

BM Political Highlights

Week Beginning 28/01/19

Top 3 Political Stories This Week

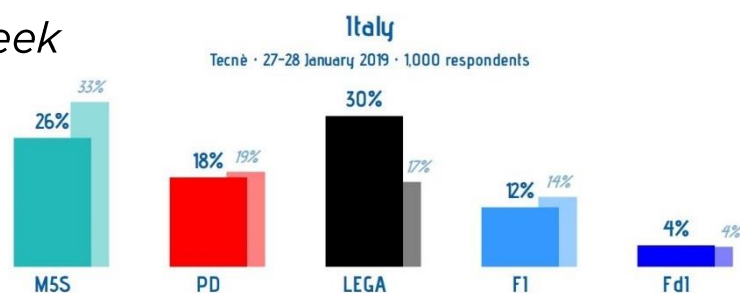
- Amendment pertaining to the [rearranged backstop passes Parliament](#) while amendment aimed at giving backbenchers control of the Brexit process is [defeated](#)
- Pres Trump [re-opens Federal Govt](#); China expected to present a roadmap of [structural reforms](#) when trade talks begin
- League officials, including Salvini ally Giorgetti, are pressuring Dep PM Salvini to call an [early election](#)

BlondeMoney View

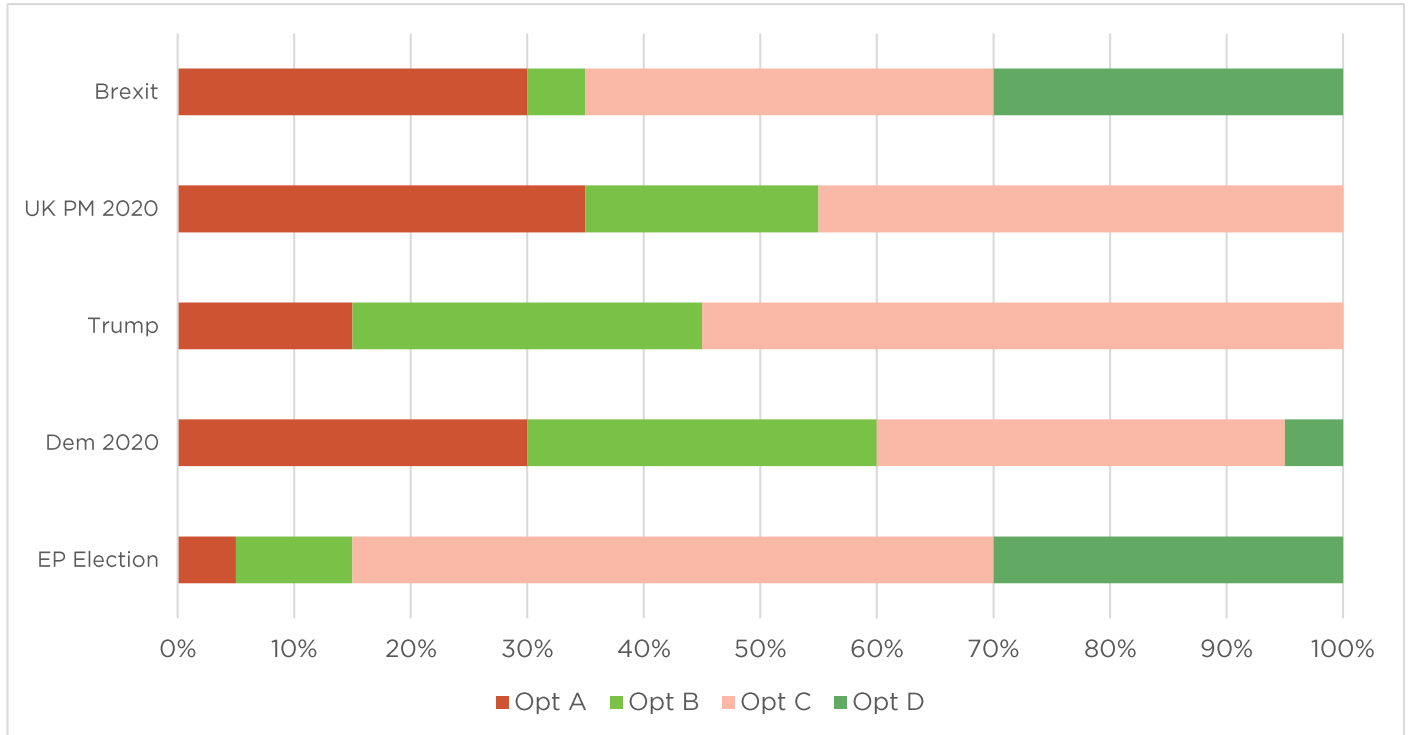
- Parliament remains split on Brexit and cannot agree how to break the deadlock. MPs did, in a non-legally binding way, say [they did not like No Deal](#) – although they had already done that by backing an [amendment on the Finance Bill](#) earlier this month. MPs also, in the same non-binding way, indicate any [changes to the Backstop](#) could allow May's deal to pass. Although the Eurosceptics within the Conservatives [backed](#) the amendment, whether they would vote for the Withdrawal Agreement when it comes back to Commons on Feb 14th, remains unclear; one MP was [quoted](#): “*Backing [the amendment] buys us another few weeks, she won't get enough on backstop and then we can just vote the deal down again in Feb*”. The longer the debate goes on, the closer the UK edges to No Deal and the Brexiteers will continue to pay for time. What happens now? May goes back to Brussels in hopes of serious change to the Backstop and then pass her Withdrawal agreement. This looks unlikely. [France](#), [European Commission](#) and the [EU Council](#) have all rejected re-opening the deal although some EU diplomats have suggested there could be “[additional language](#)” which is “*legally binding*”. There is little incentive in Brussels to yield to the UK. May has given herself a 2-week deadline before she must go back to the Commons, and as the Spelman amendment illustrated, most MPs will vote to avoid No Deal. GBP took early losses last night before stabilising. We think this indicates one of the first instances where the Market has begun to price No Deal, although we think Sterling will go lower as No Deal remains the default position until the MPs present something legally binding – and their rejection of the Cooper amendment shows that they are not ready to do so.
- Trump agreed a short term spending bill until Feb 15th to [re-opened the US Federal Government](#) after 35 days of shutdown. He and the GOP were the losers in this stand-off with Trump's disapproval rating [nearing 53%](#), while Pelosi's approval rating [doubled](#). Although the White House spin machine will [sell this as a win](#), Trump's 2020 bid will have been hit. However, the question of border security remains unresolved and the Commander-in-Chief has continued to [agitate for his Wall](#). Congress is scrambling to [reach a compromise on border security](#) by the Feb spending expiry, and despite all parties and the President desperate to avoid another Shutdown, the Democrats are not going to yield to Trump's demand of a Wall. This increases the risk of Trump using his Presidential prerogative to declare a national emergency to build his wall – although the legality about doing that is questionable with the [Pentagon saying the border situation does not qualify](#). With eyes on 2020, former Starbucks CEO Schultz has all but announced his will [run as an independent self-funded candidate](#) attracting ire from Democrats calling it a “*vanity project*”. Democrats will be keen to stop Schultz from running as a liberal independent as his high public profile and left agenda would split the democrat vote and lead to a Trump re-election. USD moves the last week have been driven by news elsewhere (Brexit etc) and the market seems poised to wait for news about US-China talks to leak before sharp moves.
- Italy's technocratic Prime Minister Conte has admitted that his 5*-League coalition [government is having a “wobble”](#). Bitter infighting between League Salvini and 5-Star Di Maio has led to many flagship policies of both parties being unable to get through Parliament since the [end of last summer](#) (the obvious being the infamous budget). Salvini and his League party have come out better in most polls, with the League regularly leading the [polls since July 18](#) and have extended that lead to [over 5%](#) recently. League officials, including high-profile Cabinet Undersecretary Giorgetti, have reportedly pressured party leader Salvini to capitalise on this lead and [call early elections](#). This could be significant as if they happen *before* the European elections – it would give the market a good bellweather for the populist appetite in Europe. Also, it could allow the League to bolster their European presence as they ride high in the polls. What does this mean for BTPs and Italian assets? While a League victory would give clarity about the Government's intentions, it would also bring risk as the clogged Italian Govt has stopped the most economic difficult policies coming to fruition. An un-clogged and functional League majority would allow them to implement sweeping migration reform and would act as more of a block for the EU Free Trade agenda – especially those involving Italian assets. BTP-bund spreads should widen.

Chart of the Week

Source: [@EuropeElects](#)



BlondeMoney Probabilities:



n.b. these are subjective estimates made by BlondeMoney

	OPTION A	OPTION B	OPTION C	OPTION D
BREXIT OUTCOME	No Brexit 0%	Leave March 2019 0%	Leave after March 2019 0%	Disorderly Brexit 0%
UK PRIME MINISTER JAN 2020	Jeremy Corbyn 0%	Theresa May 0%	Other 0%	-
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) 0%	'New Wave' Libertarians (e.g. O'Rourke) 0%	Non-Political Figure (e.g. Bloomberg, Winfrey) 0%
ANTI-ESTABLISHMENT PARTY % PT* CHANGE	Lose seats 0%	Gain 0 to 1% -10%	Gain 1% to 3% +5%	Gain more than 3% +5%

Change in percentage points from last week's edition

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