

Brexit: The slow countdown to October

There are good reasons to think that the Brexit deadlock won't be broken before the new October Article 50 deadline. Cross-party talks don't appear to be making much headway, while there remains a risk of a summer Conservative Party leadership battle. A further extension to the Article 50 period is perhaps more likely than not



British members of parliament debating Brexit proposals

No breakthrough on Brexit shock

The dust is beginning to settle after the EU's decision to grant a six-month extension to the Article 50 Brexit negotiating period. But four weeks on, and there are good reasons to think the deadlock won't be broken before the new October 31 deadline.

Poor local elections results for the two major political parties appear to have injected some fresh impetus into cross-party talks between prime minister Theresa May and Labour leader Jeremy Corbyn.

Recent press reports indicate that talks are centred on the idea of a 'temporary customs arrangement' lasting until 2022, with a possible agreement to extend the stand-still transition period until then too. Put simply, it implies accepting the terms of the withdrawal agreement now, and leaving the future agreement with all to play for – presumably for the winners of the next 2022 election to have the final say.

Two reasons why the Labour leadership remains reluctant to sign up to this kind of deal

1. Firstly, it is unlikely to stand the test of time. Assuming Theresa May steps down as leader once a deal is ratified then a more Eurosceptic Conservative leader could look to renege on the cross-party agreement and pursue a different, 'harder' version of Brexit. The ratification of a deal would also reduce the chances of a general election, something which the Labour party are still keen to initiate.
2. Secondly, any cross-party deal is unlikely to contain a commitment to hold a second referendum. The prime minister has ruled this out as an option, while Jeremy Corbyn himself has long-favoured a customs union (possibly with the single market too) over another public vote.

This latter point is important because there are believed to be around 150 Labour MPs who would vote against a deal unless it comes with a second referendum attached. A deal that closely resembles a customs union also risks losing Conservative MPs in a Commons vote. 236 Tories voted against a customs union in the second round of indicative votes back in early April, and while many of these may well shift position with the prime minister, it's possible 100-or-so will continue to oppose this option over concerns about the ability to negotiate trade deals.

It's also worth remembering that any deal – be it May's deal, a cross-party agreement or another option pursued by Parliament – would still contain the contentious Irish-backstop.

Pressure on the British Prime Minister

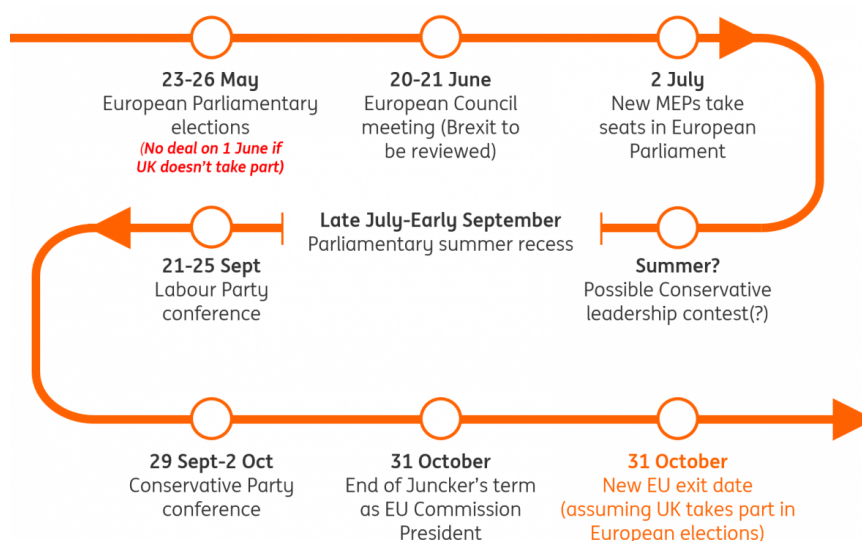
Put simply, there are no guarantees that a meaningful deal can be struck between the two main parties – and more importantly, even if there is a deal, there are no guarantees it would get through Parliament. Another round of 'indicative votes' on different Brexit options also seems unlikely to be more successful than before, given that the immediate pressure has alleviated.

There's mounting pressure on the Prime Minister to step down, leaving a summer leadership election still possible

In the meantime, pressure is growing on PM Theresa May to stand down as leader of her party. While she has indicated she is prepared to stand aside if a Brexit deal is ratified, the most recent headlines suggest she is keen to stay in place until the Autumn. As things stand, there is no easy way for the party to force her to step down until December, when there will be another opportunity to hold a no-confidence vote. There are moves afoot within the 1922 committee – a group of Conservative lawmakers that decide on internal party matters – to change the rules to allow an earlier vote, but so far no such decision has been made.

Time will tell whether this push is successful, although there is a reasonable chance that there is a leadership contest over the summer to decide upon a new leader. Based on recent polling, former Foreign Secretary Boris Johnson remains odds-on to emerge as the next leader.

The road to the new October Brexit deadline



Source: ING

Concerns could increase over the summer

Whatever happens, we think it's increasingly unlikely that a resolution to the Brexit stalemate can be found before October, begging the question of what happens next. The consensus among political commentators is that the EU would probably be open to a further Article 50 extension. After all, a number of nations were reportedly in favour of a much longer delay at the ad-hoc April European Council meeting.

That said, some nations have been much less keen to grant more time and France, in particular, wanted a much shorter extension to be granted in April. A possible rise in the populist share of the vote in the European elections means this hardline stance could stay in place come the October European Council.

Many in Brussels are also wary of the UK disrupting the EU's policy agenda the longer it stays a member, and a large showing for the Brexit party in the European elections, combined with a more Eurosceptic prime minister, could see these fears broaden as October approaches.

Don't completely rule out a Bank of England rate hike

For the time being, our base case is that there will be minimal progress on Brexit before October and that a further extension seems more likely than not. We continue to think 'no deal' is relatively unlikely, given that if the EU does reject a further extension, it seems more likely that Parliament would step in to avoid an abrupt exit on WTO terms – perhaps even by revoking Article 50. If this were to happen, then it would most likely be spun as a 'revoke to regroup' decision, rather than a permanent 'revoke to remain'.

A Bank of England rate hike this year seems unlikely – but don't rule it out completely

But while a cliff-edge exit remains unlikely, businesses will have to continue making preparations for the worst-case scenario. This will keep a lid on growth over the summer, although activity could receive a little more impetus from consumer spending. We currently don't expect the Bank of England to hike rates this year. That said, if Article 50 is indeed extended again, the most recent press conference gave us the impression that policymakers could be minded to tighten policy again in November if the economic outlook pans out roughly as they predict.

This article forms part of our Monthly Economic Update which you can find [here](#)

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