

UK GENERAL ELECTION

WHAT IT MEANS FOR FOREX TRADERS



BLACKWELL
GLOBAL

THE BLACKWELL ADVANTAGE

BLACKWELL GLOBAL

Blackwell Global is a global brokerage, aiming to be the most trusted financial service provider. We are committed to transparency, integrity and service excellence.

Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

To find out more about Blackwell Global, please visit:
www.blackwellglobal.com

ANOTHER ELECTION SHOCK

FOREWORD

The UK General Election on June 8th produced a result that no one was expecting. Theresa May - the current Prime Minister and leader of the Conservative party - lost her parliamentary majority.

Meanwhile, Jeremy Corbyn's Labour party - the UK's formal opposition - beat expectations and increased its number of parliamentary seats.

The result is what's known as a 'Hung Parliament'. It means parties now need to work with each other to ensure legislation is passed. The purpose of this eBook is to explore how this arrangement will affect the UK economy and the trading decisions we might make.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

WHAT IS A HUNG PARLIAMENT?

THE NEW NORMAL?

Before we explore the implications of a Hung Parliament - it's important that traders understand what the term actually means.

In short, a Hung Parliament is a situation where no political party has a parliamentary majority in the House of Commons. A majority is important, because it makes it much easier for the governing party to pass their legislation.

The threshold for a majority in the election just gone was 326 seats. Before this election, the Conservatives had a small majority with 330 seats. Many political pundits believe the reason current Prime Minister called this election was because the polling she had a strong chance of increasing that majority. This increased majority would have given her much more flexibility in passing legislation relating to the Brexit negotiations.

However, during the 2017 election campaign, the Conservatives

saw their poll lead over the Labour Party decrease. This translated the Conservatives losing their parliamentary majority on results day. The Conservatives dropped 13 seats to 318. Labour gained 30 seats - increasing their count from 232 to 262.

A number of smaller parties also won seats. The Scottish National Party won 35 seats, the Liberal Democrats won 12 seats, the Democratic Unionist Party won 10 seats, Sinn Fein won 7 seats, Plaid Cymru won 4 seats, while the Green Party won one seat.

When no party obtains a majority, the largest party (in this case the Conservatives) have the right to form either a coalition or minority government.

A coalition is a formal arrangement between two parties which takes them over the majority threshold. The last time the UK has a formal coalition was in 2010 - between the Conservatives and Liberal Democrats. However, this time around, the possibility of a formal coalition has been taken off the table by the smaller parties, as they have fundamental differences with the Conservatives on major policy issues.

The only realistic option is what's known as a minority government. This is what is currently being implemented by the Conservatives.

In this arrangement, the largest party will attempt to secure support from smaller parties in order to pass key legislation. This is sometime called a 'confidence and supply' arrangement. It falls short of a formal coalition - but it's vital for a minority government to implement its agenda.

At the time of writing, the Conservative party are negotiating a confidence and supply arrangement with the Democratic Unionist Party. Combined, the total seats from both parties is 328 - just two over the 326 majority threshold. It's expected that this arrangement will be complete in the near future.

If for any reason the Conservative minority government comes into difficulty - i.e. they struggle to pass legislation, diminishing the authority of the government - Labour then have the right to form a minority government of their own. However, the numbers in this election mean that Labour would need to win support from numerous smaller parties to get close to the majority threshold of 326. It's difficult to see how this would work at this moment in time.

IMPACT ON THE UK ECONOMY

A STORY OF TWO CAMPAIGNS

The Conservatives ran a poor election campaign. Theresa May was openly criticised for not taking part in television debates and limiting her time interacting with the public. Meanwhile, Jeremy Corbyn surpassed expectations and launched an anti-austerity manifesto. This platform countered the extremely safe policy proposals of the Conservatives.

It's left the political environment in the UK in a state of limbo. We're now in an age where political parties will be expected to work together to tackle the challenges of our time - including Brexit.

THE UK ECONOMY

It's clear that the financial markets favoured a Conservative majority win. This was reflected when the official exit poll was published on June 8th. It predicted a Hung Parliament - causing the pound to drop 2% against the US dollar.

Why did the markets seem to favour a Conservative win? It's because the party is viewed as the most fiscally responsible and pro-business - which is a plus for foreign direct investment. Keep in mind - more foreign direct investment acts to strengthen the pound.

The markets also like certainty. Many market commentators have said that a Conservative majority would give authority to the UK's position regarding Brexit. Now there is a Hung Parliament, what form Brexit takes is far from certain. Understandably, this makes it difficult for UK businesses to plan ahead.

However, there's an argument to say that a softer version of Brexit will now be pursued, as the Conservatives will have to compromise on their vision in order to get approval from parliament.

We believe a version of Brexit that tries to maintain close economic ties to the European Union - such as access to the single market - will act to strengthen the pound. Whether this comes to materialise remains to be seen - but traders should keep a close eye on how Brexit negotiations pan out over the coming months.

Furthermore, Labour have made a series of ambitious spending pledges, which are aimed to spark economic growth in all areas of the UK (not just London). In their manifesto, Labour estimates their total spending will come to £48.6 billion. They also explain that increases in corporation tax, clamping down on tax avoidance and increased borrowing will fund their plans.

However, it's difficult to predict with any certainty how much revenue a Labour government would be able to collect with any

accuracy. For example, revenue from corporation tax is notoriously difficult to predict with accuracy, because forecasting profits from private companies is far from an exact science.

But what we can say is that Labour will borrow and spend more than the Conservatives. It's the reason why a Labour win would put downward pressure on the pound.



TRY A DEMO ACCOUNT

[REGISTER NOW](#)

COULD THERE BE ANOTHER ELECTION?

THERE'S EVERY CHANCE

Traders should also be prepared for another general election. If a Conservative minority government proves unstable, there's every chance the electorate will once again be asked to vote.

If this happens, we think it's unlikely that Theresa May will lead the Conservatives. Her standing is very much diminished within the party.

More broadly, Brexit still muddies the water regardless of who governs. There are so many unanswered questions that it becomes difficult to predict what will unfold.

Traders should still expect moments of volatility from the pound as Brexit negotiations progress. These moments will present excellent opportunities for intraday traders to make profitable moves.



VIEW OUR ECONOMIC CALENDAR

TAKE ME THERE

WHY BLACKWELL GLOBAL?

We can't pretend that it is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

To find out more about Blackwell Global please go to:

www.blackwellglobal.com

Or contact Customer Support:

Tel: +44 (0)203 695 0898

Email: cs@blackwellglobal.com

Risk Warning: Trading Foreign Exchange (FX) and Contract for Differences (CFD) on margin is highly speculative, it carries a high level of risk, and may not be suitable for all investors, so please consider your investment objectives, level of experience, financial resources, risk appetite and other relevant circumstances carefully. FX and CFDs are leveraged products and you may lose your initial deposit as well as substantial amounts of your investment. The high degree of leverage can work against you as well as for you. Seek independent advice if necessary. Please read and understand the risk disclosure policy before entering any transaction with Blackwell Global Investments (UK) Limited.

Disclaimer: The report provided by Blackwell Global Investments (UK) Ltd is meant for informative reading and should not be relied upon as a substitute for extensive independent research and is no guarantee of a successful trading outcomes. The opinions expressed in this eBook are do not take into account any particular individual's investment objectives, financial situation, or needs, and should not be interpreted as financial advice nor an encouragement to trade any investment product.