

Brexit Monitor #22

UK still set to trigger Article 50 before end of March despite the government's defeat in Supreme Court

Government to introduce Article 50 legislation 'within days'

- **As expected, the Supreme Court ruled that the parliament and not the government has the power to invoke Article 50**, which formally starts the exit negotiations with the EU. Thus the Supreme Court upheld the High Court's decision in November. Market reaction was limited.
- Based on stories in UK media, most cabinet ministers expected to lose the appeal case. **In PM Theresa May's Brexit speech, it also seemed that she had already accepted that the parliament needs to be involved in the negotiation process**, as she mentioned the final deal will be put to a vote in both Houses of Parliament. For more details on PM May's Brexit speech where she outlined her 12 Brexit principles please see *Brexit Monitor #21*, 17 January.
- However, **it was a victory for the government that it does not need to consult the assemblies in Northern Ireland, Scotland and Wales before triggering Article 50**.
- **We do not think the Supreme Court's ruling will delay the triggering of Article 50. Brexit Minister David Davis has said the government will introduce Article 50 legislation 'within days'** (see *Reuters, UK to introduce Article 50 legislation 'within days' – Brexit minister*, 24 January) and it seems unlikely that either the Conservative Party or Labour will block the legislation in the House of Commons. In a non-binding vote in December, MPs voted overwhelmingly to support PM Theresa May's Brexit time table. It could be more problematic to pass the legislation in the pro-EU House of Lords where the Conservatives do not have majority, but it would probably create a constitutional crisis if the House of Lords tries to block or delay Brexit, see *Reuters, Brexit plans unlikely to be slowed by Article 50 defeat*, 24 January.
- In the Supreme Court's judgement, it says in section 122 that *'What form such legislation should take is entirely a matter for Parliament'*, which allows the Government to present a very short bill, which makes it more difficult for the MP's to make amendments. Both Labour and the Scottish National Party (SNP) have already said that they want to be heavily involved during the negotiation process.
- In other words, **we will have some arm wrestling between the government and the members of parliaments in the coming two months ahead of the triggering of Article 50**. However, it is worth noting that the EU is not bound by whatever strings may be attached by the UK government, so **we still think we are heading towards a hard Brexit, as the UK cannot stay within the single market and get control over EU immigration at the same time**.
- **We still expect EUR/GBP to come under pressure as the triggering of Article 50 moves closer. We target EUR/GBP at 0.88 in 3M** but see risks skewed to the upside. For more see *FX Forecast Update*, 17 January.

Key takeaways

Parliament – not the government – has the power to invoke Article 50.

UK government does not need to consult assemblies in Northern Ireland, Scotland and Wales before triggering Article 50.

We do not think the triggering of Article 50 will be delayed. UK government set to introduce Article 50 legislation 'within days'.

Arm wrestling between the government and members of parliament in the coming two months ahead of triggering Article 50.

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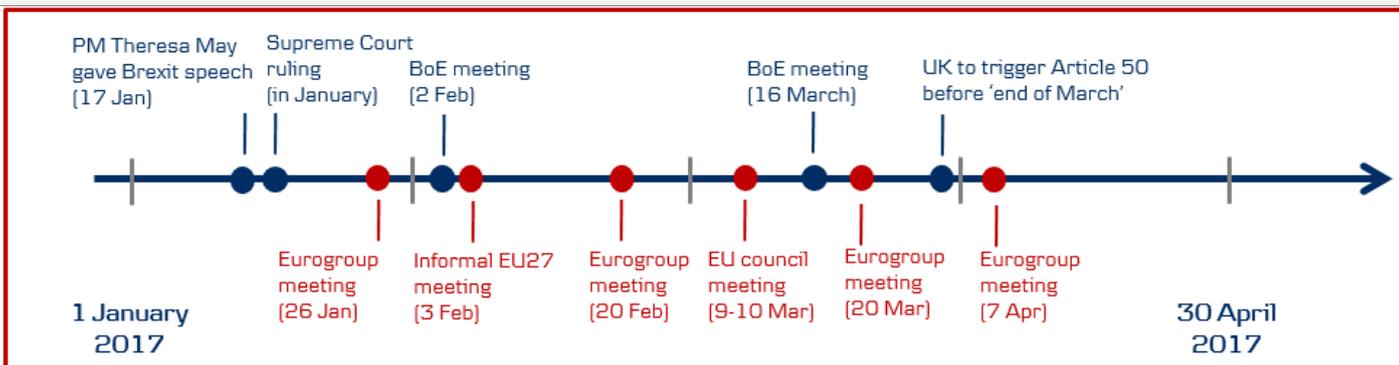
We think EUR/GBP could come under pressure as the triggering of Article 50 moves closer



Source: Bloomberg, Danske Bank Markets

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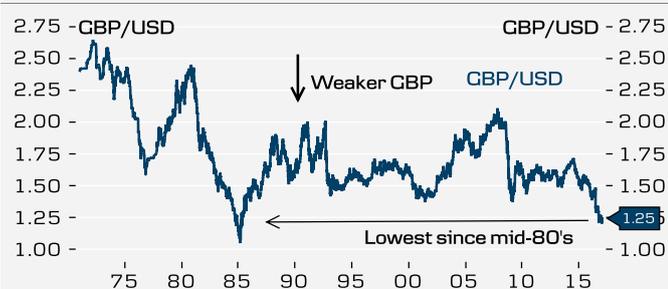
Brexit - timetable until 30 April 2017



Source: EU, ECB, Bank of England, EU Treaty, Bloomberg

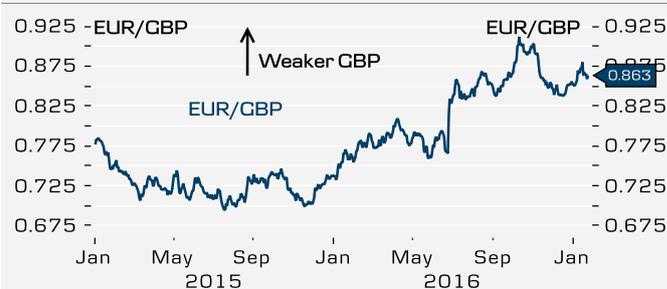
Financial market charts

GBP/USD



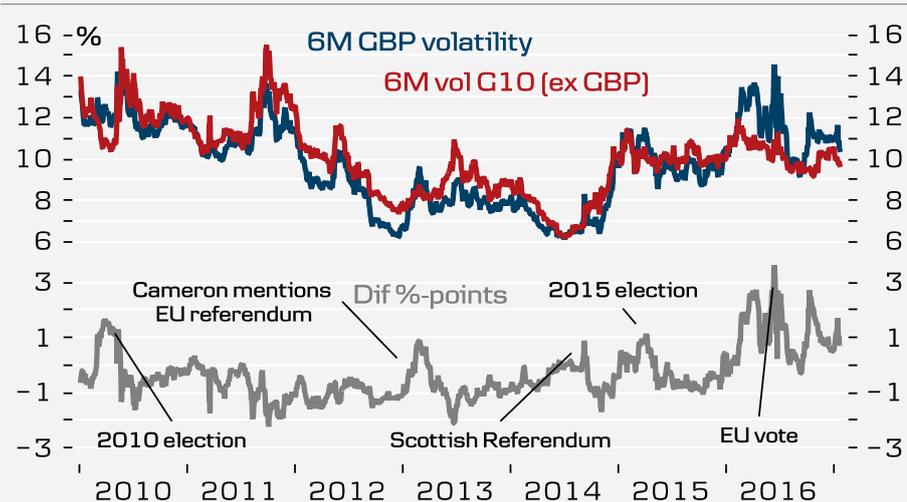
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

EUR/GBP



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

GBP volatility vs G10



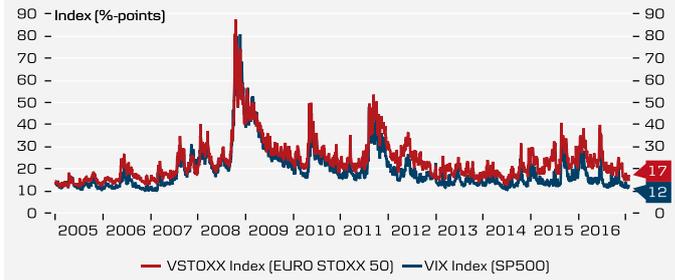
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

UK and European equities



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

Equity volatility (S&P 500 and Euro Stoxx option impl. vol.)



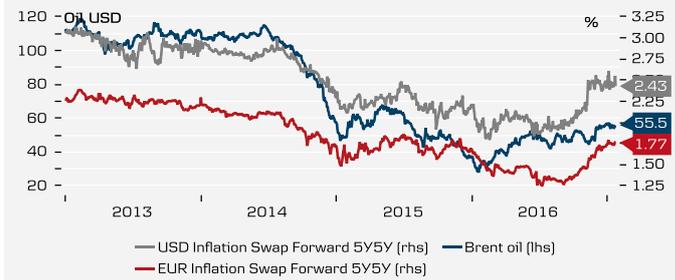
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

Global fixed income markets



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

Inflation and oil prices



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

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None.

Date of first publication

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