

# Brexit: It Ain't Over till It's Over

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

The **EU Summit** wrapped up with both sides not budging from their corners. Commentary from the various leaders was fairly consistent... they're 100% united in their desire for a deal, but it won't happen at any cost, so they're ready for no deal. But the throwing of the ball into the U.K.'s court clearly ruffled feathers in Britain. Telling the U.K. that it needs to "*make the necessary moves*" came as a "*surprise*" to British negotiator David Frost, who expressed his "disappointment" that the EU wasn't working "*intensively*" to a future partnership. So, it was no surprise to hear PM Boris Johnson's reaction. He told the British people to "*get ready for a no-deal style exit in January*" but not to worry. They will "*prosper mightily*".

It has been over four years since the referendum and a post-transition trading arrangement remains far off. Talks will supposedly continue for two more weeks, and EU officials will make their way to London this weekend, suggesting there is a will to compromise. But, there won't be a warm reception... PM Johnson's spokesperson told the EU's Michel Barnier not to bother coming unless all of the issues will be discussed. Tempers are running high but it is still in the best interests of both sides to arrive at an agreement. And it is possible to do that and save face. In fact, PM Johnson is doing so by calling for an Australia-style deal, which sounds better than saying that there is no deal. Australia does not have a formal comprehensive free trade agreement with the EU, but has been engaged in talks to have one since 2018. In that event, British exports and imports will be subject to WTO tariffs and new regulations, which will come as a shock to a system that has been accustomed to freely flowing trade across Europe.

**There is still hope, as long as the talks continue.** It is well understood that a hard Brexit will be an unwanted slam to Europe, coming at a time when countries are attempting to control the second wave. And these controls threaten to cut the recovery from the first wave short. In the U.K., PM Johnson has the new 3 tier local restrictions plan (though he is facing a tall challenge in getting local officials on board); in France, curfews in nine cities will restrict movement; in Germany, restaurants and bars will close between 11 pm - 6 am; they'll be closed outright in Catalonia; there's a national state of emergency in Portugal; and Northern Ireland just started a 4-week lockdown. The list goes on.

It ain't over till it's over.

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