

BM Political Highlights

Week Beginning 21/01/19

Top 3 Political Stories This Week

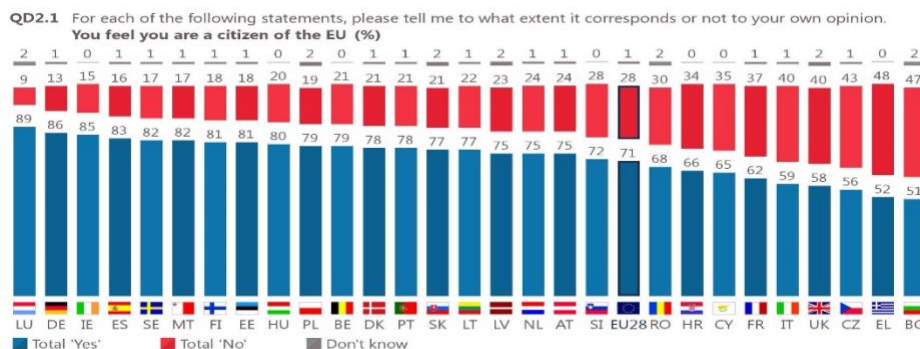
- PM May presents her [‘Plan B’ to Parliament](#); [Labour](#) and various MPs [table amendments](#) about how to break the Brexit deadlock
- China offers a [6-year plan](#) to lower the US-China trade deficit; Democrats [reject Trump Administration offer](#) of ‘Dreamer’ concessions in exchange for Wall funding
- Germany Chlr Merkel and France Pres Macron sign [new Franco-German treaty](#)

BlondeMoney View

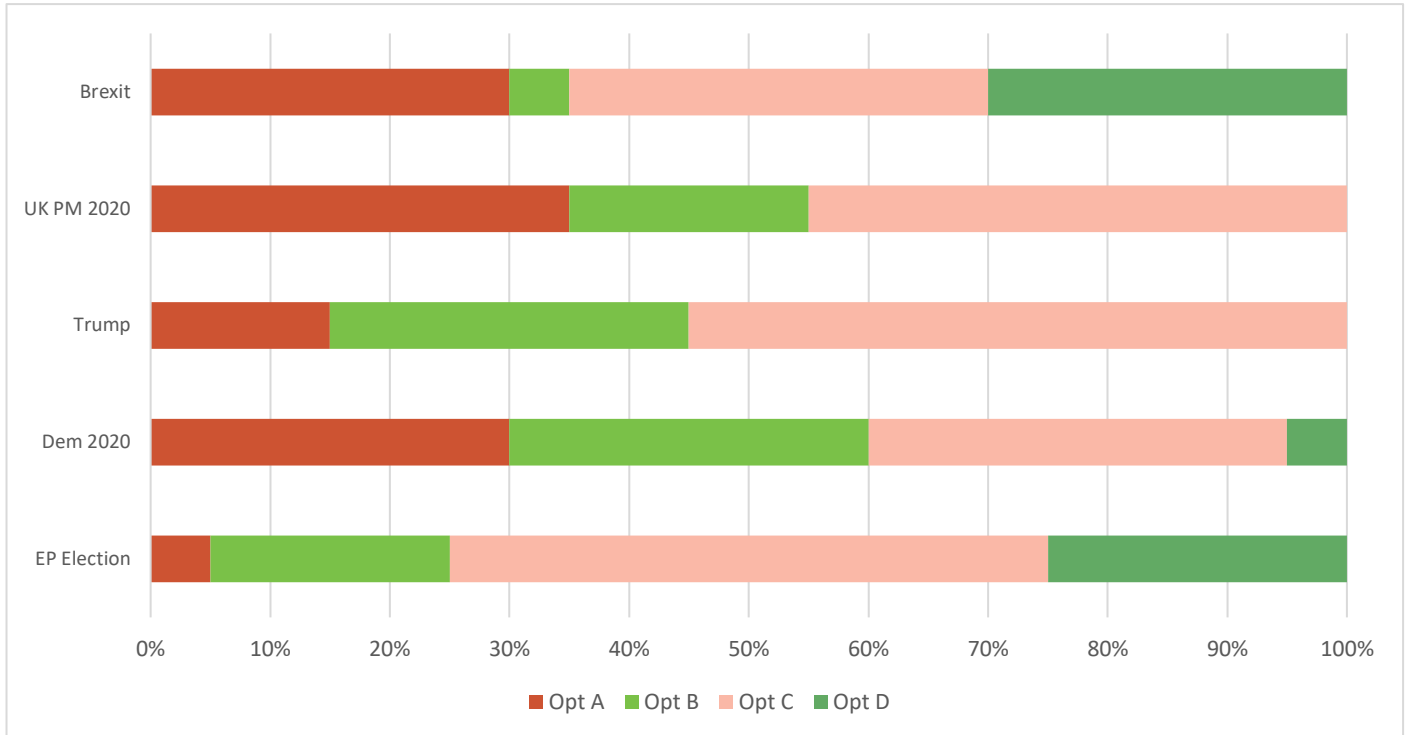
- UK PM May spoke to the Commons, spelling out that her ‘Plan B’ was indeed just a rehash of her Plan A. Even Tory MPs were left saying “we have [no further information](#)”. May’s hope is Parliament will pass legislation (or indicate it will do so) with the backstop altered. May could then use that as a mandate to go back to the EU and claim to have evidence as a way forward. Brussels remains emphatic, with Barnier telling May to focus on a “[more ambitious](#)” future trading relationship as the deal remains un-changeable. Downing St appears to have turned their back on cross-party talks, and looks only to gain the [support of Tory Brexiteers](#) by threatening it’s her deal or No Brexit, and the DUP with a renegotiated backstop. Elsewhere, Parliamentarians are attempting to take back control of the Brexit process with a series of amendments ([here’s a guide](#)). Where does this leave us? Delaying Article 50 seems to be a consensus view, to elevate some time pressure – however how long this [delay would be remains undecided](#) – and would the EU agree to it? We believe so if the UK can ‘justify’ it – e.g. election, referendum, etc. Both major parties are keen to avoid a second referendum, so an [election is more likely](#) than a re-run of June 2016. No Deal remains the default, as Parliament remains divided and the numbers do not add up. We continue to think GBP and UK assets are under-priced in terms of this risk.
- USD reached highs for the year after stronger-than-expected industrial numbers and, then news that US-Sino trade are thawing with China offering a [6-year import boost](#). The Chinese know that the Trump Administration and the President himself has an infatuation with trade deficits and it would be easier for Beijing to buy their way to a trade-peace rather than structural changes to their economy. With VP Liu due in Washington at the [end of the month](#), what do we expect? The Chinese offer will fall short of trade-hawk Lighthizer’s and Trump’s expectation but with headline concessions – Trump will be able to call it a win, and USD positive as the market takes risk off. Domestically, Democrats have hardened their stance on Trump’s Wall, with an [offer to protect Dreamers](#) flat out rejected. Although Republican voters are [growing in support](#) for Trump’s stance, a [majority of the public](#) blame him for the Shutdown. These sentiments are only like to increase as Trump looks to compromise on other policies – upsetting [some hardcore conservatives](#) - and the [human pain from economic stasis](#) begins to be felt. With an eye to 2020, California Senator and former state Attorney Gen Harris announced her [campaign](#) on Martin Luther King Day (a nod to the nature of her campaign) and will look to bring some left-wing ideas championed by Sanders and AOC– universal Health Care and a Green New Deal - to the centre-left.
- Macron and Merkel were in the France-Germany border town of Aachen signing a new treaty to replace the [1963 Élysée Treaty](#) on the 52nd anniversary of the original treaty. Both committed their countries to wide-ranging cooperation at the heart of the EU. Key [policies](#) include: 1) Germany’s admission as a permanent member of UN Security Council is a “*priority*”, 2) “*setting up a Franco-German economic zone with common rules*” and 3) moving towards a “*harmonisation of business laws*”. Another change from the 1963 Treaty includes the removal of words that acknowledge the importance of Trans-Atlantic relations, reiterating the shift in EU policy in the last 2 years. Why is this important? Both Germany and France are increasingly aware that it is their relationship that supports the EU project and should that alliance break, it would be a disaster. However, with pressure from populists at home (AfD and Le Pen’s National Rally) as well as abroad (Salvini and Orban) this treaty gives an opportunity to strengthen the bond and show a united front when others would benefit from political chaos. Elsewhere, Brexit continues to lead EUR moves with the EU leaders ruling out [further negotiations on the Withdraw agreement](#) and dismiss a [free-trade deal replacing the backstop](#). We expect EUR moves to remain muted until early March/ April when campaigning for the European elections starts to pick up.

Chart of the Week

Source: [@EuroBarometereEU](#)



BlondeMoney Probabilities:



n.b. these are subjective estimates made by BlondeMoney

	OPTION A	OPTION B	OPTION C	OPTION D
BREXIT OUTCOME	No Brexit +10%	Leave March 2019 0%	Leave after March 2019 +5%	Disorderly Brexit -15%
UK PRIME MINISTER JAN 2020	Jeremy Corbyn -5%	Theresa May 0%	Other +5%	-
TRUMP RE-ELECTION	Trump leaves before 2020 0%	Trump wins a second term 0%	Trump leaves after one term 0%	-
DEMOCRAT 2020 NOMINEE	Traditional Progressive (e.g. Warren, Biden) 0%	Social Democratic Populist (e.g. Sanders, Harris) +10%	'New Wave' Libertarians (e.g. O'Rourke) -5%	Non-Political Figure (e.g. Bloomberg, Winfrey) -5%
ANTI-ESTABLISHMENT PARTY % PT* CHANGE	Lose seats 0%	Gain 0 to 1% 0%	Gain 1% to 3% 0%	Gain more than 3% 0%

Change in percentage points from last week's edition

**% of total seats in EP held by anti-establishment parties*