A Leadership Contest & GBP

- Focus on both Brexit policies of Conservative Party leadership candidates and ability to contest a general election
- Favourites do not always win Conservative Party leadership contests
- Labour Party has threatened to call a no confidence motion

As expected UK Prime Minister Theresa May has announced her resignation (she steps down of June 7) setting in motion a leadership contest for the Conservative Party. This, in turn, could have implications for the performance of GBP in the run up to the normally less volatile summer recess for Parliament.

The reason why this is likely to matter is straightforward enough. Not only will the new PM lead the discussions with the EU over the final shape of the withdrawal deal but he or she may well have to contend with a general election in the not too distant future. It therefore seems reasonable to suppose that investors will factor in both the winning candidate’s likely approach to Brexit as well as the perceived chances of winning an election.

The process of choosing a leader

The Conservative Party follows a two stage process for electing a leader. In the first stage the 313 Conservative Members of Parliament will select two candidates to present to the membership of the whole Party. The detailed rules for stage 1 are not published. For the 2016 leadership election, an MP needed to be nominated by two colleagues. Candidates validly nominated then went forward to a series of secret first-past-the-post ballots of Conservative MPs. The candidate to finish last in each ballot was to be
eliminated until two candidates remained. This process is expected to be completed by the end of June.

In the second stage members of the party will vote, on a "one member one vote" basis, for their preferred candidate from the short list. This is expected to be completed by the end of July.

Current contenders

So far eight candidates have announced they will run. Ranked by current odds these are:

**Boris Johnson**

While well liked by party members and having won two elections to be mayor of London, Mr Johnson is not perceived as being popular amongst Conservative MPs. He has reportedly argued to MPs that he is the only candidate that can defeat both Jeremy Corbyn and Nigel Farage at the next general election. Mr Johnson has said that he wants to take the UK out of the EU on October 31 "deal or no deal".

**Dominic Raab**

Mr Raab has launched his leadership bid by pledging to 'demonstrate unflinching resolve' to secure Britain's exit from the EU. He has vowed to leave with no deal if necessary.

**Michael Gove**

Mr Gove is positioning himself as the unity candidate, noting: "I believe that I'm ready to unite the Conservative and Unionist Party, ready to deliver Brexit, and ready to lead this great country." He has also said the next leader cannot just 'respect' the Brexit vote but must have the 'wherewithal to deliver it'. He has been criticised for supporting PM Theresa May's Brexit deal and there are fears this could limit his chances.

**Jeremy Hunt**

Mr Hunt campaigned to remain in the EU during the 2016 referendum, but has since repositioned himself as a Brexiteer. He has argued that his background as an entrepreneur makes him the best qualified candidate to negotiate a new deal with Brussels.

**Rory Stewart**

Although Mr Stewart was a Remain supporter, he now says he has accepted Brexit but wants "to reach out to Remain voters as well to bring this country together again". He also says he could not serve in a government that pursued a no-deal Brexit or was led by Mr Johnson.

**Andrea Leadsom**

Ms Leadsom has said: "To succeed in a negotiation you have to be prepared to walk
Matt Hancock

Mr Hancock campaigned for Remain in the EU referendum and urged MPs to back the PM’s Withdrawal Agreement Bill.

Esther McVey

Ms McVey has said she is standing of a “blue collar conservative platform.” She has also said: "Whoever the new leader is, and I have put my hand in, the 31st October Brexit date is set in stone."

Others that may well join the race include Penny Mordaunt, Sajid Javid, Steve Baker, Sir Graham Brady and Priti Patel.

Risk of a no confidence motion in the government?

Shadow Chancellor John McDonnell (when asked this weekend if Labour would call a no-confidence motion in the next Tory leader,) said: “Yes, because we believe any incoming prime minister in these circumstance should go to the country anyway and seek a mandate.”

Polling

As of the start of last week, twelve major opinion polls had been published since the UK local elections in early May. (Opinium, Opinium, YouGov/The Times, ComRes/Brexit Express, Kantar Public, ComRes, Hanbury Strategy, Ipsos MORI, YouGov/The Times, Opinium/The Observer, YouGov and Survation).

In nine of the polls Labour was between two and nine percentage points ahead of the Conservative Party. The three other polls showed the two parties tied. However, both the newly formed Brexit Party and the Liberal Democrats have been trending higher in recent weeks.

GBP

The volatility seen in 2010 (at a time when the main parties were essentially vying for the center ground of UK politics) highlights perfectly GBP’s dislike of political uncertainty running into a general election. That period saw realized volatility in EUR/GBP and GBP/USD reach levels that have only subsequently been breached in the months immediately following the 2016 referendum. In light of this it seems reasonable to assume that concerns driven by political uncertainty could prove at least as elevated this time around.
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