

FINANCIAL MARKETS

THE NEXT BRITISH PM
& THE FATE OF GBP



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IS BRITISH POLITICS IN TURMOIL?

FOREWORD

The fate of the British Prime Minister Theresa May has been sealed. In the coming months, it's likely that a new prime minister will be in place.

Who the next Prime Minister will be isn't clear. It's probable that a number of Conservative MPs will enter the race.

But what would a new Prime Minister mean for Brexit? And how will it affect the pound sterling (GBP)? This eBook explores both questions in detail.

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PM MAY: WHAT HAPPENS NEXT?

WHY WILL THERESA MAY LEAVE OFFICE?

In the face of a bungled Brexit, Prime Minister Theresa May has been under incredible political pressure for a number of months.

Since November 2018, the Conservative party leader has faced intense scrutiny over Brexit.

Specifically, her proposed Withdrawal Agreement drew criticism from MPs across the political divide and within her own party.

On three separate occasions, the Prime Minister has attempted to secure a parliamentary majority to back her Withdrawal Agreement. She has been unsuccessful in each of those instances.

Ultimately, she has failed to deliver Brexit by the original deadline (Friday 29th March). The UK is now due to leave the EU on Thursday 31st October 2019.

Counting The Political Damage

Needless to say, the delay to Brexit is severely hurting the Conservative party. In the recent UK local elections, the Conservative party lost 1330 councillors at the polls.

Clearly, this performance doesn't bode well for the government's electoral prospects in the coming years. This has made many Conservative MPs look to accelerate the date of Theresa May's departure from office.

Brexit is also hurting Labour, the official UK opposition party. The party has been criticised for having a seemingly inconsistent policy on Brexit and a confirmatory referendum. The party lost 84 councillors at the UK local elections.

European Elections

The UK is set to take part in the forthcoming European Elections. This is something the UK government was unwilling to do - but it was a condition of extending Article 50.

At the time of writing, both of the main UK parties face difficult circumstances. There's also been the emergence of The Brexit Party - headed by former UKIP leader Nigel Farage - which are polling above both the Conservatives and Labour.

Fourth Time Lucky?

After the European Elections, it's expected that Prime Minister Theresa May will attempt to get her deal through parliament in a

fourth meaningful vote. This is set to take place at the beginning of June 2019.

The parliamentary arithmetic still makes difficult reading for the government. But some think that the political damage both the Conservatives and Labour are likely to take in the European Elections will force their leaders to pass the Withdrawal Agreement.

After the fourth meaningful vote, it's expected that Prime Minister Theresa May will announce the timetable for a fresh Conservative leadership election and her eventual departure.

WHO WILL THE NEXT PRIME MINISTER BE?

There are likely to be multiple leadership candidates for the Conservative party. Many will look to adopt a tougher Brexit stance to re-establish the Conservative party as a pro-Brexit force.

Boris Johnson

Boris Johnson has already confirmed his intention to bid for the Conservative leadership. The former Foreign Secretary has been a vocal critic of Theresa May's Brexit strategy. He's an early favourite.

Dominic Raab

Dominic Raab has been touted as a future Conservative leader. Like Boris Johnson, the former Brexit secretary - who resigned from his post - believes the UK could negotiate better terms to the Withdrawal Agreement.

Michael Gove

Michael Gove is a respected political operator in Westminster. Some pundits believe he could have the skills to unite a divided Conservative party - and the charisma to deliver a form of Brexit that's palatable to the majority.

Other Candidates

Other names touted as potential leaders include Andrea Leadsom (Leader of the Commons), Jeremy Hunt (Foreign Secretary), Amber Rudd (Work & Pensions Secretary) and Sajid Javid (Home Secretary).

WHAT WOULD A NEW PM MEAN FOR BREXIT?

Any new Prime Minister would inherit a toxic Brexit that still divides the British public.

However, it's likely that any new leader would be a candidate that favours Brexit (considering the views of the Conservative party's membership) - and to taper the appeal of The Brexit Party.

For example, if Boris Johnson becomes the next British Prime Minister, there's every likelihood that he will abandon Theresa May's Brexit approach.

We know from previous public statements and speeches that he favours a "tougher" approach to negotiations with the EU. He's even urged his party not to rule out a "No Deal" Brexit.

HOW WILL THIS IMPACT GBP?

Remember - the pound sterling (GBP) is pinned to Brexit. The dynamics of this are quite simple to understand.

A soft Brexit - or no Brexit at all - will act to support GBP. Investors and businesses want as little disruption as possible to trade and international supply chains. However, a hard Brexit will put downward on GBP, as this could severely disrupt how businesses operate across UK/EU borders.

Keep in mind that continued uncertainty over the format of Brexit will also pressurise GBP. The UK's ability to attract investment will be hampered if businesses are unsure of Britain's access to European markets.

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