

FIXED INCOME

Still No Roadmap to a Brexit Resolution as EU Offers Another Extension

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Brexit may have been delayed again. The European Union has offered to allow the United Kingdom more time to decide how it wants to leave. While the measure may prevent a no-deal Brexit in the short term, our Head of European Fixed Income David Zahn thinks it may simply be saving up problems for the future.

The European Union's offer to delay Brexit until October 31 has also extended the uncertainty surrounding the whole saga. And financial markets hate uncertainty.

We regard this extension offer as another case of the authorities kicking the can down the road. There doesn't seem to be any agreement of how to come to a conclusion.

The big outcome is continued uncertainty for markets. It likely means the pound will remain under pressure and at the whim of the political headlines of the day. UK government bonds will likely remain sought-after as investors await an outcome.

No-Deal Brexit Remains a Possibility

The main driver of the UK request for a Brexit extension and the EU's offer seems to be the desire to avoid a no-deal Brexit.

But the fact remains a no-deal Brexit continues to be a possibility.

Even though Europe has offered an extension, it still has to be ratified by the UK Parliament.

We don't think it's as clear cut as some people are predicting. One of the conditions of the extension offer is that the United Kingdom must take part in European Parliament elections in May. That is likely to irk more hardline Brexiteers, and we expect there will have to be some persuasion applied to get the measure through the House of Commons.

And even the long extension doesn't eliminate the possibility of a no-deal Brexit. It could still occur at the end of the extension if no progress has been made.

Questions over UK Leadership Succession

While it is clearly not in the Conservative Party's interest to call a general election in the current circumstances, it's difficult to see how Theresa May could remain as UK prime minister in light of a long Brexit extension. We feel she could probably have survived until the end of June if the EU had granted her request for a short extension.

We now expect her to step aside and the most likely outcome seems to be that a more hardline Brexit supporter will take over the reins. That will likely bring a different approach to negotiations with Europe.

Europe has insisted it will not renegotiate, but circumstances may change over the course of the next six months.

During that time, we expect continued uncertainty will likely contribute to more volatility—both in the markets and politically.

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