



Brexit

The Initial Reaction

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1 Overview

This morning it was declared that the UK had voted to leave the EU by a margin of 52% to 48% - Leave won 17,410,742 votes and 16,141,241.

As with last year's General Election, neither bookmakers, opinion polls nor the majority of political commentators predicted the result correctly. Indeed, prior to results being declared in the early hours of Thursday morning, the markets had reacted positively to a number of opinion polls, showing increasing confidence that the British public would vote Remain.

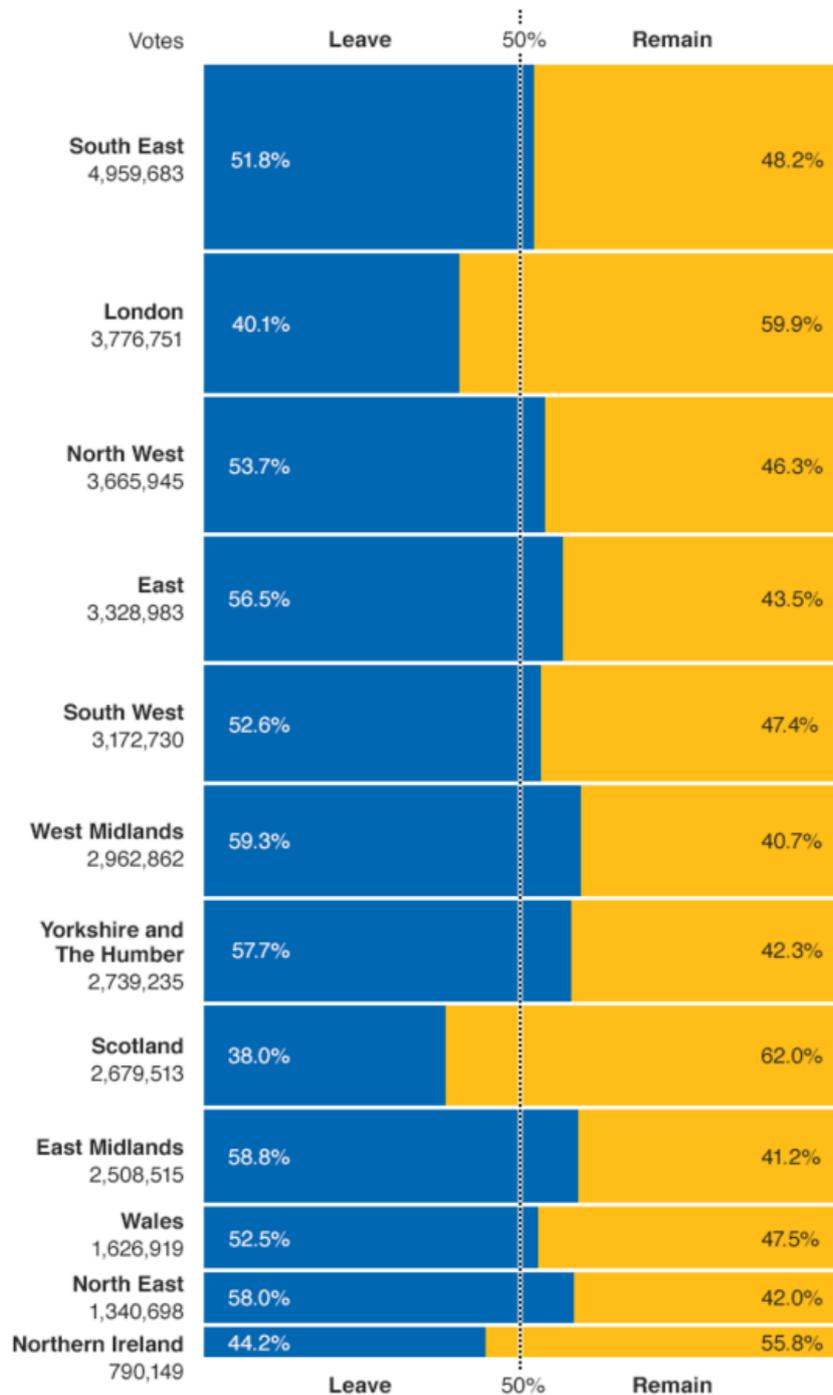
London and Scotland voted overwhelmingly for Remain, with Scotland voting to remain in the EU by a margin of 62% to 38% and voters in London voting in favour of Remain by 59.9%.

The Leave vote greatly outperformed expectations in almost all parts of the country, other than London and Scotland, and performed particularly well in traditional working class Labour areas in the north of England where frustration with politicians and the establishment is thought to be most prevalent. Additionally, as widely expected, older people were much more likely to vote for Leave, with more accurate opinion polls estimating that 60% of over 65s supported Brexit.



Although parts of London recorded incredibly high remain votes, almost 79% in both Lambeth and Hackney, this was not enough to counteract the strength of the Leave performance in the rest of England and Wales.

Despite the vote to Leave, the United Kingdom will continue to be a member of the European Union and will continue to participate in the activities and institutions of the EU in the short term. Once Article 50 (the formal legal mechanism for leaving the EU) is triggered, withdrawal negotiations will begin. These will last for two years, although this can be extended if there is unanimous agreement from all other Member States.



Source: BBC



2 Reaction

2.1 Conservative



At about 8.30am this morning David Cameron stood outside Number 10 and resigned as Prime Minister, stating that he feels that there is a need for 'fresh leadership'. Both Michael Gove and Boris Johnson, when speaking from the Vote Leave headquarters this morning, paid tribute to Cameron, with Boris describing him as 'a brave and principled man'. Many were surprised by

Cameron's decision, especially in light of the 85 Tory MPs who wrote to him prior to the outcome of the referendum calling for him to stay no matter the outcome and his pledge not to reply.

Following Cameron's announcement, it appeared as though many from the Conservative Party seemed to be singing from the same hymn sheet for the first time in months, with many MPs and Ministers saying that the rhetoric used during the campaign needs to come to an end and it is time to unite and act on the decision that the people have made – that of leaving the EU.



Michael Gove and Boris Johnson stood united behind the fact that this was the right decision for the UK - with Boris believing that 'we can find our voice in the world again – one that is commensurate with the fifth largest economy in the world'. This call was echoed by Gove.

'Blue-on-blue' attacks have become commonplace over the last few months and they are certain to continue as a leadership race gets underway and the Government works out what the full consequences of today's result are.

2.2 Labour

Last night's result, having already taken out one party leader, looks poised to take another. Following a lack-lustre performance for the Remain campaign, coupled with the surge in the leave vote in traditional Labour heartlands, Corbyn's leadership is being seriously questioned.



Despite a leaked internal Labour briefing note, which instructed MPs to paint Corbyn as "uniquely placed" to understand the British people and the reasons they voted to leave, Labour MPs are readying themselves to remove their leader.

Two senior MPs, Margaret Hodge and Ann Coffey, have submitted a letter of no confidence to the chairman of the Parliamentary Labour Party, John Cryer MP. The motion has no formal constitutional force but calls for a discussion at their next PLP meeting on Monday, whilst it will be up to the PLP chairman to decide whether it is debated, it will likely be accepted and be followed by a secret ballot of Labour MPs on Tuesday to express their lack of confidence in their leader.

On top of this, one senior MP has revealed that the 51 MPs needed to back a new leadership contender were ready to stage a coup. Under the plan, the 51 MPs will send individual letters to party General Secretary Iain McNicol, after which the party will stage a special conference and ballot timed to have a new leader in place by September.



2.3 The Future of the UK - Scotland



Nicola Sturgeon spoke in Edinburgh and stated a second Scottish referendum was now highly likely in wake of the Brexit vote. She expressed her deep regret for the decision, particularly in light of the 62% of Scottish people who voted to remain. She highlighted that this was a stark indication of a growing divergence within the nations of the United Kingdom and a growing disaffection of the political establishment. The Scottish First Minister stressed that the decision to leave the EU was democratically unacceptable to Scotland and the result had created the significant and material change within the political and economic environment to trigger the option of a second independence referendum. She added "I intend to take all possible steps and explore all possible options to give effect to how people in Scotland voted - in other words to secure our continuing place in the EU, and in the single market in particular."

Whilst she gave no timeframe on a second independence vote, she has instructed the preparation of legislation around a new referendum to ensure that, if necessary, there would be adequate time for it to be held before the UK leaves the EU in the two-year time period that the rules dictate, once Article 50 is invoked.

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She stressed the need for the Scottish Government to be fully engaged in all UK negotiations around leaving the EU and was planning to engage with all the major European stakeholders to achieve the best possible outcome for Scotland.



SNP

Sturgeon intends to meet with the Scottish Cabinet tomorrow morning and will provide an update after the discussions. A statement to the Scottish Parliament will be provided on Tuesday.

2.4 The Future of the UK - Northern Ireland

Northern Ireland Secretary Theresa Villiers MP has ruled out Sinn Féin's call for a border poll on the reunification of Ireland, following 55.8% of the Northern Irish population voting to remain. She outlined her belief that the circumstances in which a border poll would be called under the terms of the Good Friday agreement had not been met.

2.5 UKIP

The UKIP leader declared the 23rd June as the UK's independence day and indicated it was a victory for "real people" against big business and big politics. He believed that a Brexit Government needed to be formed to negotiate Britain's exit from the EU and its future trade relationship. He outlined that the EU was failing, indeed dying and this was the first step in its demise. He added in his speech outside Parliament this morning "I hope this is the first step towards a Europe of sovereign nation states trading together, neighbours together, friends together, but without the flags, anthems or useless old presidents."



2.6 Europe

There has been universal shock from European leaders and some of the key reactions are below:

- A joint statement from Presidents of the European Parliament, Council and Commission (Martin Schulz, Donald Tusk and Jean Claude Juncker) [has been published](#). In the statement they acknowledged the result and said the UK should give notice of Article 50 and start negotiations as soon as possible. They also emphasised that all 27 Member States are determined to stay united and added that the UK will be expected to comply with all European legislation until it formally leaves and wants the UK to be a close partner going forward.





- The European Central Bank [published a press release](#) saying it was prepared to provide additional liquidity into the markets and “stands ready” to provide stability to the financial markets.
- European heads of state have also been publicly reacting, and a meeting will take place in Berlin on Monday to discuss the next steps. German Chancellor Angela Merkel expressed ‘deep regret’ at the result and called on Europe to be “calm and composed” and that the EU was strong enough to survive the departure of one its biggest members. She added that the EU needed a “close and fair relationship”, with the UK and French President Francois Hollande called for unity, saying it was time to reflect on what the EU stood for. Hollande said the result was a ‘grave test for Europe’, and is now facing pressure from Marine Le Pen to hold their own referendum, a call echoed in Denmark, Holland and Italy.
- The UK’s nearest neighbour Ireland also reacted with shock, with Taoiseach Edna Kelly pledging that the Irish state will do everything it can to protect the Irish national interest and the medium term priority was the preservation of the common travel area.



2.7 The Markets

Markets have reacted unfavourably to this result, with the pound dropping to its lowest value since 1985 overnight, and markets at home and abroad experiencing high levels of volatility.

At the time of writing, equities are down across the board. The FTSE fell by a peak of 8.7% but has since levelled to a drop of 2.13%. Most FTSE 100 companies have suffered a hit, with bank stocks amongst the worst affected. Additionally, the FTSE 250 fell as much as 12.3% at one point, before rallying to losses of 7.3%. The panic sweeping financial markets saw investors seek traditional ‘safe havens’ such as gold, which jumped 8.1% to a two-year high before settling to trade 4.5%. The Pound is currently down 8.1% against the dollar after at one stage being down 10%.



Market volatility has also spread across Europe, and the UK’s biggest European partners have experienced more severe drops, with France’s CAC-40 down 6.9%, Germany’s DAX down 6% and Italy’s FTSE-MIB down 11.2%. Spain’s IBEX 35 is one of the worst off, down 11.7%. In Asia, the Nikkei lost 7.9% and the Hang Sang fell 2.9%.



Stability was the name of the game since early this morning, and Bank of England Governor Mark Carney's speech seems to have helped a little. Carney assured the financial world that his team had prepared well for the impact of a vote to leave, and that the UK had far more reserves to draw on now than during previous crises. He announced that £250 billion will be made available to the banks to help combat the impact of volatility.

Volatility is expected to continue, and there is widespread uncertainty about what comes next. As companies, investors and commentators come to terms with today's events, they will now be focusing efforts on trying to decipher the likely duration, and intensity, of the impact that this uncertainty will have on investment and consumer spending in the UK.

3 Next Steps

UK:

- **Parliament:** Parliament returns on Monday 27th June.
- **Article 50:** David Cameron's successor as Prime Minister, who is expected to be confirmed before the Conservative Party Conference in October, will have the responsibility of triggering Article 50 (the formal legal mechanism of leaving the EU) and will also lead the withdrawal negotiations which begin at this point. Once Article 50 is triggered the Brexit process is irreversible and irrevocable.
- **Withdrawal negotiations:** These will take place between the UK Government and the European Commission and will be based on guidelines drawn up by the European Council without the UK's participation. EU leaders have called on negotiations to take place "as soon as possible". The negotiation process is set at two years, but this could be extended if there is unanimous support for this from all other Member States.

EU:

- **European Council:** The outcome of the referendum will be discussed by the European Council on 28-29 June 2016.
- **European Parliament:** This will meet on Tuesday morning at 10.00 to adopt a resolution assessing the outcome of referendum and describing the next steps for the institution.

Scotland:

- The First Minister of Scotland, Nicola Sturgeon MSP, today stated that the Scottish Government will begin preparing legislation to enable another referendum on Scottish independence.
- Sturgeon intends to meet with the Scottish Cabinet tomorrow morning and will provide an update after the discussions.
- A statement to the Scottish Parliament will be provided on Tuesday.