

Sterling slides as fears grow of a no-deal Brexit

Most of the major currencies have remained quite range bound in the past few months. The exception to this trend has been sterling. The UK currency made good ground in the opening quarter of this year on rising hopes for a soft Brexit. However, **the pound has come under renewed pressure since early May because of the growing risk of a no deal hard Brexit**, with Parliament log jammed on the issue and a leading Eurosceptic MP, Boris Johnson, becoming Prime Minister today.

The UK currency has fallen back from a high of \$1.32, to as low as \$1.24. Meanwhile, sterling has given up all the gains it made against the euro earlier in the year. **The euro is back trading around the 90p level versus sterling**, up from 85p at the start of May.

Not much is likely to happen on the Brexit front in August, with both politicians and public servants across Europe on their summer holiday breaks. Thus, the sterling market may enter the summer doldrums, trading around the 90p level against the euro.

The September-October period, though, will certainly see the focus on Brexit ramped up, as we approach the latest cliff-edge date of October 31st for the UK's departure from the EU. With no clarity on the issue, the **post-Brexit referendum lows for sterling of 93p against the euro and \$1.20 versus the dollar could be tested** by nervous traders, if fears continue to grow of a no-deal Brexit.

There is much speculation about what the new Prime Minister will do on Brexit. However, Mr. Johnson does not need to do anything if he just wants to take the UK out of the EU. The default position is that the UK will leave the EU at end October without a deal.

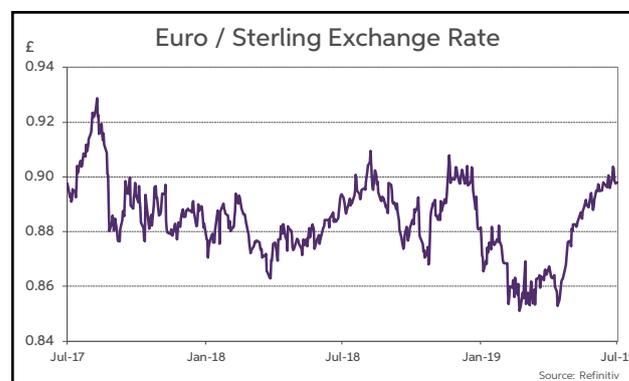
The only way to prevent a no deal Brexit is for either the UK Parliament to ratify the Withdrawal Agreement (WA), or the EU to grant a further extension to the Article 50 process or renegotiate the WA, in particular the Northern Ireland backstop, to make it acceptable to Westminster.

With both Parliament and the EU keen to avoid a hard Brexit, it may be more 'High Noon' than 'Halloween Horror' in terms of who blinks first to avoid the UK crashing out without a deal at end October. It could be that that a general election has to be called to try and end the Brexit impasse in Parliament. However, there is a **risk that an election results in a hung Parliament that is badly fragmented with no party near a majority, and is even more divided over Brexit.**

Even if there is a general election and the EU gives more time, the Brexit process can't carry on indefinitely. **The EU won't continuously grant the UK extensions to Article 50. Thus at some stage, the UK Parliament will have to decide what it wants on Brexit**, even if this means sending the issue back to the people for a final decision in another referendum.

It is all very well for Parliament to vote against leaving the EU without a deal, or indeed, to look to block the new Prime Minister suspending Parliament in October in order to allow him proceed with a no-deal Brexit.

These are just stalling mechanisms. **Parliament still needs to agree a way forward on Brexit. Otherwise, the UK will face leaving the EU without a deal**, if not at end October, then in the not too distant future. Sterling would fall sharply in circumstances where there is a no-deal Brexit, with the euro likely to move up towards parity.



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