

72 Shopping Days to a No Deal Brexit: The Mexican stand-off continues

The British Government's defeat in the Meaningful Vote by 230 votes (with 202 in favour and 432 against) is the biggest defeat suffered by a Government since records began and is at the very top end of where expectations were set ahead of the vote.

MPs will now debate a motion of no confidence in the Government which – with both the DUP and the European Research Group confirming that they will support the Government – will undoubtedly be defeated.

The next real staging post will, most probably, be next week when, thanks to Speaker John Bercow's ruling last week, the Government has to table a motion in the House by Monday. Note that it doesn't need to be a new plan, or a new negotiating strategy. Rather, the motion could simply seek the support of the House to continue the negotiations and – crucially – it will not necessarily be voted on.

The complicating factor in analysing 'where next from here?' is the impossibility in predicting what John Bercow will do. Some say he will continue to rewrite the Parliamentary rule book. Others suggest that the notion of a "Parliamentary coup" was exaggerated, and simply an attempt by No.10 to frighten Conservative MPs into supporting the Withdrawal Agreement.

It is worth remembering that motions tabled by the Opposition or back-benchers cannot overturn statute law. And even if the Speaker adjusted the rules to allow a Private Members' Bill to propose changes to the negotiating strategy or a second referendum, it would still require a Money resolution tabled by the Government for it to become law.

The only outcome that is currently on the statute book is for Britain to leave with No Deal on the 29th March, so this remains a real possibility, and possibly the most likely outcome.

Some commentators are suggesting that the Government's defeat was so large that the EU will conclude that there is no point in offering any further concessions because nothing will satisfy Parliament. I disagree with this, because I am picking up a greater desire from the governments of various Member States to avoid a No Deal Brexit.

What I expect to happen is for the EU to shift its position and offer to add a legally binding protocol to the Withdrawal Agreement setting a time limit on the backstop. The Danish protocol to the Maastricht Treaty, agreed in the wake of its initial referendum defeat, provides a precedent for this outcome.

If a legally binding protocol is proposed, this might be enough to bring the DUP onside, which could well reduce the Conservative rebellion from the 118 it was last night, to something more like 20-25. At this level, the Meaningful vote could pass through the House. (Although

Senior Political Adviser

Matthew Elliott
020 7408 4080
matthew.elliott@shorecap.co.uk

the legislation to put the Withdrawal Agreement on the statute books would still be a lengthy process and could well be scuppered by the sheer number of knife-edge votes.)

What are the other possibilities? I doubt there will be an early election. Theresa May was burned badly by the 2017 general election, so I can't see her making this mistake again. And very few Conservative MPs want to risk their seats in an early election. (The Conservative Party has a six-point lead in the latest YouGov poll, but voters traditionally don't back divided parties.)

As for a second referendum, I don't think there are the numbers in Parliament to pass the necessary legislation. Corbyn is lukewarm on the idea, and it would splinter the Conservative Party.

The ball is now very much in the court of the European Union. A No Deal Brexit would have significant implications for the Irish border, which has become the totemic issue of the Brexit negotiations. Last night's vote has therefore ratcheted up the pressure on Germany (heading towards a technical recession) and Ireland (which remains heavily reliant on the UK economy).

If the EU proposes a legally binding protocol to the Withdrawal Agreement on the backstop, I can see a new Meaningful Vote passing. If it doesn't, the stage is set for a No Deal Brexit. The Mexican stand-off continues.

Matthew Elliott is Shore Capital's Senior Political Adviser, and tweets @matthew_elliott

CONFLICTS OF INTEREST

Shore Capital maintains a Conflicts Policy which explains how conflicts are managed. A summary of the Conflicts Policy is available at www.shorecap.co.uk. For details of potentially relevant conflicts of interest (if any) on a specific stock whether disclosed in this research report or not, please refer to the following table or contact Shore Capital's compliance department on 020 7408 4050:

Company	Disclosures	Date	Recommendation
---------	-------------	------	----------------

Disclosures

^ Independent Research:

This is independent research. The analyst who has prepared this research is not aware of Shore Capital Stockbrokers Limited and/or another member of the Shore Capital group ("Shore Capital") having a relationship with the company covered in this research report and/or a conflict of interest which is likely to impair the objectivity of the research and this report should accordingly be viewed as independent.

+ Non-Independent Marketing Communication:

This is a non-independent marketing communication. The analyst who has prepared this report is aware that Shore Capital Stockbrokers Limited and/or another member of Shore Capital has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research. Accordingly the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

REGULATORY DISCLOSURES

It is the policy of Shore Capital Stockbrokers Limited not to make recommendations on companies for which it acts in an advisory capacity. Where this is the case, research reports refer to "House Stock". The reference to "Price" on the front cover of formal research reports is to the current price as at the date of the research report. The date and time when the production of the report is completed is the date and time stated on the relevant report.

Recommendation History:

For a list of all research recommendations of Shore Capital analysts and sales persons disseminated in the previous 12 months, please contact compliance@shorecap.co.uk or your usual Shore Capital contact.

Stock Recommendation Definitions:

Buy 10%+ absolute performance within 3-months or otherwise as specified.

Hold +/- 10% absolute performance on a 3-month basis or otherwise as specified.

Sell -10% absolute performance on a 3-month basis or otherwise as specified.

Valuation, Methodology and Assumptions:

For a summary of the basis of valuation, methodology and/or underlying assumptions used to evaluate the company covered in this research report, please click on the following link <http://shorecap-disclosures.co.uk/methodology/methodology.pdf> or contact your usual analyst or sales person at Shore Capital. For information on changes in valuation, methodology or underlying assumptions related to this research report (if any) please contact your usual analyst or sales person at Shore Capital.

Proprietary Models:

Shore Capital analysts typically utilise proprietary models to produce research reports. Information on the specific proprietary models used for the company or companies covered in this research report is available by contacting your usual analyst or sales person at Shore Capital.

Research Distribution

Shore Capital Stockbrokers covers 160 "non-house" stocks. There is a Buy recommendation on 67 (42%) stocks, a Hold recommendation on 60 (38%) stocks, a Sell recommendation on 7 (4%) stocks. Shore Capital Stockbrokers covers 213 stocks (non-house and house). The breakdown above only applies to 'non-house' stocks.

Lead Analyst:

The lead analyst with respect to each research item is the first and most prominent name. Please note that more than one analyst may work on a specific research item.

Planned Frequency of Updates:

Recommendations in Shore Capital research reports are kept under constant review. As such, there is no formal timetable for the review of such recommendations.

DISCLAIMER

The issue of this report is not necessarily indicative of long term coverage of the stock. Hence, updates may or may not be issued in the future. This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities, or related financial instruments. It does not constitute a personal recommendation as defined by the Financial Conduct Authority ("FCA") or take into account the particular investment objectives, financial situations or needs of individual investors. The recipient of this information must make their own independent decisions regarding any securities, or financial instruments mentioned in this report.

The information above is obtained from sources considered reliable. However, the accuracy thereof cannot be guaranteed by us. Shore Capital or any of its associated companies (or its or their employees) may from time to time hold positions in the above equities as principal, and may also perform corporate advisory services for these companies. Share prices can go down as well as up and past performance is not necessarily a guide to the future. Some investments may require you to pay more money than the cost of the investment. The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes in exchange rates. Levels and bases of taxation may change.

This document may not be reproduced or further distributed to any person (including the media) or published in whole or in part, for any purpose. The material in this document is not intended for distribution or use outside the European Economic Area or Switzerland (with the exception of the United States) and may not be published, distributed or transmitted to persons in Japan, Canada or Australia. This material is not directed at you if Shore Capital is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you.

In the United Kingdom this document is being distributed only to, and is directed only at, persons who are (i) investment professionals falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order") or (ii) high net worth entities falling within articles 49(2)(a) to (d) of the Order or (iii) any other persons to whom it may be lawfully communicated (all such persons being referred to as "relevant persons"). This document is addressed only to, and directed only at, relevant persons and qualified investors within the meaning of the Prospectus Directive (2003/71/EC, as amended) and must not be acted on or relied on (i) in the United Kingdom, by persons who are not both relevant persons and qualified investors or (ii) in any Member State of the EEA other than the United Kingdom, by persons who are not qualified investors. Any investment or investment activity to which this communication relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire any securities referred to in this document will be engaged in only with, in the United Kingdom, relevant persons who are also qualified investors, and in any Member State of the EEA other than the United Kingdom, qualified investors.

The views expressed in this document accurately reflect the research analyst's personal views about any and all of the subject securities and the company on the date of this document. Any opinion or estimate expressed in this document is subject to change without notice. Shore Capital may act upon or use the information or a conclusion contained in this document before it is distributed to other persons. None of Shore Capital Stockbrokers Limited or any member of Shore Capital, or any of its or their directors, officers, employees or agents accept any responsibility or liability whatsoever for any loss however arising from any use of this document or its contents or otherwise arising in connection therewith. By accepting this document, you agree to be bound by the foregoing limitations.

The following applies if the company is quoted on "AIM" – defined as the AIM Market of the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority, consequently AIM investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

DISTRIBUTION IN THE UNITED STATES

This investment research is prepared and distributed in the United States by Shore Capital Stockbrokers Limited (Shore Capital) and, in certain instances, is distributed on behalf of Shore Capital by Enclave Capital LLC (Enclave), a U.S.-registered broker-dealer, only to major U.S. institutional investors, as such term is defined by Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission (SEC). This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to Shore Capital or to Enclave. Analyst(s) preparing this report are employees of Shore Capital who are resident outside the United States and are not associated persons or employees of any U.S.-registered broker-dealer. Therefore, such analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority (FINRA) or to Regulation AC adopted by the SEC which, among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Enclave. Enclave is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 19 West 44th Street, Suite 1700, New York, NY 10036 and its telephone number is 646-454-8600. Shore Capital is not affiliated with Enclave or any other U.S.-registered broker-dealer.

Shore Capital Stockbrokers Ltd. is authorised and regulated by the Financial Conduct Authority. Member of the London Stock Exchange.
Registered in England and Wales at Bond Street House, 14 Clifford Street, London, W1S 4JU. Registered No. 01850105.
Member of the Shore Capital group

©2019 Shore Capital Stockbrokers Limited

London Office

**Bond Street House
14 Clifford Street
London W1S 4JU
T: +44 (0)20 7408 4080**

Liverpool Office

**The Corn Exchange
Fenwick Street
Liverpool L2 7RB
T: +44 (0)151 600 3700**

Edinburgh Office

**76 George Street
2nd Floor
Edinburgh EH2 3BU
T: +44 (0)20 7079 1670**