

BM Political Highlights

Week Beginning 06/05/19

Top 3 Political Stories This Week

- Downing St carries out “[scenario planning](#)” for a second EU referendum; PM May calls on Labour to get “[Brexit over the line – so let’s do a deal](#)”
- Trade Rep Lighthizer accuses China of “[retreating from commitments](#)” and announces that, from Friday, tariffs of 25% will be implemented on \$200bn worth of Chinese products
- New EU ‘Strategic Agenda’ for new Commission is focused on “[fighting illegal migration comprehensively](#)”

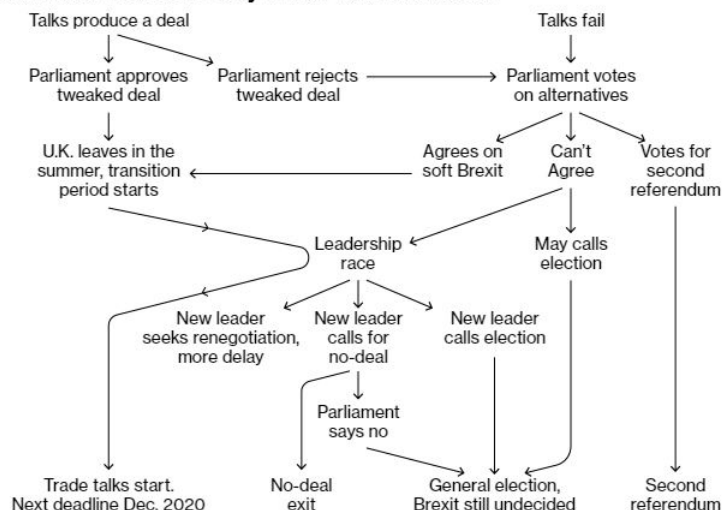
BlondeMoney View

- After a bruising local election, both major parties again have turned to cross-party talks for a Brexit breakthrough. The truce between May and Corbyn is unnatural and clumsy, but reports suggest that both sides are [taking things “seriously”](#) with Cabinet ministers meeting shadow counterparts, and Downing St willing to write in a Customs Arrangement clause to stop [checks on goods crossing](#) the EU-UK border. The fresh sense of impetus was re-enforced by a PM May [Op-Ed](#) where she called on Corbyn to listen as “*people really do want us to get on with [Brexit]*”. But neither party wants to enable the other to gain momentum. Both are facing tricky European Elections in less than a month, and May is facing her [Conservative grassroots no confidence vote on 15th June](#), so political capital needs to be conserved. A second EU referendum remains the flash point for investors and MPs, with Labour still flirting with the prospect; we do not expect any resolution on this topic until after the May European elections as both sides remain staunchly polarised [for](#) and [against](#). GBP will remain rangebound as Brexit fatigue continues to weigh on the market.
- Despite optimism going into trade discussions [last week](#), China talks are on a knife edge after Trump, who was hoping for the economic (although he has claimed this is [happening already](#)) and electoral boost a China deal would have delivered, [lashed out on twitter](#) slamming the US for “*losing \$500bn*” on trade. He announced plans to raise tariffs from [10% to 25% on \\$200bn of Chinese products](#) from this Friday. Making exaggerated moves and demands before stepping toward compromise is a long-established Trump negotiating tactic, particularly with China. Dialogue is expected to continue between the two sides, with China VP [Liu He still due](#) in the US this week. If DJT remains frustrated with the lack of progress to sell to his voters, the Commander-in-Chief will turn elsewhere for easy and quick wins. With foreign policy often his tool of choice, expect more goading on [Iran](#) and [North Korea](#) as the GOP attempts to control the news cycles.
- All eyes in Brussels are turning towards life in the new Parliament and Commission in 2019, and how well anti-EU and Eurosceptic parties will do in the upcoming elections. Recent polls in France have shown that for [the first time this year](#) the populist National Rally, led by Le Pen, have overtaken Macron’s party. In the UK, Farage’s Brexit party is now polling ahead of both the Tories and Labour with pollsters [suggesting](#) “*Farage probably has a smile on his face*”. Italy’s hardliner [Dep PM Salvini met with Hungary’s Orban](#) in a promise to unite in a new group within the European Parliament; others could join them. UKIP already have 24 MEPs prior to these elections, and Fidesz 11; with both parties (and Salvini’s League) poised to make gains, the threat of Eurosceptics working together is real. The EU is listening: for the first time the EU’s strategic agenda has included “*illegal immigration*” as a topic. EUR and European assets in the coming weeks will have to reprice the likelihood of a deeply Eurosceptic parliamentary group becoming the third largest party in Parliament.

Chart of the Week

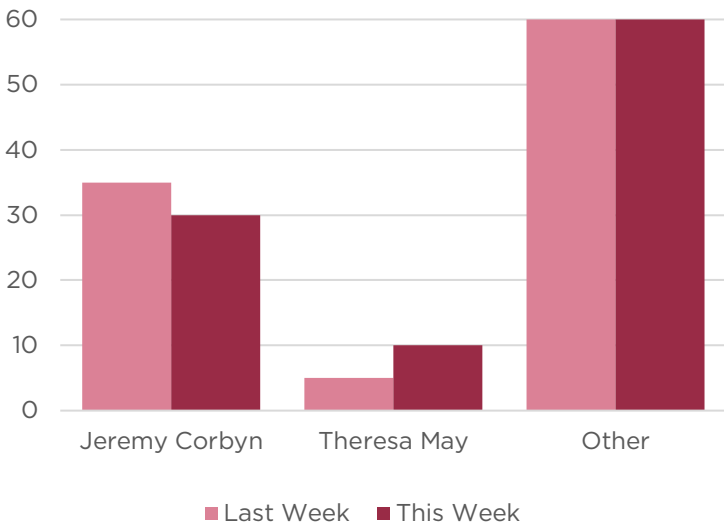
Source: [Bloomberg](#)

What Next As Cross-Party Brexit Talks Conclude

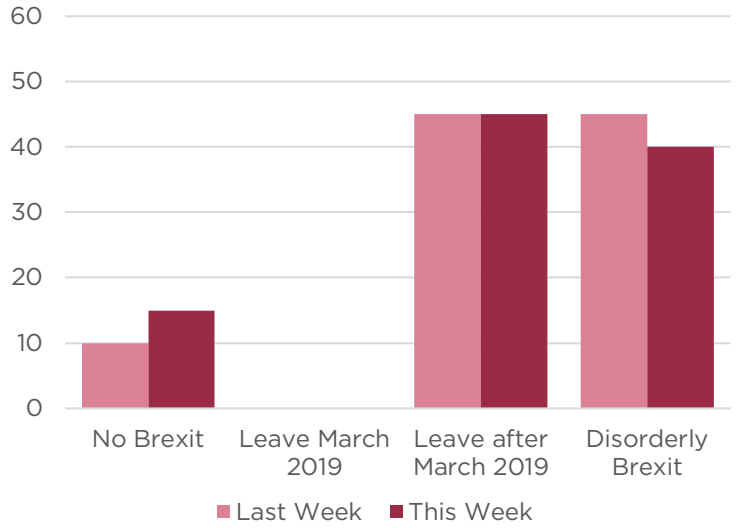


BlondeMoney Probabilities:

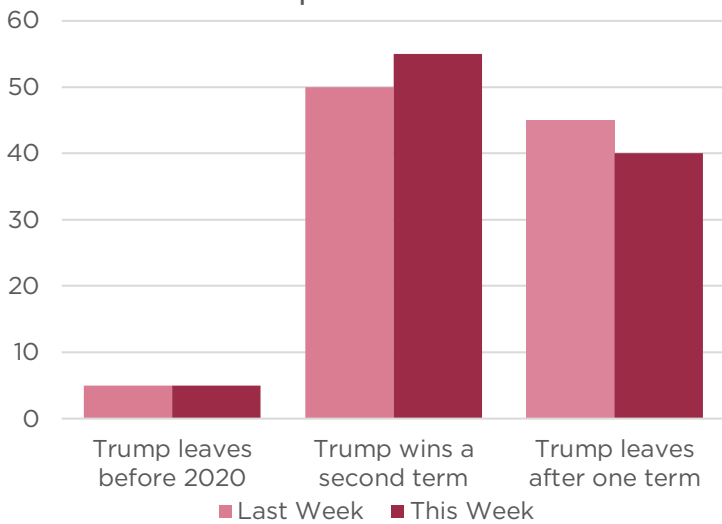
UK PM in Jan 2020



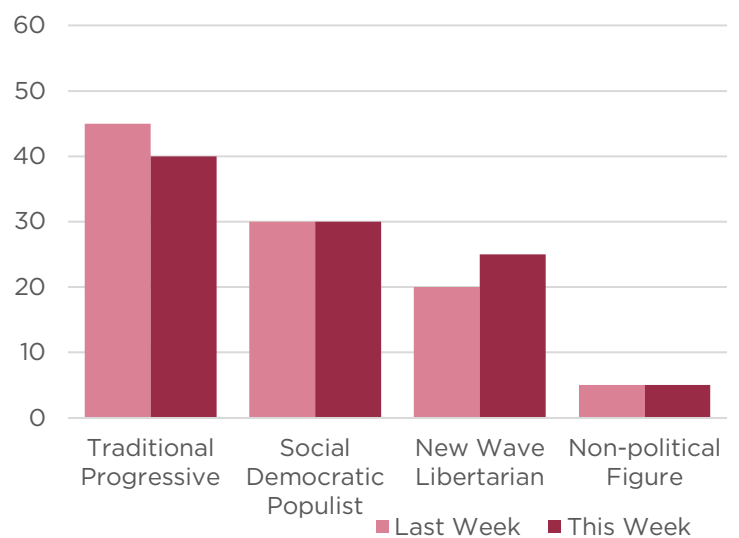
Brexit Outcome



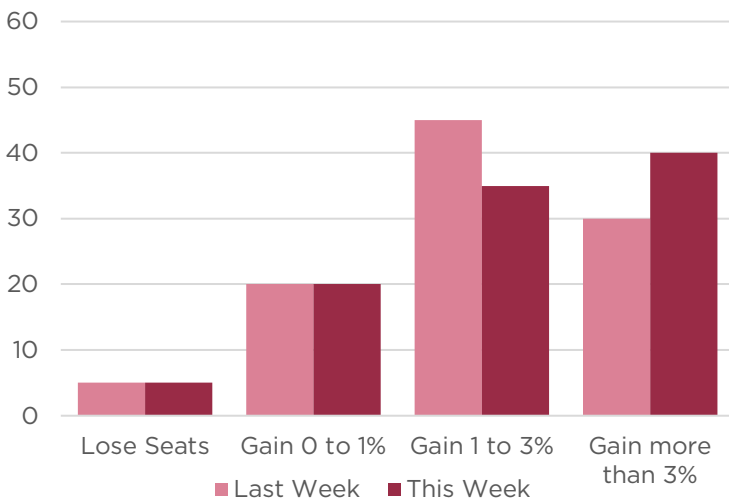
Trump Re-election



Democrat 2020 Nominee



Populist Party Performance in EP 2019



- UK PM Jan 2020: As Westminster remains in a stalemate, the more likely it is Theresa May will remain in power by default. Pro-Brexit MPs and Conservative members are running out of ways to force her removal.
- Brexit: The longer Brexit proceeds without a resolution, the chances of an endless transition or revocation become slightly higher.
- Trump: Trump 2020 is nearing full steam, and with a new reason to punish China on trade, Trump's rural voter base will be re-energised. Democrats remain divided with a split message.
- Democrat Nominee: A quiet week of campaigning, with no Democrat really making national headlines. Longshot outsider Pete Buttigieg AKA 'Mayor Pete' continues to grow in stature.
- EP Election: Le Pen has polled above Macron for the first time this year, and less than 3 weeks from election day. Populists continue to make gains across the continent; with Salvini, Orban et al plotting their own Parliamentary group, they could be the third biggest group in Brussels.