensitive information on the negotiations, and would in effect mean Labour are bound more closely into the talks.

This is another sign that there will need to be more cross-party cooperation through the Brexit process. That's partly to ensure that Brexit issues can pass through parliament, but also to maintain consistency in the UK's stance if there were to be another election.

The Chancellor's take on Brexit

Chancellor Philip Hammond has seen his influence on the Brexit debate increase, emphasising he wants one that “puts jobs and prosperity first”. His Mansion House speech set out a three pronged “Brexit for Britain” approach:

1. Secure a comprehensive agreement for trade in goods and services
2. Negotiate a mutually beneficial transitional arrangement to avoid unnecessary disruption and dangerous cliff edges
3. Agree frictionless customs arrangements to facilitate trade across Britain's borders and to keep the land border with Ireland open and free flowing

This offers further evidence suggesting the British government is drifting from a position where migration issues were the dominant focus to one that places more emphasis on minimising the economic damage from Brexit.

Given the lack of clear details on the Government's plan for Brexit in the Queen's speech, we have to take our guide from the Chancellor's speech from yesterday.

Haldane the hawk prompts a major market rethink on rate hikes

BoE Chief economist Andy Haldane has broken rank with the other internal Bank of England MPC members and suggested rates could soon rise.

...withdrawing some of the incremental stimulus provided last August would be prudent moving into the second half of the year.

Three external members voted for a hike in June, but one of those is leaving the MPC at the end of this month.

Our house view remains that the BoE won't hike until the outlook for post Brexit Britain becomes clearer with the BoE "looking through" a temporary, FX induced spike in inflation.

However, Haldane's hawkish switch, based on growth coming in stronger than he expected, a better global outlook, higher inflation and reduced political threats is a major threat to that view.

Market probability of a 2017 rate hike doubles

20.4

Yesterday's probability of a rate hike by year-end (%)

Source: Bloomberg, UK OIS curve

46.5

Latest probability of a rate hike by year-end (%)

Source: Bloomberg, UK OIS curve

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