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| Equity Research;What is the new Brexit deal? | | ../../../../Downloads/css-logo.png |
| |  | | --- | | Research Report | | Report Date | | 18th October 2019 | | Analyst | | Ravi Lockyer MSc Llb ASCI  Collins Sarri Statham Investments Ltd | | Key Risks to Price Target | | Not applicable  *Please note the risk warnings and disclaimers on the last page of this document.* | |  | | **UK/EU “Brexit” deal; what has changed?**  What precisely has been agreed between the UK and the EU?  The “Irish backstop” has been removed from the new text and replaced with a customs border in the Irish Sea that will come into existence if the UK and EU do not conclude their main trade deal before the end of the transition period.   1. **Article 4** “Northern Ireland is part of the ‘customs territory’ of the UK” 2. **Article 5** **i)** “No customs duties are payable for goods brought into Northern Ireland from the UK unless that good is at risk of subsequently being moved into the Republic of Ireland whether by itself or forming part of another good following processing”   **Article 5 ii)** “EU law concerning goods shall apply to UK in respect of Northern Ireland” - This means when it comes to the regulation of goods Northern Ireland would keep to the rules of the EU’s single market not UK rules removing the need for product standard/ safety checks. The UK shall collect VAT and excise duties on behalf of the EU   1. **Article 12 i)** UK is responsible for implementing and applying provisions of EU law 2. **Article 18 ii)** “Democratic consent in Northern Ireland in a manner consistent with the 1998 Agreement” (the Good Friday Agreement). The first vote can only happen until four years after the end of the transition period (i.e. January 2025)   **The “transition period” stays in place**  Whilst the UK/ EU deal envisages the UK’s departure from the EU on the 31st October 2019, the next step is a transition period, which will last until December 2020.  During the transition period the UK will need to abide by EU rules and pay into the EU budget but will lose membership of its institutions. The transition can be extended but only for one or two years if both the UK and EU agree. The UK will remain in the customs union and EU’s single market during the transition period.  Freedom of movement rules will continue to apply during the transition and anyone remaining in the same EU country for five years will be allowed to apply for permanent residence.  **The political declaration (small revisions)**  The new declaration says the UK and the EU should “uphold the common high standards in the areas of state aid, competition, social and employment standards, environment, climate change and relevant tax matters”. This removes the previous text calling for a “level playing field” that had been criticized as binding the UK too closely to EU regulations in the future.  **Will it pass the House of Commons?**  Tomorrow for the first time in 37 years, the Commons will sit on a Saturday. This is a significant vote, but what precisely has changed in terms of voting intentions since the last PM’s withdrawal bill which was voted down by a record 432 votes v 202 on 15th January 2019. The passage of the EU Withdrawal Bill failed to secure support three times prompting Theresa May’s departure. PM Boris Johnson needs 320 votes but has clear support from 259 MPs hence will require 61 votes.  There are significant moving parts on this occasion to consider:-   1. European Research Group –a 28 strong group led by Steve Baker appears supportive of PM Boris Johnson’s new deal though might be influenced by the DUP 2. Independents; shortly after the arrival of new leadership at no.10 a dismissal process that resembled a “purge” began that saw the removal of the whip from leading moderates within the Conservative party including Philip Hammond, Nick Soames, Alistair Burt, Ken Clarke etc. This is a 20 strong group, 3 of whom have said they are unlikely to support a deal in any circumstances because they want a second referendum. 3. DUP – 10 strong group said they will not support the new deal apparently because they have not been allowed a veto over the Stormont vote (which will be determined by a majority vote. 4. Labour support – possibly 19 Labour MP’s might support the new deal but as on previous occasions when significant predicted support failed to materialize, this has been the object of speculation and is impossible to ascertain.   Boris Johnson has made many enemies in climbing the greasy pole. This will be an exceptionally close vote. Gun to my head, I really cannot predict the outcome.  **UK market response**  Recent events have been sterling driven, with a diverse group of UK focused companies rising by 10%-20%. I would venture that at least half of these gains are vulnerable if the vote fails/ “Brexit” is delayed.  The corollary has been a sell-off of c. 5%-10% in an equally diverse group of global multinationals, the very large cap stocks that largely determine blue chip index performance. This group would recover quickly if the vote fails.  The vote could fail and portfolios would be back to the situation since the 2016 Brexit vote, with global multinationals delivering returns and UK companies lagging. Conversely a successful vote could see further upside in UK companies (2%-5%) and similar reduced downside in multinationals. | |
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