An Early Challenge to the New PM?

• A no confidence motion in the new UK government is possible before the end of next month

• It could take as little as three rebel MPs to bring down the government

• Polling continues to show a sharply divided electorate

With the end of the first round of the UK Conservative Party’s leadership race due later this week and GBP coming under renewed pressure, it’s a good time to provide an update of the political risks facing GBP heading into the summer.

The Conservative Party leadership race

• Following the EU Parliamentary elections, there has been a noticeable pivot within the Conservative Party away from the approach taken by Theresa May’s government. The clearest sign of this has been the commanding lead established by former Foreign Secretary Boris Johnson in the current race.

• The final result of the leadership race is set to be announced the week commencing 22 July.

Could there be an early confidence vote in the new government?

• Yes. At present no date has been announced for when Parliament will rise. However, Downing Street has ruled out starting the summer recess before the new PM takes office.
• The Labour Party has said that it is “vital” that MPs have the opportunity to test the stability of the government.

• The Fixed-term Parliaments Act of 2011 created a five-year period between general elections. Early elections can therefore only be held in specified circumstances.

The first of these is that a motion for an early general election is agreed by at least two-thirds of the whole House or without division (as occurred in 2017).

The second is if a motion of no confidence is passed (by a simple majority) in the present government and no alternative government is confirmed by the Commons within 14 days.

• Were a no confidence vote to be called on July 23 and succeed and no alternative government formed within 14 calendar days then this would trigger a general election. The earliest this general election could take place would be 25 working days later. This would therefore mean the earliest the election could take place would be mid-September.

**What’s the current situation in Parliament?**

• **There are 650 elected MPs in the House of Commons.** The seven Sinn Fein MPs do not take their seats in Parliament and therefore do not vote. The Speaker along with his three deputies (one Conservative and two Labour) by tradition do not vote either.

• There are 312 active lawmakers on the Conservative benches. In addition there are 10 members of the DUP which supports the government by a confidence and supply agreement. The DUP has indicated it will support the next PM if the government faces an early vote of no confidence.

• The five members of Change UK - The Independent Group - might at present vote with the government in a confidence motion. Whether this might change should the Conservative Party switch stance towards Brexit, remains to be seen.

• Active Labour lawmakers, combined with MPs from the Scottish National Party, Plaid Cymru, Green Party, Liberal Democrats and the remainder of the independent MPs, number 312.

• Based upon these numbers, it could take as little three rebel Conservative MPs to vote against the government to bring it down. Much would therefore depend upon how the members of Change UK as well as other independent MPs might vote.

**How might the public vote?**

• **The EU Parliamentary elections** indicated that public opinion in the UK is split between support for those parties in favor of a swift exit from the EU (just under 35% of the vote share) and those that want to remain in the EU (just over 40% of the vote). In contrast, the Conservative and Labour parties collectively only captured just over 23% of the vote.

• Recent opinion polling from YouGov, ComRes and BMG continue to suggest waning
support for the two main parties.

• The latest political betting (unlike the latest opinion polling) puts the Conservative Party fractionally ahead of Labour. This said, it’s also worth noting that in both the 2015 election and the 2016 referendum, political betting proved a less than accurate indicator of the outcome.

• *The Spectator* has noted a ComRes poll showing that the Conservative Party would do far better in a general election with Mr Johnson as leader than any other candidate.

**GBP and general elections**

• GBP has tended to put in an improved performance when the Conservative Party has done relatively better in opinion polls in the run-up to general elections (although this wasn't particularly true in 2005).

In 1997 this happened even though there was no realistic chance of a Conservative victory emerging. This suggests that relative shifts in polling in the run up to an election can have an impact on GBP, even if the absolute gap between the two main parties remains substantial.

• The threat of a coalition in 2010 was treated poorly by the market.

• The price action on GBP in the run up to the election is not necessarily a guide to what happens afterwards.

• At present EUR/GBP implied volatilities continue to suggest that what stress there is in the market is focused on the period between mid-September and mid-October.
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