

# Flash Comment UK

## PM May to trigger Article 50 before March 2017 – EUR/GBP set to move higher

- **Today, Prime Minister Theresa May said that the UK will trigger Article 50 ‘before the end of March’ next year**, implying that the UK will officially leave the EU in April 2019. May hinted that she wants to start informal negotiations before but Donald Tusk, the EU council President, refused this implicitly on *Twitter*.
- In connection with the Queen’s next speech, May will introduce a Great Repeal Act to remove the European Communities Act from 1972 (stating that EU laws have primacy over UK laws). The new act will convert all existing EU laws into UK laws when the UK officially leaves the EU. The idea is that this should reduce uncertainty and that the UK can remove or change laws afterwards. The act will also end the jurisdiction of the EU court.
- **It seems as if we are heading for a ‘hard Brexit’, as Theresa May revealed that control of immigration is the most important issue.** She said that the UK is ‘*not leaving the EU only to give up control of immigration again*’. **Interpreted literally, this implies the UK leaving the single market, as EU leaders have said that access to the single market means that the UK has to accept free movement of labour.**
- **This is likely to imply that UK financial institutions would lose the current passport access to the European internal market for financial services.**
- **May also ruled out both a Norwegian and a Swiss model.** A deal will be ‘*an agreement between an independent, sovereign UK and the EU*’. **Again, taken literally, it means that a traditional free trade agreement is the only option left.** Hence, it is also uncertain whether the UK will continue to contribute to the EU budget, which could cause more political turmoil in the EU as the UK is a big net contributor to the EU.
- However, we still need some further clarification before we know exactly what the UK is aiming for in a new UK/EU deal. In mid-September, Brexit minister David Davis said that the government will publish its guidelines for the exit negotiations when the UK triggers Article 50 (see *Reuters*). May has refused to communicate much on Brexit until then.
- May’s hard stance on Brexit means she is in opposition to many of the Conservatives, as the majority of the Conservative members of parliament supported the ‘remain’ campaign.
- There has been some speculation as to whether May would call for an early general election (despite the fixed terms) due to a very solid lead in the polls, explained partly by the Labour crisis. **May repeated that she will not call for an early election as it would only create more political uncertainty and that the UK needs stability.**
- **Today’s news supports our view that EUR/GBP will move higher** as markets begin to price in political uncertainty, especially now as it seems as if we are heading towards a ‘hard Brexit’. In our view, the terms on which the UK withdraws from the EU will mitigate capital inflows to the country via the very large current account deficit. This could dominate the positive effect of the recent better-than-expected economic data, which could challenge market expectations of another Bank of England rate cut. **As a result, we still expect EUR/GBP to edge higher and forecast the cross at 0.92 in 6M.**

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