

THE CONVERSATION

Brexit betting odds: lesson from Scotland is not promising for Leave

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Just before they burst. Andrea Obzerova

The runners and riders in the EU referendum are making the final turn into the home straight. Both teams are jostling for position and the race is becoming increasingly acrimonious. The Leave campaign has abandoned the economic arguments and instead is focusing almost exclusively on migration.

The Remain campaign continues to release dire warnings of a post-Brexit world that seems to include all ten plagues of Egypt except slaughter of the firstborn. Following some good polls for Leave in the past couple of days, the poll of polls currently points to a 50-50 dead heat.

Bookies too have been adjusting the odds offered as they seek to maximise their expected gain from the outcome. Over the last few weeks, this resulted in a substantial fall in the implied probability of a Leave outcome – and as I wrote in my previous piece about Brexit

odds, the weight of betting was far less promising for Leave than the opinion polls before that anyway.

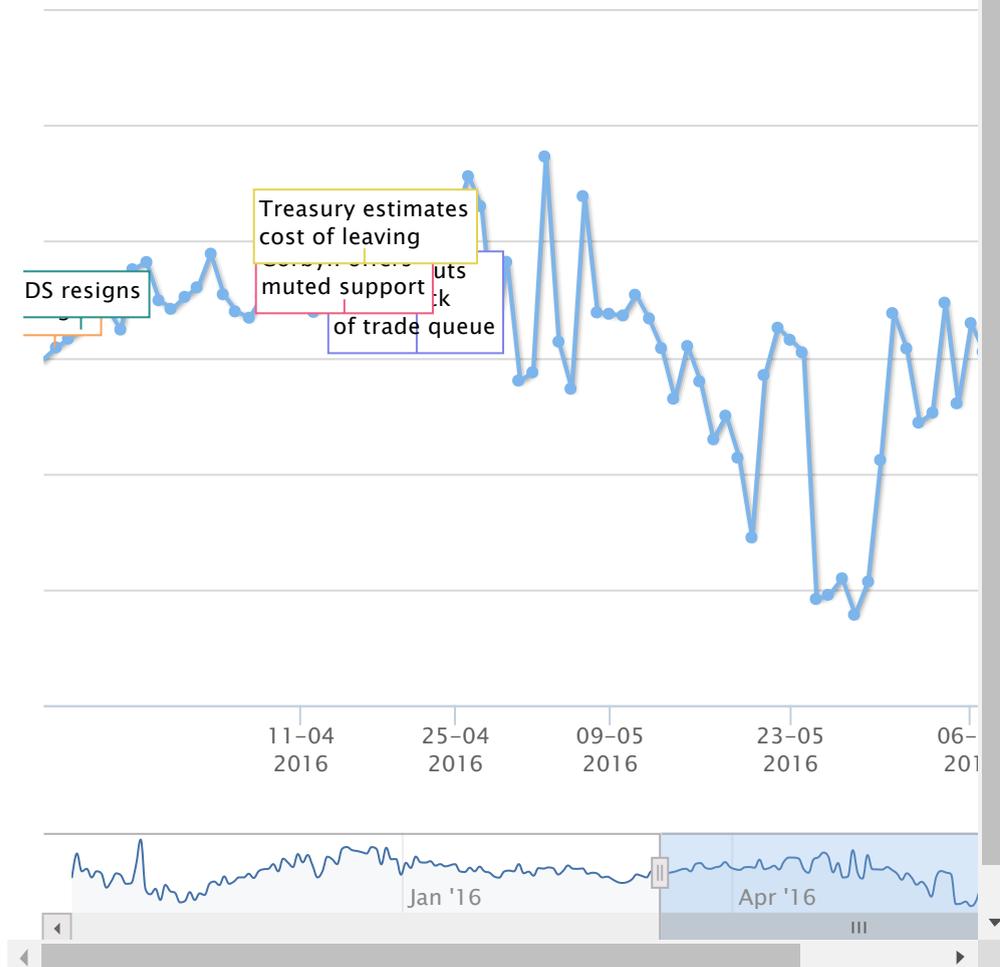
On April 26, the probability of a vote to leave from the oddschecker.com average of some 20 bookmakers' odds stood at 0.35, meaning slightly better than a one in three chance. By May 22 it had fallen to 0.22 or almost one in five. Perhaps the tsunami of warnings from national and international organisations of the economic consequences of Brexit was being factored into punters' assessments of how the vote will go.

Since then, the news for the Brexit camp has got slightly better. The slide was arrested on May 27 and there has been a modest recovery which took the probability of Brexit up to 0.30 by June 6. Perhaps punters were thinking the switch of emphasis to migration will carry more voter appeal: or that they are more confident of a high turnout among Leave supporters.

Prediction Odds for BREXIT

Source: own calculations based on www.oddschecker.com
University of Stirling Management School and Centre on Constitutional Change

Zoom 1m 3m 6m YTD 1y All From Mar 15, 2016 To J



Of course, these predicted probabilities do not mean that a Leave outcome will not occur – just that it is seen as rather unlikely. They reflect all of the information available to punters. This may be drawn from a wide variety of sources – opinion polls, press coverage, personal contacts and so on. The point has been made elsewhere that punters are not representative of the population as a whole. But they don't need to be to use this information intelligently.

Indeed, not all those betting need to act in an informed way. So long as there are sufficient well informed punters willing to place their bets where they see an opportunity for gain

based on the current odds, the odds will come to reflect the underlying chance that the event occurs (with the small complication that bookies always build in a profit margin).

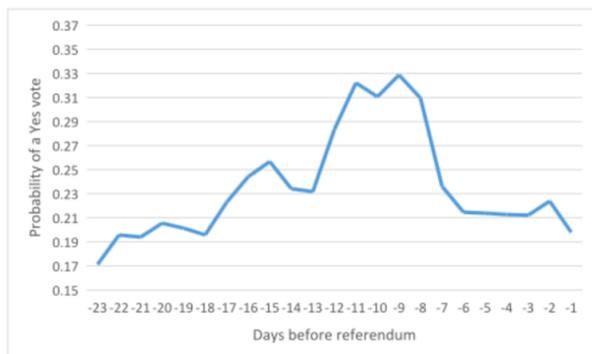
Will the odds change substantially over the remainder of the campaign? It seems unlikely that they can change sufficiently to suggest that a Leave outcome is more likely than a Remain outcome. Nothing in the history of betting odds suggests that a swing of 24 percentage points is possible over a three-week period.

Ecosse and effect

The Scottish referendum is a useful precedent. Events during the last few weeks included some surprises which perhaps punters had not anticipated. Most important was the closing of the gap between the Yes and No polling.

This had a dramatic effect on media coverage and on the politics during the run-up to the vote. It also influenced the bookies' odds (see graphic below), increasing the probability of a Yes outcome by 16 percentage points between the 23rd day and the ninth day before the polls. But then the upward momentum petered out and by the time of the vote the odds had fallen back to more or less where they had started.

Betting probability of a Yes vote in Scottish referendum



Source: oddschecker.com

On June 5, 18 days before the Brexit vote, the probability of a Leave vote stood at 0.30 or 30%. In Scotland, the probability of a Yes vote at the same point before the independence referendum was slightly lower at 0.20.

While the implied probability of the UK leaving the EU is currently higher than the implied probability of Scotland leaving the UK was at that stage, it will take a bigger and more sustained change of events in the last few days of the campaign than that which happened in Scotland to persuade bookies to offer anything like evens on a vote for Brexit.

To see whether Johnson, Gove and co can make it happen, bookmark this piece. The graphic on the EU referendum betting odds will keep updating as we near polling day.



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