

BM Political Highlights

Week Beginning 21/05/18

Top 3 Political Stories This Week

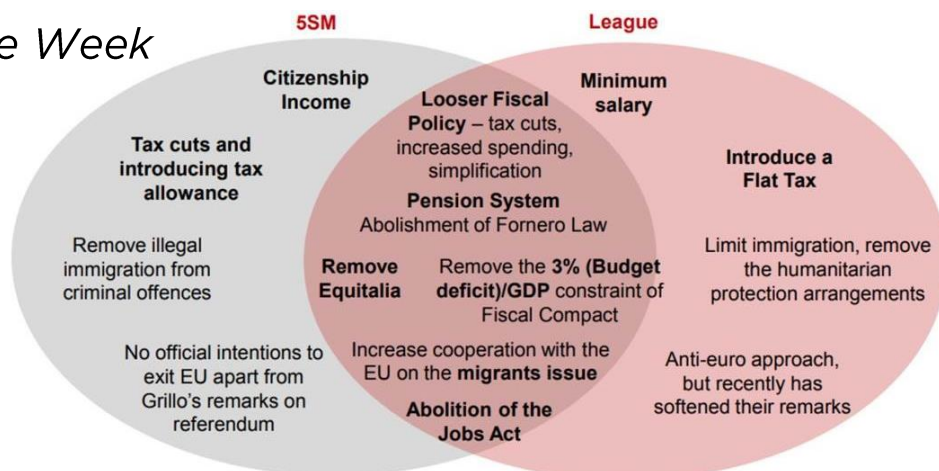
- Tory MPs reportedly [prepare for an autumn general election](#); Downing St agrees to keep the [UK aligned with the EU beyond 2020](#)
- US-China trade talks ["on hold"](#); Sec of State Pompeo sets out [new Iran nuclear treaty criteria](#)
- Italy 5-Star and League [propose government with law professor Conte](#) as Prime Minister candidate

BlondeMoney View

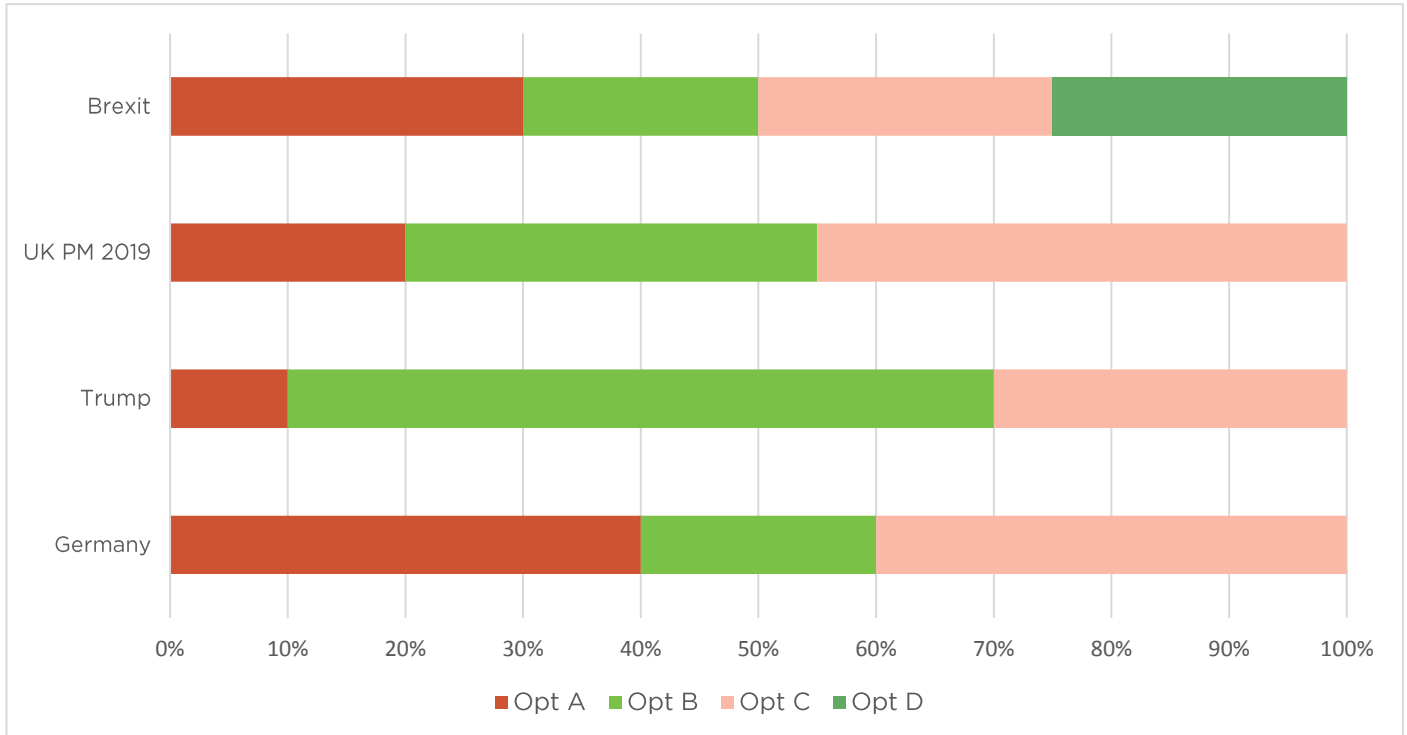
- Ireland PM Varadkar said (again) that to avoid a hard border on the North/South divide, [full UK-EU alignment was the only solution](#). With Cabinet unable to agree on an alternative, UK PM May had to admit [the UK would be "aligned" to the EU beyond 2020](#) as a 'backstop' agreement. Brexiteer backlash ramped up over fears of what Jacob Rees-Mogg called a ["perpetual purgatory"](#) with the UK never fully leaving. TM's reassurance only went as far as saying that this 'backstop' would [be exercised in "very limited" circumstances](#). The continued misdirection from government has led many MPs on both sides to expect a [vote of no confidence in TM](#). Assuming that Jeremy Corbyn cannot [cobble together a working government](#) in his 14 day window (under the Fixed Term Parliament Act), this would lead to another General Election. Although there is no obvious candidate within the Conservative party to lead right now, the reality of having to take the reins of power could force someone to fill the void. BoJo continues to be the loyal servant ["waiting for the ball to come loose at the back of the scrum"](#), throwing his support behind TM and warning the public would react badly to an election as [they "deserve a break from politicians"](#). Brexiteer despondency is [high](#). Will they admit defeat and back the eventual deal in the autumn, or put their ideology before their government? This uncertainty will soon hove into view for UK assets.
- China and the US agreed to a trade truce this week as Mnuchin declared [talks were "on hold"](#). This was accompanied by a [Chinese pledge to buy more US](#) products and a resolution for contentious Chinese [telecoms company ZTE](#). Days later Trump declared ["there is no deal"](#) on ZTE unless they pay a fine and replace their Board. The bewildering Art of his Deal involves triangulating between China/S Korea/N Korea, along with unhappy Republicans fearing a trade [backlash](#) in the mid-terms. It's no surprise the Trump-Kim summit may be [delayed](#). NAFTA also remains unresolved with Trump apparently happy to [let negotiations "slip" into 2019](#). And [the EU](#) may now face 10% cuts in their steel exports to the US, while [Japan](#) considers filing US steel tariffs with the WTO. Meanwhile the new fiery and potentially inflammatory [demands made of Tehran](#) following the US pull-out of JCPOA will keep tensions high in the Middle East. From the highs of earlier this month where the President was being linked to the Nobel Peace Prize, the possibility of a unified Korean peninsula and NAFTA talks nearly concluded, Donald may have bitten off more than he can chew. Don't count him out just yet: it's better to under-promise and over-deliver.
- After 2 months of talks, both Di Maio and Salvini submitted their proposed Cabinet positions to Pres Mattarella. It is widely expected for the former to become [Labour Minister](#) and the latter Interior minister. Their joint choice of [PM Giuseppe Conte](#) is an unusual one, and sure to raise a few questions as he is a man of little to no political experience whose [CV is already in doubt](#). Conte had been rumoured to be linked to 5-star's political plans but as a [possible minister of public administration](#). Due to his lack of political clout, this leaves no illusions that Di Maio and Salvini will be running the country from behind the scenes, with neither of them wanting the other to be the main figure head. However, Pres Mattarella is not constitutionally bound to appoint Conte, and has (unusually) [delayed his verdict](#) while he consults the lower and upper houses. He's also concerned about Eurosceptic 81-year-old [Paolo Savona](#) coming in as Finance Minister. The President is stuck, however. Refuse all choices and it's back to fresh elections; refuse specific choices and Di Maio and Salvini will just put themselves explicitly closer to power. [Alea jacta est](#), Italy has a stimulus-focused anti-establishment government. Risk premia in Italian government bonds is sensibly being priced in.

Chart of the Week

Source: [Nomura Research](#)



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%	-5%	+5%	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%	0%	0%	
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