



THE PM'S BREXIT PLAN WON'T FLY; AN EVEN SOFTER BREXIT IS MORE LIKELY

| | No Deal, Cliff Edge Brexit | Hard Brexit - Leave Customs Union & Simple FTA for goods | Semi-Brexit - Stay in Customs Union, but leave the Single Market | The PM's plan - "Facilitated Customs Arrangement" & Single Market Rules for Trade in Goods | Soft Brexit - Stay in the EEA and Customs Union, or never-ending transition | Brexit reversed |
|-----------------------------|--|--|--|---|---|--|
| How could it happen? | Theresa May loses a confidence vote and a Brexiteer becomes PM. They call a general election and win a majority. Britain leaves without a deal in March 2019. | The E.U. offers the U.K. only a straight choice between being inside or outside the Customs Union. Mrs. May sticks to her red lines and opts to leave the Customs Union. | The E.U. offers the U.K. only a straight choice between being inside or outside the Customs Union and single market. Mrs. May opts to stay fully in the Customs Union, but to leave the Single Market. | The PM's plan has three parts. First, the U.K. would apply the common external tariff to goods arriving from non-EU countries, enabling them to travel on freely to the EU. The U.K. could set a lower tariff if the goods stayed in Britain. Customs checks would be minimised through new tech and "trusted trader" schemes. Second, the U.K. would follow single market rules for goods. Third, it would let EU citizens work in the U.K. in return for some market access for services firms. | The EU sticks to its principles and does not allow the Single Market to be broken up. The government and the public become more fearful of the impact of a hard Brexit. No other option solves Irish border issues. Alternatively, the Tories implode or delay Brexit until after the next election, which Labour wins. | The government or parliament decides to check that the public supports an agreed Brexit deal. The public changes its mind, as opinion polls currently suggest they would. |
| Obstacles | More than 50% of MPs would have to vote Mrs. May out. The Tories' poll lead likely would vanish if another election was called. Most voters don't want a no deal Brexit. | Not enough support in parliament. The EU will insist that Northern Ireland is treated separately, which the DUP won't accept. Bureaucracy will cost businesses at least £20B per year. | Doesn't preserve the status quo in Northern Ireland. Services firms will be shut out of the single market. | Mrs. May likely will need MPs from other parties to get her plans through parliament. She might lose a confidence vote if 48 Tory MPs call one. The EU thinks the plan is "unworkable". It has concerns about fraud and the as-yet unproven technology proposed. The EU will insist on the ECJ having the final say in enforcing single market rules, which most Brexiteers won't accept. | Eurosceptics likely will trigger a leadership contest, which Mrs. May might lose if fewer than 50% of MPs back her. Public concern about immigration is low now, but might surge if free movement continues. | Neither the Tories nor Labour want another referendum. Another referendum would take about three months from start to finish, which could be a problem if the E.U. did not allow the Article 50 period to be extended. |
| Likelihood | 5% | 10% | 15% | 15% | 40% | 15% |
| Effect on MPC | Weak demand would outweigh the supply shock. The MPC would cut rates to 0%, do £100B more QE and restart the TFS. | Bank Rate on hold at 0.50% for foreseeable future. | The MPC assumes a middle-of-the-range Brexit, so they would stick to plans for 75bp of tightening over three years. | Enables the MPC to raise Bank Rate at a slightly faster pace than it currently expects. We would anticipate three rate hikes spread across 2019 and 2020. | Enables faster tightening than the MPC currently expects. We envisage two 25bp rate hikes every year from 2019 until Bank Rate hit 2.5%. | Enables faster tightening than the MPC currently expects. We envisage two 25bp rate hikes every year from 2019 until Bank Rate hit 2.5%. |
| \$/£* | \$1.15 | \$1.25 | Less market access than now priced-in; \$1.30 | The PM's plan is largely but not fully priced-in; \$1.35 | \$1.40 | \$1.42 |
| 2-year gilt | 0% | 0.40% | 0.75% | 0.90% | 1.00% | 1.00% |
| FTSE 100^ | 8,000 | 7,850 | 7,750 | 7,650 | 7,550 | 7,500 |

* All financial market forecasts are for March 2019. ^ The FTSE 100 would rise in Hard Brexit scenarios as the pound's depreciation would boost the sterling value of large companies' overseas profits.