

## What next after PM May's third Brexit defeat

Out of all the options, we think parliament is most likely to rally behind the customs union option in the second round of 'indicative votes' on Monday. But is a general election around the corner?

### Our latest Brexit probabilities with market impact

Scenario	Probability (Rough estimates)	Market reaction
<b>Short technical Article 50 extension required for legislation</b>		
May's deal passes before 12 April	15% PM might pit her deal against 'indicative vote' winner – although still hard to see it winning	EUR/GBP: <b>0.84</b> GBP/USD: <b>1.35</b>
<b>Longer Article 50 extension required</b>		
General election	15% No confidence vote could happen again. Some Conservative/DUP MPs must back it	EUR/GBP: <b>0.94</b> GBP/USD: <b>1.20</b>
Different deal (e.g customs union)	25% Indicative votes could ultimately force the government to tweak the deal in Brussels	EUR/GBP: <b>0.81</b> GBP/USD: <b>1.40</b>
Second referendum	20% Gaining traction, although many Labour MPs still object to it, so option still lacks a majority	EUR/GBP: <b>0.80</b> GBP/USD: <b>1.42</b>
No deal on 12 April	20% EU stance is hardening, could happen if Parliament fails to reach agreement on a deal	EUR/GBP: <b>1.00</b> GBP/USD: <b>1.13</b>
Revoke Article 50	5% Could happen if saga goes to the wire. MPs could decide to stop the clock to have rethink	EUR/GBP: <b>0.75</b> GBP/USD: <b>1.50</b>

Source: ING

### Theresa May's Brexit deal defeated - yet again!

After a rollercoaster couple of days, UK prime minister Theresa May has failed to convince lawmakers to back her Brexit deal. She did, however, succeed in narrowing the scale of her loss, with a number of Conservative switchers taking the margin of defeat to 58 from 149 a few weeks ago.

Nonetheless, it's hard to escape the conclusion that as things stand, the prime minister's deal in its current form looks finished - although this might not be the last we hear of it.

For now, though, attention is shifting to Monday, where backbench lawmakers will continue the process of 'indicative votes' to try and settle on an alternative Brexit plan.

## A customs union is most likely to win Monday's indicative votes

On Monday, lawmakers will get an opportunity to choose between the most popular alternative Brexit proposals that emerged from the first round of 'indicative votes' on Wednesday. There still seems to be a bit of a debate about the exact process, although, by the sounds of it, MPs will again be given a piece of paper with the short-listed options, where they will be able to vote "yes" or "no".

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*The prime minister's deal in its current form looks finished*

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In theory, a permanent customs union still seems most likely to command majority support. That's because it represents a 'softer' Brexit, but one where freedom of movement doesn't happen. That said, a second referendum did perform surprisingly well in the first round, although if these two options are pitted against one another, we suspect the more pro-Brexit Labour MPs (or rather those who represent Leave-supporting regions) would be more inclined to back the former.

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*Of course, everybody loves an 'underdog' too, and the so-called 'common market 2.0' option may be just that*

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Of course, everybody loves an 'underdog' too, and the so-called 'common market 2.0' option may be just that. This proposal - which amounts to joining the single market and customs union after Brexit - saw a high number of abstentions in Wednesday's votes, including by the Democratic Unionist Party (DUP). If these abstainers were to turn into "yes" votes, it could see the option gain traction against the other popular rivals on Monday.

## But can any option gain a 'stable majority'?

This is absolutely crucial because unless lawmakers convincingly rally around a particular option, the subsequent approval stages could become harder. The majority will need to survive a meaningful vote on the revised deal, assuming the prime minister returns to Brussels and gets what parliament asks for. Lawmakers will also need to approve all the follow-up legislation before the UK can formally leave the EU.

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The first round of indicative votes failed to generate a majority at all, let alone any that could be classed as stable. However once the options are narrowed down, that could change if lawmakers are prepared to compromise on their first-choice proposals. There is also some talk that MPs may

try to combine the two most popular options, by requesting a customs union tweak, that is then put to the people in a second referendum. The hope is that this could command a sizeable majority, even if the two options cannot do so individually.

## Will this just all end in a general election?

Whatever wins, the latest reports suggest the prime minister may attempt to hold a vote which puts her deal against the winner of indicative votes. But if this doesn't happen, or if the government loses this vote to parliament's favoured Brexit alternative, many people are questioning whether a general election would become inevitable. There are two ways we see this coming about.

Firstly, if parliament requests a customs union and Theresa May begrudgingly accepts, eurosceptic Conservative MPs could decide 'enough is enough' and support a vote of no confidence in the government.

Alternatively, PM May could decide an election is preferable to whatever parliament asks her to do - particularly if MPs request a second referendum. For example, this could happen if the prime minister were to face the threat of mass resignations from her cabinet, although don't forget a snap election would require two-thirds of parliament to agree.

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*It's not clear an election is in anybody's interest at this stage*

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Both paths are undoubtedly growing more likely, although neither are straightforward. It's also not clear what any of the major parties have to gain from an imminent election. The Conservatives will be reluctant to go to the polls before a new leader is in place, and a leadership contest could take a few months. Labour risks a backlash at the polls from both ends of the party - 'remainers' may be angered if a second referendum isn't in the manifesto, while 'leavers' may be inclined to vote for a party that is perceived to deliver a swifter or harder Brexit.

The Democratic Unionist party, who would be pivotal in a vote of no confidence, could risk losing their seat at the table if either of the big political parties were to win a majority at an election. The newly founded Change UK party, formally known as the Independent Group will take time to develop their election machine.

Throw all that together, and it's not clear an election is in anybody's interest at this stage - and even if it does happen, it's not clear from the polls that a snap election would generate a substantially different result to the current parliamentary formation.

## Long extension to Article 50 remains our base case

[While the mood-music in Brussels appears to be turning more hardline](#) when it comes to offering an extension, we suspect parliament will do all it can to avoid a 'no deal'.

To cut a long story short, the most likely scenario in our opinion is, MPs back a softer version of Brexit. If they do, and it is clear there is a stable majority for such an option, then this would likely tick the box for EU to grant a longer extension to the Article 50 period beyond

12 April.

That said, the past few weeks of Brexit have taught us to expect the unexpected, and the next two weeks look set to be anything but plain sailing.

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