

BREXIT

Through the Looking Glass

After a number of dramatic votes in parliament and a short delay to leaving, we take a look at the way ahead for Brexit and the pound.

Reading the recent news headlines has felt like being Alice in Wonderland, with a rapidly changing landscape and sometimes confusing developments. Brexit appeared to be in sight, but it appeared as a door that the UK couldn't fit through. However, a flood of historic votes in parliament carried the UK closer to the promised conclusion.

'Eat Me', 'Drink Me':

sterling shrinks and grows as parliament votes on Brexit

The successive votes on Brexit led to a volatile week for the pound, which rose and fell with each new development.

On 12th March, the pound rose to fresh highs on hopes that there would be an end to the Brexit uncertainty. Confidence waned throughout the day, particularly after the Attorney General weighed in on the legal impact of proposed changes to the Irish backstop. In the end, the bill was voted down by a majority of 149 and the pound started to make gains as the market anticipated the next vote. There was a majority of just 43 to rule out a 'no deal' Brexit, and the bill is not legally-binding, but it was enough to counter the losses to the

pound ahead of the vote, and sterling stabilised. There was a sense of cautious optimism in the market, which benefited the pound, but much relied on the final major vote of the week regarding an extension to the departure deadline. MPs voted by 413 to 202 to request the delay and this was good news for the pound as the market heaved a sigh of relief and held steady the following day. The extension was granted by the EU on 22nd March. As the delay is not without stipulations, it is not all plain sailing ahead.

Late for a very important date

While the market may feel like a crisis has been averted this week, there is still a lot of uncertainty ahead.

The Prime Minister plans to put her deal to parliament once more in the week commencing 25th March, should it be deemed acceptable by the Speaker John Bercow. If the deal is agreed, the UK will leave the EU on May 22nd. However, if the deal is rejected for a third time, a plan must be set out to the EU by 12th April or the UK must leave without a deal. Whether this plan would be a further extension of membership or seeking a new deal entirely, this remains to be seen and could spell further volatility for the pound. Either way, the clock continues to tick towards the Brexit deadline.

Six impossible things before breakfast

- what next for Brexit?

With the EU having granted an extension of Brexit until 22nd May, the ball is back in parliament's court and giving them a decision over three choices to make. Those are: agree to Theresa May's deal, leave the EU without a deal or seek an alternative arrangement and set out a plan to the EU.

The extension granted by the EU allows the UK to leave on the 22nd May should MPs vote in favour of Theresa May's deal. With a vote widely expected for the week beginning the 25th March, subject to permission by Speaker John Bercow, we will soon know whether the deal the PM has negotiated will be the deal that delivers Brexit.

If the deal is rejected by Parliament, then MPs will need to vote on whether to leave the EU without a deal on 12th April 2019 or whether to set out an alternative plan to the EU. What this would comprise remains unknown, with a number of outcomes all possible. This outcome could see negotiators returning to the drawing board, considering something like the 'Norway deal' which will require greater involvement with the EU.

While a second referendum was ruled out by parliament this week, it may still be on the cards if the deadline is extended and more direction on the will of the people is considered necessary.

Given that Article 50 can be revoked at any point, cancelling Brexit altogether is still a possibility with the longer extension. There may be considerable political wrangling to reach this point, but it could still happen. The other possibilities that emerge from a longer extension all involve a change at the top. If a vote of no confidence is placed before the government, or two thirds of MPs agree to call an election, then there could be significant changes to leadership that take the negotiations right back to the start.

Off with their heads! Could Brexit cause another election?

Politicians and the public may consider a general election a distraction from the delivery of Brexit but there is a possibility that it can't be avoided.

Within parliament, there is a sense of frustration with Theresa May that is being seen as diminishing party loyalty, further resignations and defiance of the whip. The resignations of MPs from the Labour and Conservative party have created a new faction of independent MPs who also have the potential to change the political landscape. A change at the top may dramatically alter the trajectory of Brexit, sending the UK back to square one.

Is there a happy ending in store for sterling?

Since the referendum result, the fate of the pound has been closely tied to that of Brexit. These latest developments do benefit the pound in the short term, as the concern over a 'no deal' Brexit is diminished.

However, over the longer term, the picture is less certain. Like Tweedledum and Tweedledee, the projections for sterling go back and forth without a clear conclusion. What is clear is that there is likely to be ongoing volatility while the situation remains uncertain. The market appears to favour avoiding the no deal scenario, so if that is taken off the table it could be a positive for the pound. In the meantime, the pound is

likely to be vulnerable to reports and rumours of developments, setbacks or changes to the Brexit situation. Major changes to the timeline, the deal or the process of Brexit may alter the picture quite dramatically. A general election or a referendum brings in an even greater number of variables and unknowns and this could also put pressure on sterling.

The time has come, the walrus said, to talk of many things

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In addition, you can track specific exchange rates with alerts via email and SMS. Our Feefo award-winning team can provide insight and support for all your international payments over the phone, online and via the mobile app. The picture presented by Brexit remains unclear but the moneycorp team are focused on unravelling all the latest developments in the currency market to deliver great value international payments to our customers.

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