



This supports our baseline case – that the UK will vote, on June 23, to remain in the EU by a relatively narrow margin roughly similar to that of the Scottish referendum in 2014 (i.e. around 55%/45%). Until recently, the opinion polls had been showing broadly equal support for “In” and “Out” (40% each) with 20% unsure. However, polls have generally been moving in favour of the “leave” camp – the latest by YouGov shows a sizable rise in support for exit, as indicated in Figure 2 above.

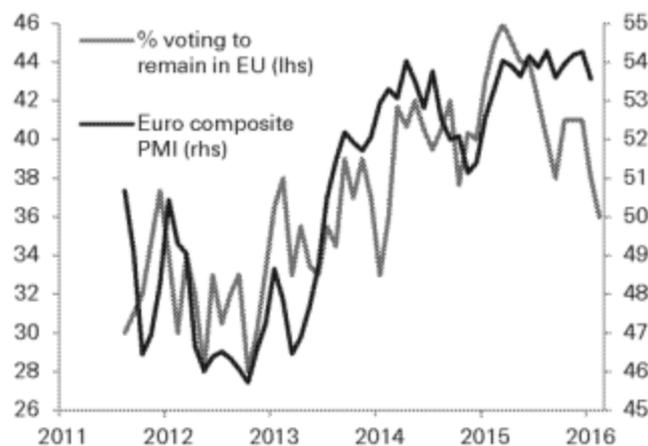
This should be heavily caveated, however. First, it is just one poll conducted soon after the announcement by Mr Tusk. Second, the polls shift far more substantially in favour of remaining in the EU if the PM is supportive of the EU deal and willing to campaign vigorously in favour of remaining in (which it seems he is). And finally, given the performance of the polls ahead of the Scottish independence vote and particularly last year’s general election, we should beware putting too much weight on the polls generally.

How did the EU agreement offered this week compare to Mr Cameron’s initial demands? On immigration, the UK requested that it stop in-work benefits to EU migrants until they have lived in the UK for four years. Instead, an “emergency brake” was offered allowing the government to initially exclude migrants from such benefits, then gradually rising over a four year period. The government wanted to ban child benefit to migrants’ children living overseas, but instead the EU requested that it be paid at the local (rather than UK) rate – which may prove a logistical effort for the government. On sovereignty, the UK requested a “red card” system to block legislation – this was accepted, with the caveat that 15 of the 28 parliaments would need to agree in order to take effect. There were also commitments allowing the UK to undertake no further political integration and for the EU to respect subsidiarity – ‘European legislation where necessary, national where possible’.

Economic governance and competitiveness reforms were less detailed, but a safeguard procedure was suggested allowing non-euro countries to halt legislation if they thought it was against their interests (versus the interests of eurozone countries) – though this does not go as far as being a non-euro veto and has not yet been fully fleshed out. The UK is also exempted from future eurozone bailouts and financial supervision/macro-prudential oversight.

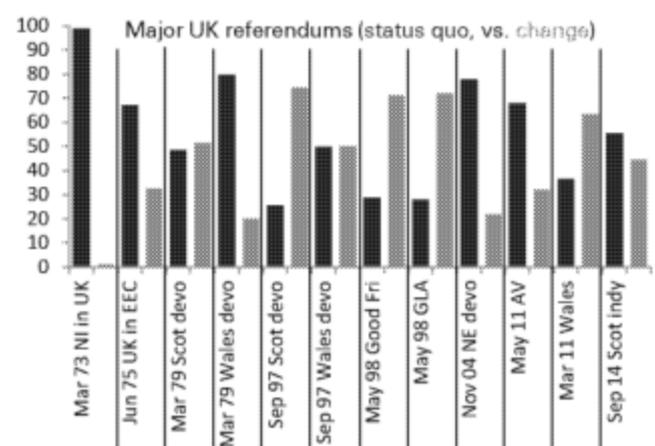
In summary – this week’s agreement goes quite some way to addressing the PM’s reform agenda, though in many cases the proposals are either watered down, require more detail, may yet be rejected by the European Parliament or are distant promises of treaty change.

Figure 3: Better European growth, more likely “In” vote



Source: Deutsche Bank, Markit, YouGov, Haver Analytics

Figure 4: Referenda rarely vote for regressive change



Source: Deutsche Bank, UK Parliament