

# BM Political Highlights

Week Beginning 22/10/18

## Top 3 Political Stories This Week

- UK PM May calls the withdrawal agreement “[95% done](#)” and outlines her ‘[four-point plan](#)’ to unblock Brexit talks
- President Trump announces that he will pull the US out of a Cold-War-era [nuclear pact with Russia](#); Trump Administration has “*no intention*” of [easing tariffs on China](#)
- EU Commission [formally rejects Italy's](#) budget

## BlondeMoney View

- PM May addressed Parliament on Brexit and sought to quell MPs’ jitters with her ‘[four-point](#)’ criteria for any backstop deal. Namely: 1) a UK-wide customs arrangement to avoid a customs border in the Irish sea, 2) exit from said arrangement must be guaranteed at any time (i.e. an attempt to time-limit), 3) an extension to the transition period is a suitable alternative to any backstop, and 4) N Irish business must not be impacted. This might be enough to calm the talk of a leadership challenge, with the PM herself now going to a meeting of her backbench 1922 Committee [tonight](#). But can she keep the EU on side? Ireland Foreign Min [Coveney warned](#) any attempt to renege on the backstop “*is not going to fly*”. Media leaks from the Bloc suggested that the [EU will offer a UK-wide customs union](#) BUT only as a separate treaty leaving the backstop in place until the new treaty is ratified. Will this be enough for the DUP? With the Budget next week, all eyes will be waiting to see if the Unionist Party will honour their ‘confidence and supply’ agreement or abstain/ vote down the budget. In doing so, PM May would no longer command the confidence of the house – and the government will be brought down. This risk is currently completely unpriced in GBP and we expect a sharp reaction should the budget have any signs of a wobble.
- President Trump continued his optimism into the midterms: “*I think [we’re going to do well](#)”* and there is a “*very good chance*” that Republicans will remain in control of both houses. With the domestic policy agenda on hold as candidates campaign, the President has turned up the pressure on foreign policy. Following the boost after his withdrawal from the Iran deal, DJT announced he would pull from a US-Russia Cold-War treaty tackling [limitation of nuclear missiles](#) and their geographical deployment. The White House pointed to reports that, since 2014, [Russia has violated the treaty](#). Response from the international community has been instant with former USSR Pres Gorbachev (who signed the original treaty) calling the move “*not the work of a great mind*” and the Kremlin ominously stating they will “[restore balance](#)” with new missiles. Trump, knowing his base are pro-nuclear and anti-Russia/China, hopes to kill-2-birds-with-1-stone: he vowed to “[build up](#)” the US nuclear arsenal to threaten “*whoever you want... [including] China and Russia*”. As early polls open this week, we will soon find out if DJT’s gamble has paid off. Expect a deluge of more MAGA policies should it not.
- And so, the Italian budget drama continues. As expected, the Commission has announced that [they will reject the Italian proposal](#) as it goes against the bloc’s rules on fiscal discipline. EU Dombrovskis said the Italian populist government was “*openly and consciously going against commitments made*” and that their plans were “*not convincing*”. While Italy officially have 3 weeks to come up with a counter proposal, Italy PM Conte said [there was no “plan B”](#) and that his Government will not accept any substantial changes to the budget. It benefits the anti-establishment government to portray the Commission as the Bad Guys, while they’re standing up for their voters. Spread widening of Italian bonds merely plays into this narrative. However, pressure from EU fines which come because of a defiance of fiscal rules, will hurt the Italian economy – especially their increasingly fragile banking system. We expect that market sentiment and investor flight will force Italy to give in. As always though, timing will be crucial as the Bloc and ECB will hope this will not weigh on EuroZone sentiment as this December marks the moment the ECB have indicated they will start to taper QE.

## Chart of the Week

Source: [YouGov](#)

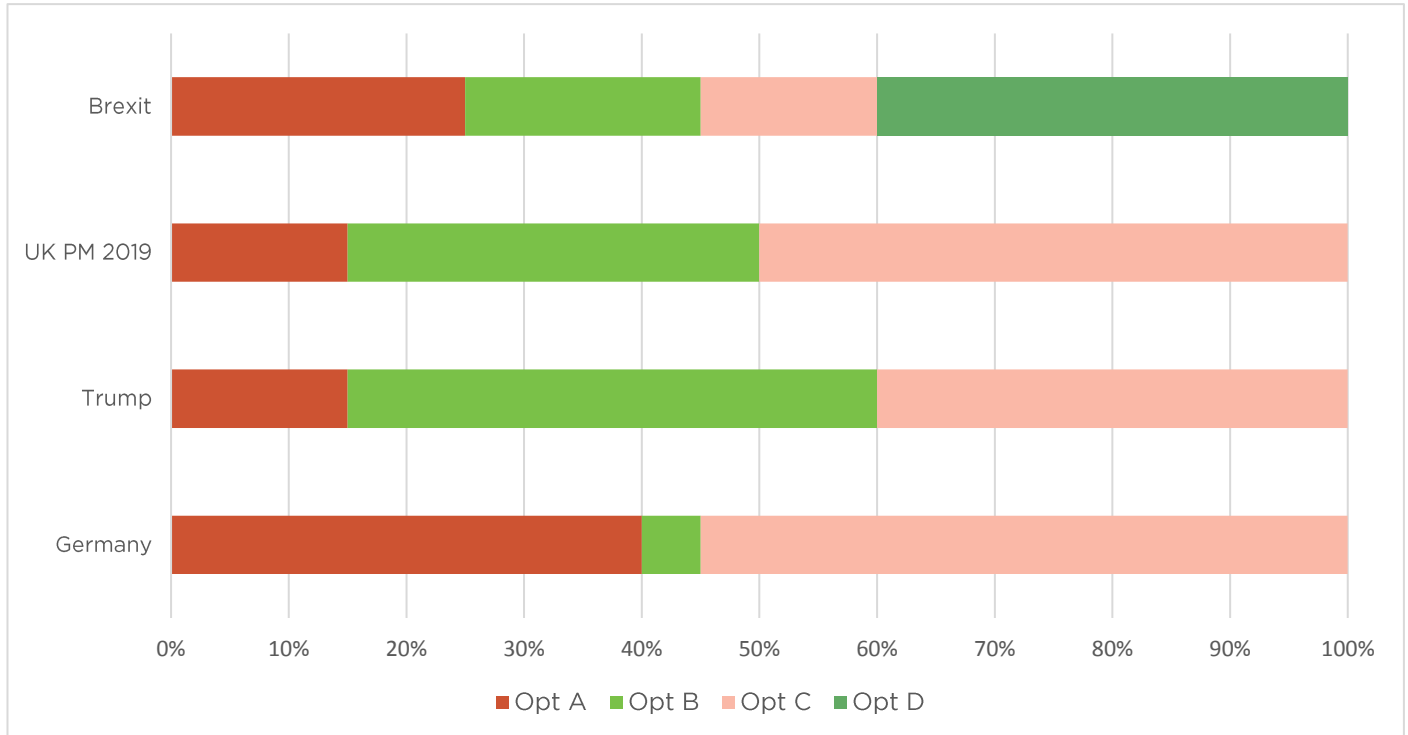
### Only one in five Brits think a second in/out EU referendum is likely

The UK is set to leave the EU on 29 March 2019. Whether or not you personally support one, how likely or unlikely do you think it is that there will be another referendum on whether the UK should leave or remain in the EU before that point? %

■ Very likely ■ Fairly likely ■ Don't know ■ Fairly unlikely ■ Very unlikely



## BlondeMoney Probabilities:



*n.b. these are subjective estimates made by BlondeMoney*

	OPTION A	OPTION B	OPTION C	OPTION D
<b>BREXIT</b>	No Brexit	Leave March 2019	Leave after March 2019	Disorderly Brexit
	0%	0%	0%	0%
<b>UK PM JAN 2019</b>	Jeremy Corbyn	Theresa May	Other	-
	0%	0%	0%	
<b>TRUMP</b>	Trump leaves before end of term (resigns, removed, Impeached etc)	Trump wins a second term	Trump leaves after one term	-
	0%	-5%	+5%	
<b>GERMANY</b>	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*

