

# BM Political Highlights

Week Beginning 08/04/19

## Top 3 Political Stories This Week

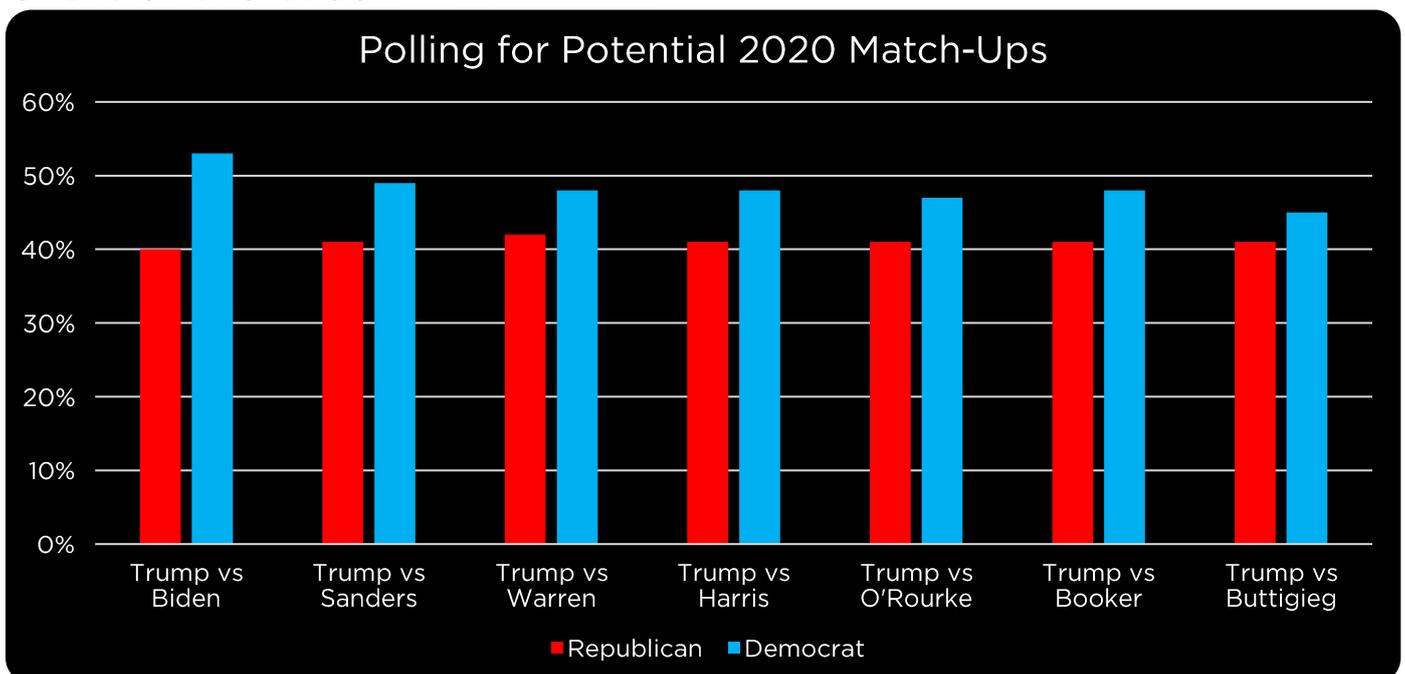
- PM May met with Chancellor Merkel and President Macron to win [support](#) for a further Brexit delay
- The US is [weighing up](#) \$11bn in tariffs on EU products ranging from aircrafts to agricultural goods
- European nationalist parties have formed a new [alliance](#) in a bid to capitalise on their momentum in the upcoming European Parliament elections and 'change the balance of power in the EU'

## BlondeMoney View

- After meeting with EU power brokers in Berlin and Paris, PM May will be hoping that her ongoing attempt to reach an agreement with the Labour Party will be enough to [persuade](#) EU leaders that an A50 extension is worth granting. Although Pres Macron has made a series of [provocative comments](#) suggesting he may veto such an extension, it is expected that he will ultimately fall in line when European leaders meet in Brussels later today. With uncertainty as to whether a joint Labour-Conservative agreement can be reached, a so-called '[flexextension](#)' is the most likely scenario. This would grant the UK a longer extension to A50 with an option to leave earlier if an agreement can be passed through Parliament. Further rounds of indicative voting may have to take place if [negotiations](#) ultimately fail. EU President Tusk also played to the Remainers, [suggesting](#) 'in the event of a continued stalemate, such a longer extension would allow the UK to rethink its Brexit strategy'. So, whilst an extension of A50 is likely, it is the success or failure of cross-party talks which will truly decide the future of the Brexit saga. No Deal risks are receding and GBP assets should benefit in the short term.
- The President this week responded to the [resignation of his DHS](#) sec with typical bluster, doubling down on the immigration policies which had ultimately led to her departure. In a week where the first contracts for construction of the [border wall](#) are to be announced, Trump continues to intensify his strong anti-immigration rhetoric in an attempt to energise his base - even suggesting he would be [willing to close](#) the southern border completely if the situation were to deteriorate further. Trump employed [similar tactics](#) in the run-up to the mid-term elections, warning at length about supposed migrant caravans marching towards the US. As 2020 approaches, Trump's rhetoric will intensify as he fights to win over the white working-class voters who delivered him to the White House in 2016. Trump's threat of [\\$11 billion in EU tariffs](#) is yet another manifestation of this 'America First' strategy that proved so effective the last time around. Expect the Trade Wars to continue, initially to the benefit of US versus European and Chinese assets.
- Keen to show that Brexit will not be allowed to dominate the EU's agenda indefinitely, European negotiators continued talks with China over a [potential trade deal](#) this week. Having found a common trade enemy in President Trump, progress towards an agreement has hastened as China agreed to cede significant ground on the issue of industrial subsidies. It wasn't all plain sailing, though, as Italy announced it will not honour the terms of [their agreement](#) with the EU by running a 2.4% budget deficit this year. The EU had previously [promised fines and disciplinary action](#) if Italy did not meet its 2.0% target but have made no comment since the budget announcement earlier this week. This poses a particularly difficult problem for the EU as they must walk the line between deterring future fiscal indiscipline and avoiding the market uncertainty which would ultimately result from another Rome-Brussels stand-off. We expect Bund-BTP spreads to widen.

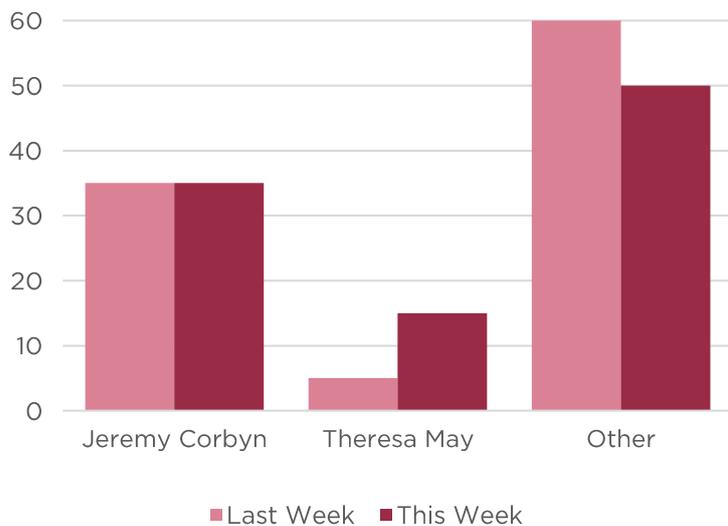
## Chart of the Week

Source: [RealClearPolitics](#)

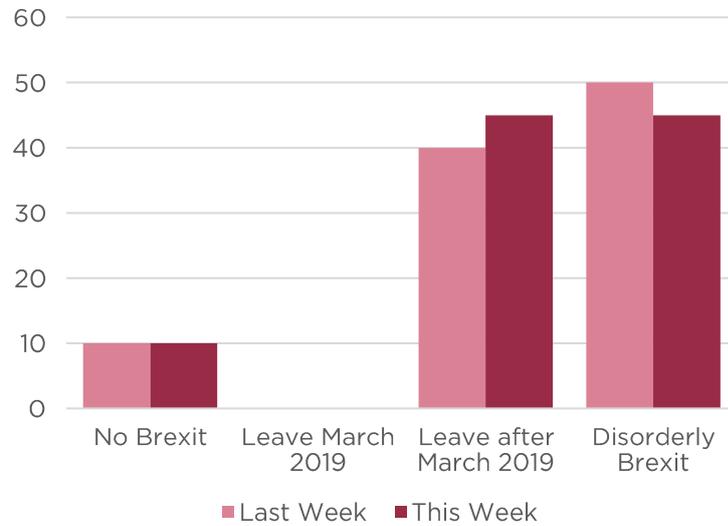


## BlondeMoney Probabilities:

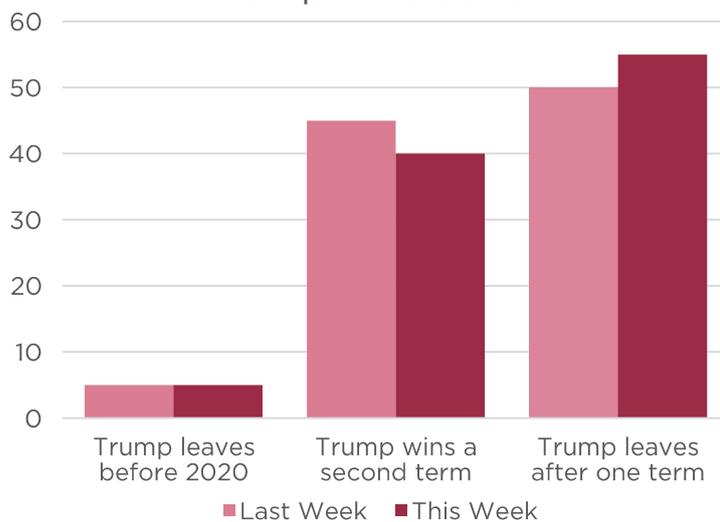
### UK PM in Jan 2020



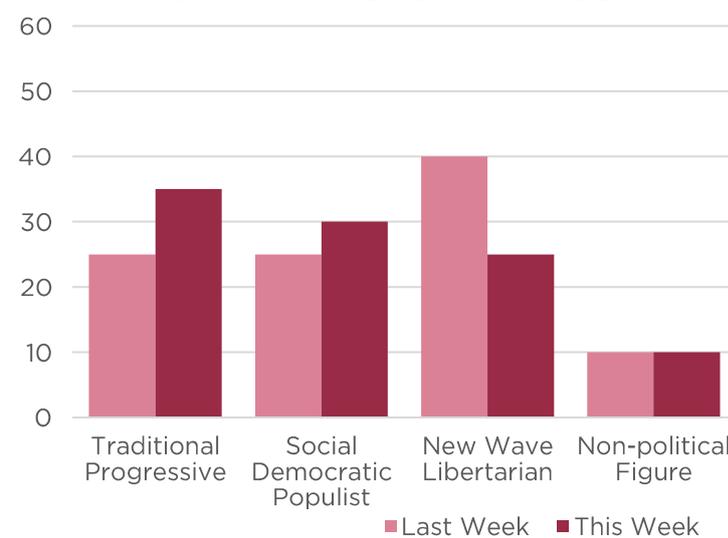
### Brexit Outcome



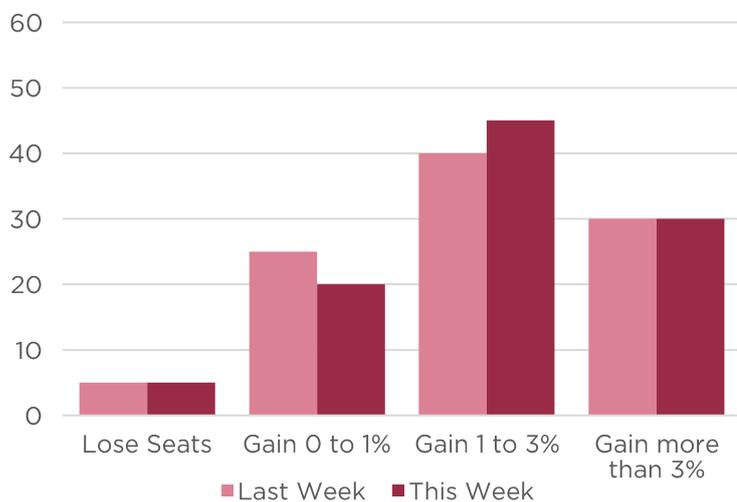
### Trump Re-election



### Democrat 2020 Nominee



### Populist Party Performance in EP 2019



- UK PM Jan 2020: With a longer A50 extension and PM May vowing to continue until Brexit is delivered, her tenure in Number 10 will not be as short-lived as previously thought.
- Brexit: Uncertainty around whether the EU27 will approve an A50 extension has increased the likelihood of a disorderly Brexit. However, this is mitigated by the positive noises coming out of Labour-Conservative negotiations.
- Trump: Illustrated by our chart of the week, Trump has a lot of work to do if he is to win a 2<sup>nd</sup> term. Perpetual reliance on the same few issues is ultimately to blame for his stagnation in the polls.
- Democrat Nominee: Despite the intense scrutiny that surrounded Biden last week, he maintains a double-figures lead in many polls. Buttigieg and O'Rourke have failed as of yet to translate their significant media coverage into a substantive gain in support among democratic voters.
- EP Election: The announcement of an alliance between nationalist populist parties in Europe creates the perception of a united front which could be beneficial electorally.