

Brexit Monitor

Opposition unlikely to support snap election ahead of prorogation

PM Johnson tries to find ways to ignore the Brexit delay bill

The weekend has been eventful and today will be too. Today, the Brexit deal bill is set to come into law but PM Johnson is likely to do much to avoid to be forced to delay Brexit. PM Johnson may advise the Queen to not give royal assent ahead of the prorogation this week. *The Telegraph* (\$) has broken a story that the government may get around the Brexit delay bill by simply sending two letters (one asking for the extension as outlined in the bill, another one saying that the government did not mean it). Other members of parliament just think PM Johnson should ignore the law, see *Buzzfeed*.

Also today, PM Johnson is meeting with Irish PM Leo Varadkar in Dublin to discuss, among other things, a Northern Ireland-only backstop (but should it cover some or all goods?). Varadkar has played down expectations, see *Financial Times*.

Later today, PM Johnson is unlikely to be successful with his second attempt to secure a two-third majority for calling a snap election (contrary to what we thought last week). The opposition cannot support a snap election until it knows for sure that the Brexit deadline is extended, see *Sky News*.

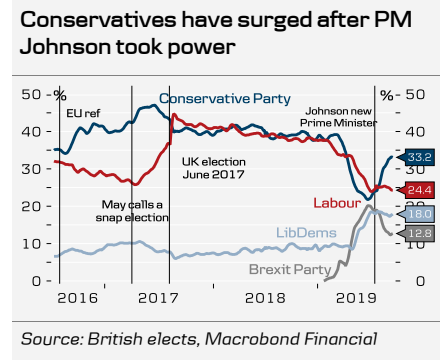
According to Paul Brand from ITV (see *Twitter*), Parliament may be prorogued ('suspended') as early as tonight until 14 October and if so, PM Johnson has to wait until then to get his election. Another possible way could be to bring down his own government by a no confidence vote, which only requires a simple majority (this would be extraordinary but okay, we are in extraordinary times) but then we will likely see a caretaker government taking care of the Brexit extension.

In our view, whether Parliament supports an election today or not until it returns in mid-October is not important at this point, as a snap election seems unavoidable with election day after 31 October and Brexit will as a result eventually be delayed beyond 31 October into next year. Hence, the most important thing is the result and not the timing of it; see *Brexit Monitor* for a comprehensive analysis of the consequences of different outcomes.

Rudd reveals Johnson is spending all his time on no-deal Brexit

Another eventful weekend as the division between the moderate Conservatives from the 'One Nation' group and the Brexiteers represented by the Johnson government and the European Research Group became even deeper with Amber Rudd stepping down from the Cabinet and at the same time leaving the Conservative parliamentary group. In her statement (see *Twitter*), Rudd said she does not think leaving with a deal is the government's main objective and that she has not seen a lot of energy going 'into our talks with the EU', echoing some of the concerns from the EU side, which we discussed in brief in one of our updates last week, see *Brexit Monitor*.

There has also been speculation that PM Johnson may declare a 'national emergency' to scrap the Brexit delay bill, see *Sam Coates (Sky News) on Twitter*.

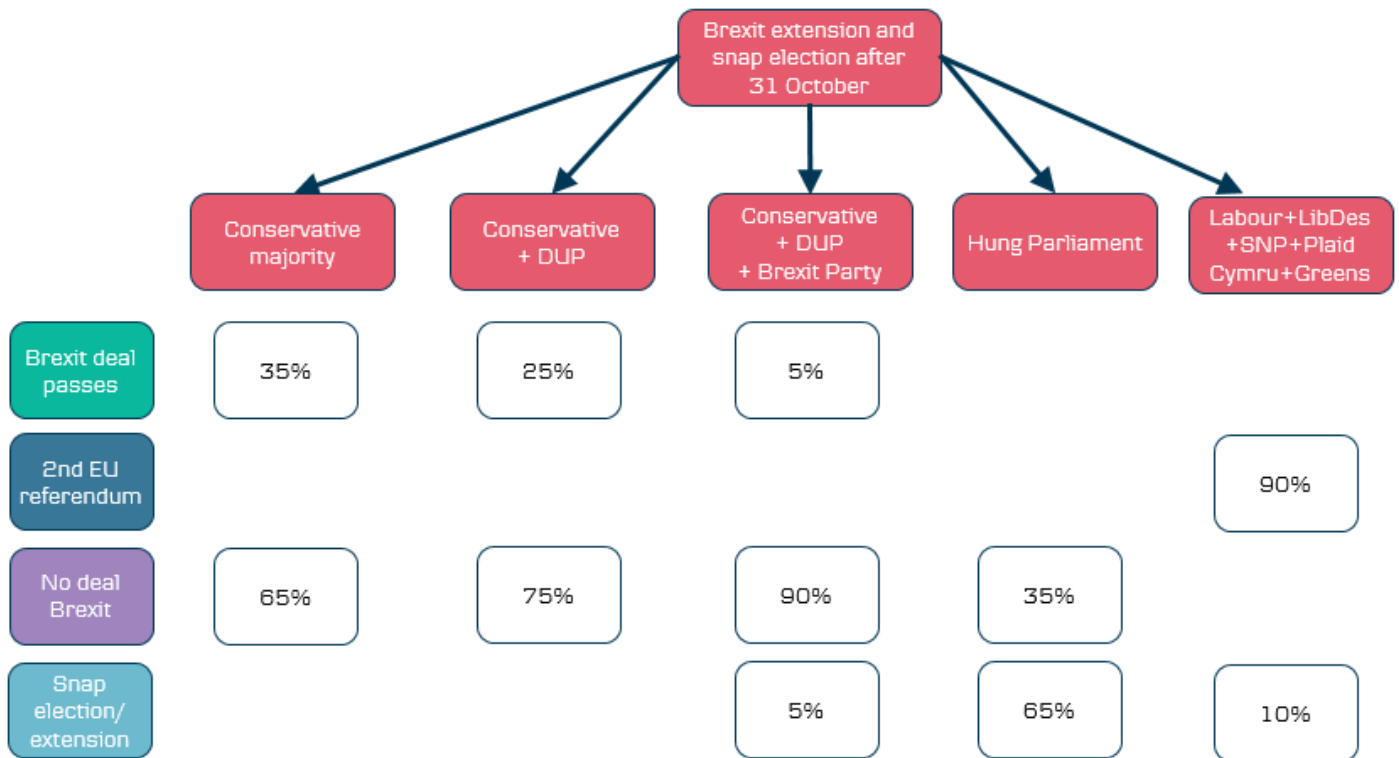


Senior Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

While polls still show Conservatives are ahead of Labour (see *Britain Elects*), it remains difficult to translate them to numbers of mandates. For instance, it might turn out to be a problem that Conservatives may lose all 13 mandates in Scotland, see *Herald Scotland*.

The French foreign minister has said that France may veto another Brexit delay as things stand, see *POLITICO EU*. While the EU leaders have to grant another extension unanimously, we doubt France would not eventually support a further extension despite EU's Brexit fatigue (see also this excellent *Twitter thread*).

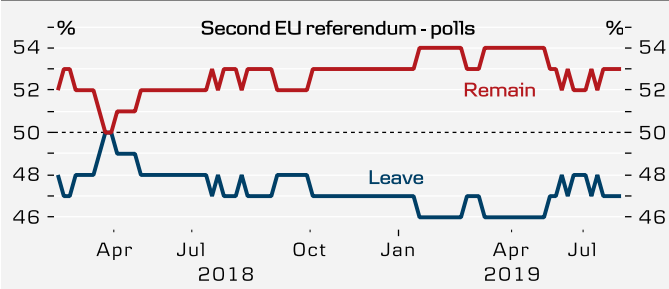
Brexit outcomes depending on election outcome



Source: Danske Bank

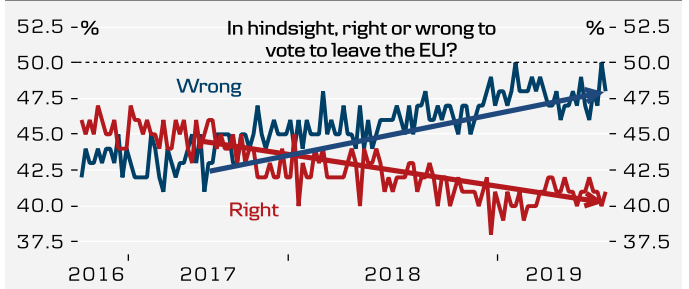
Brexit charts

Still close in opinion polls



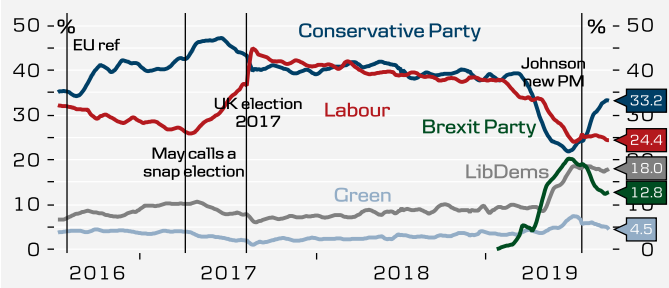
Source: NatCen Social Research, Macrobond Financial

More people think it was wrong to vote to leave the EU



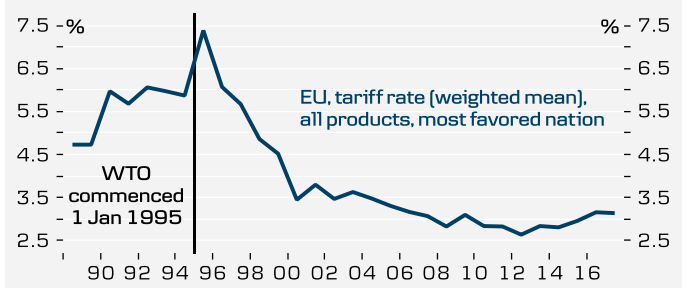
Source: NatCen Social Research, Macrobond Financial

Conservative Party is rising in general election polls



Source: Britain Elects, Macrobond Financial

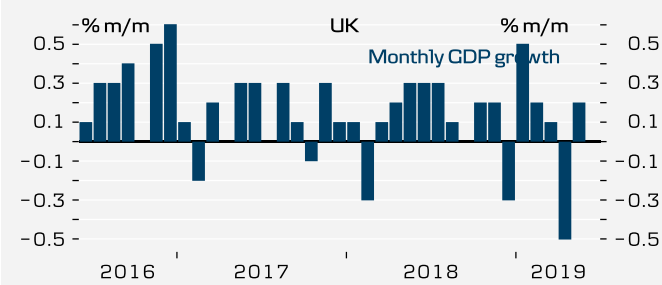
Tariff rates have declined since WTO came into force



Source: WTO, Macrobond Financial

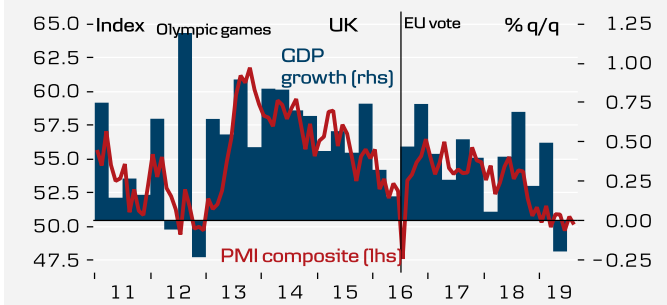
Macro charts

GDP growth has slowed in Q2 after stockpiling in Q1



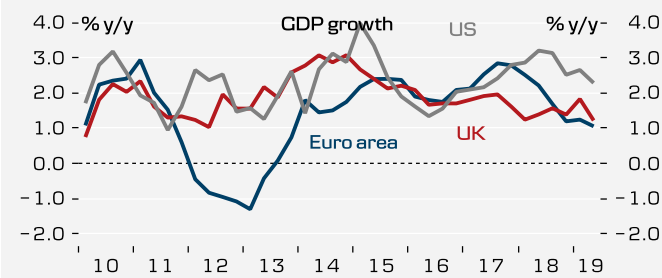
Source: ONS, Macrobond Financial

PMIs do not rule out the UK has fallen into a technical recession



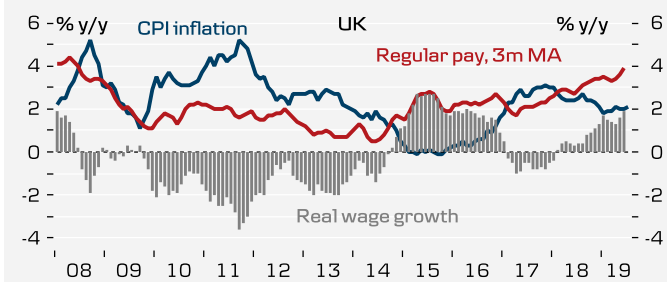
Source: ONS, Markit Economics, Macrobond Financial

GDP growth is stuck at around 1.0-1.5% compared with 2-3% previously



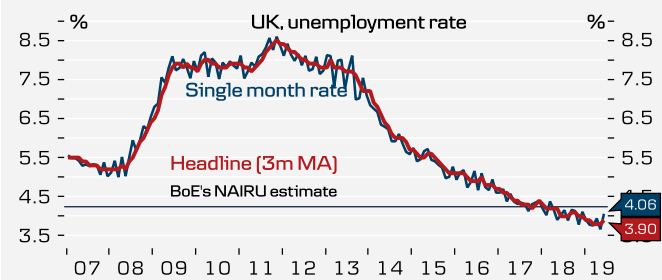
Source: ONS, Eurostat, BEA, Macrobond Financial, Danske Bank calculations

Real wage growth is solid



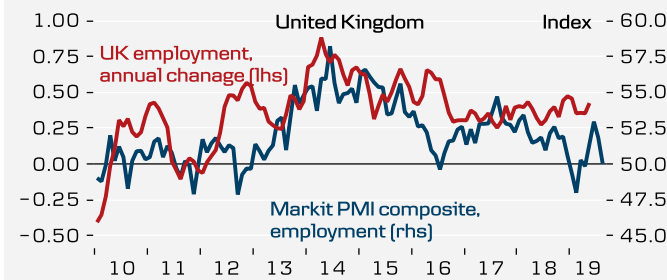
Source: ONS, Macrobond Financial, Danske Bank

Unemployment rate is low



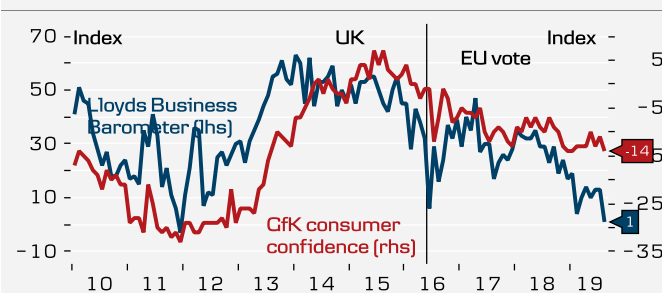
Source: ONS, Bank of England, Macrobond Financial

PMI employment index has rebounded



Source: ONS, Macrobond Financial

Business confidence hit by Brexit fears



Source: Lloyd, GfK, Macrobond Financial

Companies may soon start stockpiling again ahead of October deadline



Source: IHS Markit, Macrobond Financial

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Mikael Olai Milhøj, Senior Analyst, and Lars Sparresø Merklin, Senior Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Ad hoc.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 9 September 2019, 00:13 CEST

Report first disseminated: 9 September 2019, 07:10 CEST