The Next Stage of the Process

• Next stage in the UK political process about to start

• GBP performed poorly during December 2018 confidence vote in PM's leadership of Conservatives

• Key will be how Brexit negotiations go with a new Conservative leader

Following PM Theresa May's announcement of her new Brexit plan on Tuesday, events have been moving rapidly. Perhaps the most significant development was the resignation yesterday evening of senior Cabinet member (and Leader of the House) Andrea Leadsom who said that she could not support the amended deal (including the possibility of a second referendum). With the BBC reporting this morning that other Cabinet ministers may resign (via Reuters) and the UK press focusing on the fate of the PM it seems that an imminent change in Downing Street is becoming likely (with some talking about it happening ahead of the weekend).

Perhaps the only mildly surprising part of this is that senior Conservatives didn't even want to wait for the EU parliamentary election results before starting to make their move. However, whatever the case, it feels that the next stage in the political process (a leadership contest within the Conservative party) is now about to commence.

While there is some debate over when the leadership contest within the Conservative Party must be completed by, there doesn't seem to be much debate over who the

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Newswatch

1. UK: The Times says that PM Theresa May is expected to announce her departure tomorrow when she is due to meet Sir Graham Brady, the chairman of the 1922 Committee. >

2. UK: The BBC reports
front runners are likely to be. Moreover, while there are questions over the usefulness of political betting as a forecasting tool, it’s worth noting that Boris Johnson is currently the favourite among bookmakers.

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The reason why this matters for GBP comes down to concerns about the potential fall-out from Boris Johnson led Brexit negotiations. More specifically, what would happen should the EU reject an attempt by Mr Johnson to renegotiate the current deal and he then come back to the UK parliament in order to ask for its backing for a no-deal exit. Should this be rebuffed by Parliament (which, based upon, voting this year, it could well be) then it is possible that he might be forced to hold an early election (or, less likely, a second referendum) in order to break the deadlock.

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.

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In light of this it seems reasonable to assume that concerns driven by political uncertainty could prove at least as elevated this time around given that the centre ground of UK politics appears the be being abandoned and the

that other British ministers could resign from the government following the resignation yesterday of Leader of the House, Andrea Leadsom. (via Reuters)>

3.
Trade War: Chosun Ilbo reports that in a recent meeting with a South Korean counterpart a U.S. State Department official said that “local telco LG Uplus Corp, which uses Huawei’s equipment, should “not be allowed to serve in sensitive areas in South Korea”.” >

4.
Trade War: CNBC reports that “Panasonic has instructed employees to halt transactions with Huawei and its 68 affiliates covered by the U.S. ban”. >

5.
Japan: The Nikkei-Markit flash manufacturing PMI for May comes in at 49.6, down from 50.2 in April. >

On the
direction of polling over the past month.

In the shorter term the most immediate question is how GBP might perform should the PM be ousted from her position in the next few days. With this in mind it’s worth recalling that during the period of the December 2018 confidence vote in Theresa May, readings of overnight realized volatility for GBP/USD between 10.5% and 13.1%. GBP also weakened during this time to a low of USD 1.2475.

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