

BM Political Highlights

Week Beginning 12/03/18

Top 3 Political Stories This Week

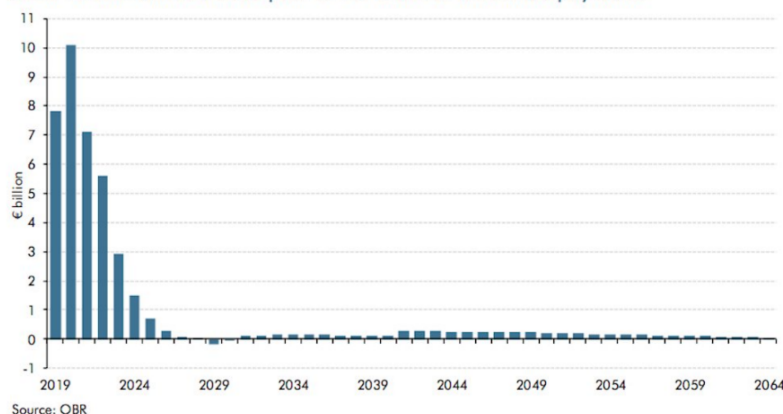
- UK PM May names [Russia](#) as perpetrator of nerve agent attack, [prepares reprisals](#) as deadline passes; Brexit subcommittee agree to [extend freedom of movement](#) to end of transition period
- Trump fires Tillerson by Tweet, ex-CIA chief Mike Pompeo is [new Secretary of State](#); demands higher targets for [tariffs on China](#); and [blocks](#) largest tech takeover. Close electoral race in [Pennsylvania](#)
- Italy [Centre-Right coalition](#) may talk to Five Star; [Salvini](#) and [Di Maio](#) both no longer hostile to the Euro; PD rejects coalition talks and says it will go [into opposition](#). France and Germany [delay](#) Eurozone reform plan

BlondeMoney View

- Brexit took a pause from the front pages following the attack on former Russian spy Skripal, but the fear of a weak Prime Minister did not. Trump initially [said only that](#) ‘*It sounds to me like they believe it was Russia and I would certainly take that finding as fact*’ and then promptly fired his Sec of State Tillerson [who had gone further](#) by saying the attack “*clearly came from Russia*”. It’s unlikely Rex exited because of the UK, but many will argue that Russia deliberately hit the UK because of its vulnerable position in the world. Russia isn’t going to cave easily, knowing [Germany is already struggling](#) to continue with sanctions. No wonder the UK is caving into EU demands to [extend freedom of movement](#) to the end of the transition period. TM is gaining support from her Cabinet, and a tough stance on a common enemy might just help her in public opinion too. Now she just has to see off Labour, who used their response to the Spring Statement to launch an emotive appeal to “[doctors, nurses, teachers](#)” while Chancellor Hammond could only inspire with talk of a “[balanced approach](#)”.
- Trump is on a roll and he knows it. He [gleefully told](#) a Pennsylvania election rally, ‘*All these countries are calling up [and saying] ‘we don’t want the tariffs. What do we have to do?’*’. His new power has emboldened him to go further. [Trade Rep Lighthizer prepared tariffs](#) on \$30bn of Chinese imports and The Donald demanded he double the target. He blocked the bid for Qualcomm from Asia’s Broadcom on ‘[security concerns](#)’. It’s taken him a year but he’s finally found the levers to push for power. With this momentum he will spin the [Pennsylvania potential Democratic win](#) as better than expected. Trade Wars are alive and well but the winners and losers aren’t yet clear. Trump hopes he has the first mover advantage.
- Instability in Italy has [caused pause](#) from France and Germany in their Eurozone reform plans. The ‘[11th roadmap to deepen economic and monetary union](#)’ was expected to be [concluded](#) by the June European Council meeting. But will the third largest Eurozone country choose a government in time? The centre-right coalition is in disarray; they met yesterday, and have [allegedly mandated](#) League leader Salvini to approach 5 Star to negotiate over a government. Berlusconi wasn’t convinced, warning him ‘*Do it, go ahead...We’ll go into opposition, we can’t wait to denounce your betrayal of the voters*’, which sounds remarkably unlike a mandate. It’s a signal of just how fractious and difficult government formation will be. The stasis has calmed investors, but longer term it does not bode well that Salvini and Di Maio hold all the cards. Salvini is moderating his anti-Euro stance, now [saying](#) “*we cannot plan to leave the euro in an improvised manner*” but he goes on to warn that “*if respecting the 3% [SGP rule] means job losses...we will not accept it*”. The Eurozone will have to reform; the question is whether Angela, Emmanuel, Luigi and Matteo can agree on what it should reform into.

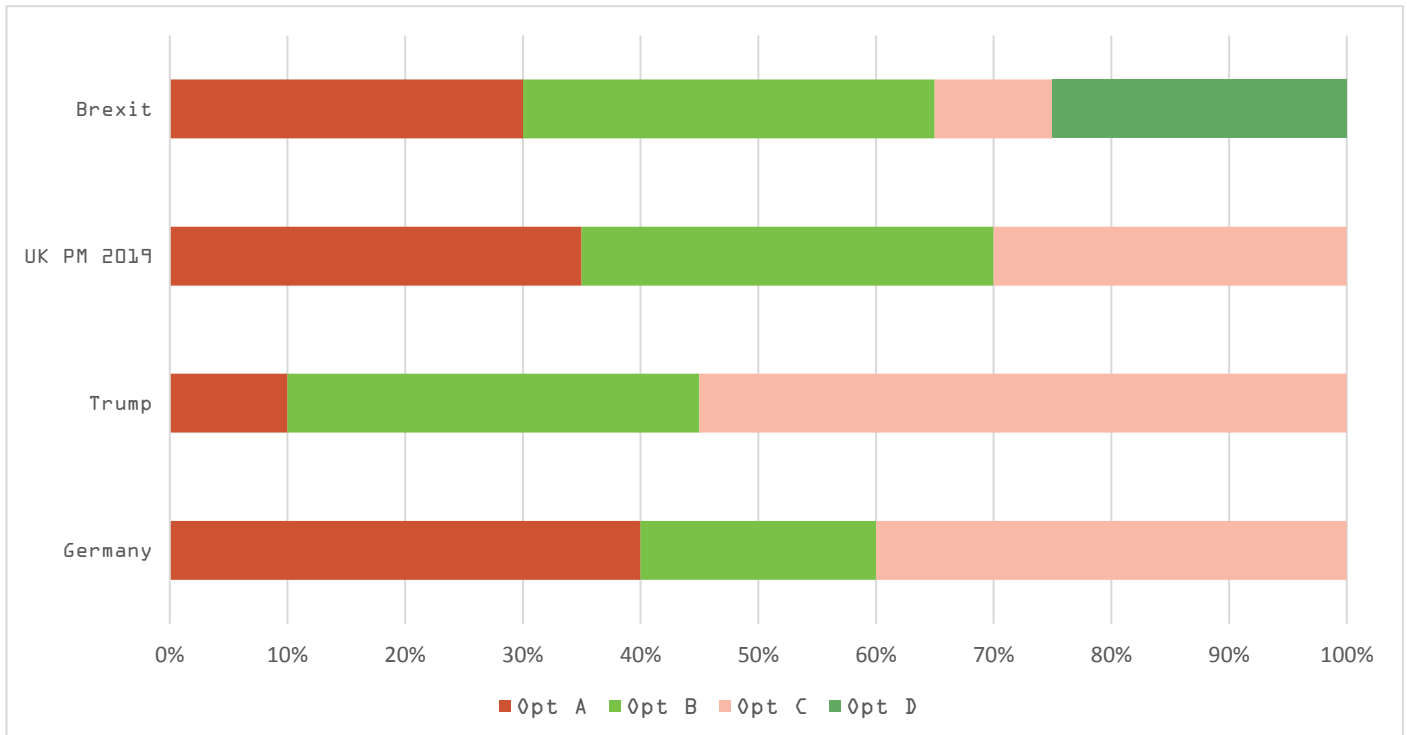
Chart of the Week

Chart 1.5: Assumed annual path of EU financial settlement payments



Source: OBR

BlondeMoney Probabilities:



n.b. these are subjective estimates made by BlondeMoney

| | OPTION A | OPTION B | OPTION C | OPTION D |
|-----------------------|---|--|--|-------------------|
| BREXIT | No Brexit | Leave March 2019 | Leave after March 2019 | Disorderly Brexit |
| | 0% | 0% | 0% | 0% |
| UK PM JAN 2019 | Jeremy Corbyn | Theresa May | Other | - |
| | 0% | 0% | 0% | |
| TRUMP | Trump leaves before end of term (resigns, removed, Impeached etc) | Trump wins a second term | Trump leaves after one term | - |
| | 0% | +5% | -5% | |
| GERMANY | Merkel leaves before end of term (resigns or removed) | Merkel stays, AfD national support falls | Merkel stays, AfD national support increases | - |
| | 0% | 0% | 0% | |

Change in percentage points from last week's edition