



## *Relief rally for Sterling on expected delay to Brexit*

Sterling regained more ground last week as UK lawmakers moved to close off the prospect of a no-deal Brexit at end-October. They passed legislation that would require the Prime Minister to seek a further extension to Article 50 if a deal on Brexit has not been put in place by October 19th. This is seen as greatly reducing the risk of a no-deal exit at end October. Notably, the euro dropped back under 90p against the UK currency, having reached as high as 93p in August.

A no-deal Brexit could still occur at end October if the Prime Minister won an early snap general election. However, Parliament has not acquiesced to the PM's desire to have an election by mid-October, with November now seen as the more likely time.

The market had become very short the UK currency over the summer. The closing out of some of these positions by traders, in the light of the receding risk of a no-deal Brexit at end October, has seen sterling rally in the past fortnight. However, downside risks remain for the currency. A UK election is still on the cards, if not in October, then in November. It is hard to see an outcome to the election that would be positive for sterling.

A win for the Conservative Party would greatly increase the prospect of a no-deal, hard Brexit in the following months. A win for the Labour Party would take a no-deal Brexit off the table, but see markets fret about the high spend, high tax, government interventionist policies of the new administration. A hung Parliament would mean continuing uncertainty and leave a no-deal Brexit on the table as the default position if the UK can't come to a decision on the matter.

The outcome of the UK election is very hard to predict. Opinion polls are pointing to a win for the Conservatives, but have been unreliable in recent elections. The mood of the electorate could also change, as during the 2017 election. The campaign is going to be fought around Brexit and may become a rerun of the 2016 referendum. Thus, there may be a lot of tactical voting in many constituencies. Traditional political allegiances are also changing in the UK.

The performance of the Brexit party will be important, as a very strong showing would damage the prospects of the Conservative party winning the election. Meanwhile, even if the Liberal Democrats poll well, they may not win many seats under the first-past-the-post electoral system. In the 1983 election, they captured 25.4% of the vote but won only 23 seats, or 3.5% of the 650 seat total.

Overall, one can expect continuing uncertainty in the next couple of months as we wait to see whether a general election can break the impasse in the UK over Brexit. A no-deal Brexit remains a distinct possibility and could follow soon after the general election. Sterling can be expected to fall sharply in such circumstances.



It is important to understand that the UK can leave the EU at any stage during an extension to the Article 50 period. Thus, firms would be well advised to continue with their preparations for a no-deal Brexit. The risk now is that it could occur with little warning and in a disorderly fashion.

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