

BM Political Highlights

Week Beginning 17/12/18

Top 3 Political Stories This Week

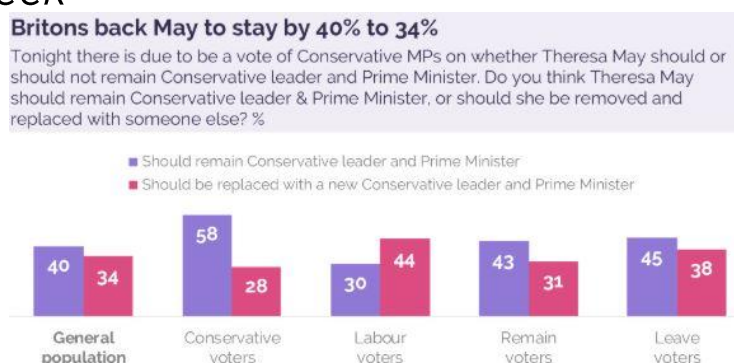
- PM May's Chief of Staff and de facto deputy minister met with Labour MPs to assess [support for second referendum](#); Brexit Withdrawal Bill vote will take place in [week beginning Jan 14th](#)
- President Trump names [Budget Director Mulvaney](#) as acting Chief of Staff; Senior GOP members urge President Trump not to [shutdown the Government](#)
- Italy PM Conte: Italian Govt have agreed on the "[numbers and contents](#)" of a new budget; Italian Govt has [verbal assurances](#) from the EU over the budget

BlondeMoney View

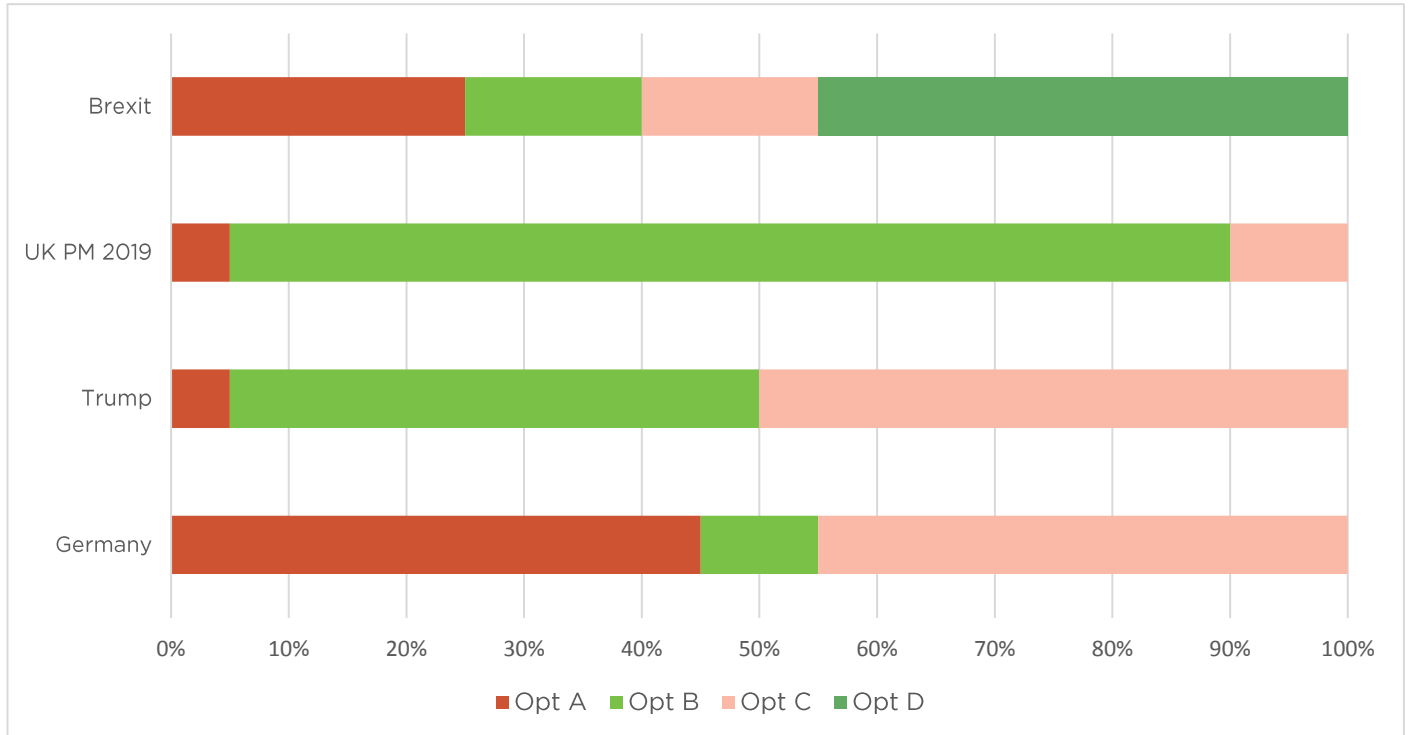
- The 100-day countdown has begun. During Tuesday's Cabinet meeting, PM May told ministers they must "[significantly ramp-up preparedness](#)" for a No Deal scenario given her lack of tangible success at the EU Summit. The EU have also discussed their own [No Deal plans](#) and it makes grim reading for Downing St. Brexiteer hopes for a "[managed No Deal](#)" appear to be dashed by the Commission's proposals as they alleviate only European concerns with little thought or care given to those problems unique to the UK. Corbyn attempted to wrestle back the Brexit initiative by [tabling a motion of no confidence](#) but only to censure the PM rather than bring down the Govt. [Other opposition parties](#) tried to amend it into a full confidence vote (in the Govt) but to little avail as the Govt refused to give parliamentary time to a "[stunt](#)". GBPUSD remained serene above the noise although prevalent USD selling helped cable hit 1.2700 weekly highs on Tuesday. For those who believe the talk of a 2nd referendum might lead to No Brexit, there should also be the knowledge that a majority against No Deal will not prevent it unless someone acts. For this reason we expect broad GBP weakness [heading to Jan 14th](#), where May has slated her Meaningful Vote to take place. Should the vote fail, the market will shift to price in a No Deal with GBP, Gilts and UK assets all taking a battering. Options for PM May are running out and the upcoming Christmas break with limited media attention, weak market volatility and the fact people simply have better things to be doing, gives Downing St a chance to catch their breath to plan their next steps.
- President Trump has begun doubling down in preparation for a tough 2019 with a Democratic House and even tougher 2020 re-election battle. Armed with a new, fiercely loyal, pro-MAGA [Chief of Staff](#) who has all the prerequisite skills to fend off incoming [Democrat subpoenas](#) and the ongoing Mueller investigation, Trump has turned his attention to energising his rural base by delivering on his keynote 2016 pledges. Funding for the 'Wall' is now centre stage. After a bizarre [live-televised Oval Office meeting](#) with Democrat leaders where the President demanded an extra \$5bn, DJT tweeted "[I don't care what the political ramifications are](#)" of a govt shutdown. Senior Republicans are [reticent of such an abrasive strategy](#) arguing [nothing will change](#) between now and January when talks restart. Friday is the deadline, and senior Democrats have suggested a [short-term deal](#) to break the impasse. We expect this political infighting/ stasis of Congress to have little impact on USD with the Fed and China trade talks leading moves. Investors eyes looked East as China Pres Xi announced China would "[reform and open up](#)". The Chinese are making the calculated move away from manufacturing and their 'Made in China 2025' programme to a new one based on [future Chinese dominance in the tech market](#). Although Trump has his cheap win for his farming voting majority, Xi's defiance that China "[will not be dictated to](#)" should not go unheeded to USD investors as the Greenback could continue to struggle throughout 2019.
- Infighting within the Italian government has stopped for Christmas, with technocratic PM Conte announcing that his govt had agreed on a [2.04% budget deficit](#). Both Dep PM's Salvini and Di Maio continue to reassure their voters that their flagship policies of income support for the poor and a lowering of the retirement age survive. While an improvement from the original 2.4% deficit, the EU was reticent to accept their offer, seeking another [3bn EUR in savings](#). However, [overnight news](#) is more promising with PM Conte's office reporting a "[verbal communication](#)" over a possible budget deal although the market waits for confirmation due today. Italian BTPs surged on the news with 2y BTPs moving 17bps and 10y BTP-Bund spread tightening 16bp, the best since the coalition came together in May. While the risk of EU levying fines on the Italians has been reduced, we believe Italian debt should still carry a much higher risk premium than is currently priced. Worried about France? Although President Macron's popularity is at an old-time low, he and his party still control the French government. Should legislation or leverage be required to pass a budget, the Elysee Palace should not face such stern opposition as Rome. They've got the backing of Berlin, with the [German Economy Min](#) arguing "[there is room to manoeuvre](#)" before France overshoot the deficit limit.

Chart of the Week

Source: [YouGov](#)



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
	-5%	0%	-5%	+10%
UK PM JAN 2019	Jeremy Corbyn	Theresa May	Other	-
	-5%	+60%	-55%	
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

