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Brexit Developments: Deal or Delay

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Despite shifting political dynamics and uncertainty about the sequencing of upcoming events, the base case remains that a hard Brexit will be avoided. That leaves two options as the likeliest scenarios: Prime Minister May's deal or a longer extension of Article 50, which consequently results in a soft Brexit.

After May's revised deal was rejected for a second time, she presented the MPs with a stark choice over Brexit ahead of this month's EU summit: back her deal in a third meaningful vote (MV3) or face the prospect of a long delay in leaving the EU—a prospect with the implicit threat of remaining in the EU. Dangling the prospect of no Brexit at all, May's strategy was to convince the Brexit-supporting Conservatives, Labor MPs and Northern Ireland's Democratic Unionist Party MPs to support her withdrawal agreement. [The fact that the House of Commons had also voted to rule out a no-deal Brexit "under any circumstance" seemed to strengthen her leverage ahead of MV3.](#)

Initially, there were clear signs that her plan was working. Reportedly, even hardline Eurosceptic members of European Research Group (ERG) began to "reluctantly" consider supporting May's deal if the "no-deal Brexit was no longer viable." [But May's strategy was upended when the Speaker of the House of Commons, responding to a request by a Labor MP, used an obscure precedent from 1604 to suddenly rule out a MV3 ahead of the EU Summit—unless the deal was substantially changed from the one that was rejected by the MPs.](#)

In a tense cabinet meeting that followed the Speaker's decision, under pressure from her own ministers over the issue of extension May unexpectedly backed away from requesting a long delay to the Article 50. Instead, in a letter to the EU Council president, May requested an Article 50 extension to June 30. In the ensuing parliamentary debate and press conference, May suggested that she'd quit as Prime Minister if MPs attempted to force a longer Brexit delay, that she would not allow the UK to be "dragged into" the European elections, and that the MPs are responsible for the current political turmoil.

[By removing the option of potentially remaining in the EU indefinitely, PM May effectively upended her own strategy and offered the MPs an entirely different choice: her deal or no-deal.](#) Conservative Eurosceptic MPs, who want to withdraw from the EU without a deal, were now given every reason to oppose May's deal should an MV3 happen. All they had to do was block the withdrawal agreement, run down the clock to June 30, and crash out of the EU without a deal. Other pro-Brexit MPs, who had reluctantly supported May's deal in the latest vote, now saw a strong rationale to abandon it too. [As a result, a hard-Brexit scenario suddenly became a distinct possibility.](#)

[Faced with the prospect of an immediate crash-out Brexit on March 29 and under increasing pressure on all fronts, May all but changed strategy again, accepting an offer from EU leaders that leaves the possibility of an extended Brexit delay open.](#) On March 21, EU leaders agreed to change the UK's departure date from the EU from March 29 to April 12, at which point the British government will have to decide whether the UK wants a hard no-deal Brexit or to remain in the bloc until at least the end of 2019. If the government chooses to stay in with the delay, then the UK must participate in the European elections, something that the Conservative Eurosceptic MPs passionately oppose. [In offering a delay to the Brexit date, the EU leaders also assumed that PM May will take her revised deal back to the Commons for a third vote.](#) If the deal gets through the parliament, then the UK departure will happen on May 22 (as opposed to April 12) to give the British government time to adopt the legislation required to implement the withdrawal agreement.

While political dynamics and the sequencing of events will be in flux the next three weeks, the base case remains that the UK will avoid a crash-out Brexit on April 12. For this to happen, either the May deal will have to be approved, or the UK will request a longer extension to Article 50 before the new deadline of April 12. We think both these outcomes are probabilistically similar given the developments over the last couple of days. Yet, the paths leading to them may be different. While odds are against the approval of May's deal, the threat of a long Brexit delay could motivate Eurosceptic MPs to shift their support in favor of the existing withdrawal agreement, however improper they may consider this option to be. If her deal fails in the Commons, then the parliament will likely take over the Brexit process and so-called indicative votes on alternative Brexit options will take place, including on a Norway-style membership, a permanent customs union, and/or a second referendum, making a longer extension of Article 50—and consequently a softer Brexit—the most likely scenario.

Source(s) of data (unless otherwise noted): PGIM Fixed Income as of March 22, 2019

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