



## What's next for Brexit

If the polls for UK elections are correct at this time of writing, the British pound is likely to strengthen as a Conservative party win would result in a Brexit resolution by the end of January 2020. The markets are likely to view an overwhelming Conservative win as favourable, as it would reduce uncertainty in parliamentary deliberations going forward.

Conservatives, known colloquially as Tories, are projected to win a modest majority of 339 out of 650 seats in the British House of Commons, according to a YouGov projection.

The conditions for a strengthening of the pound have shifted toward a resolve to Brexit instead of Breain. Earlier, a narrowing of the Tory lead and projected tighter voting margins resulted in pound weakness. This stood in contrast to markets previously assuming that the “no Brexit” stance led by the Remain factions in Labor Party would be more positive for both the sterling and investor sentiment.

Since the results of a Conservative win have been priced, a “hung parliament” will compound political paralysis and market uncertainty. Conversely, a Conservative majority would be encouraging for markets (rallying equities, higher UK government bond yields, stronger pound) though much of the effects have already been priced in. This political clarity would also likely give the go ahead to the Bank of England to enact monetary easing in the form of a 25 basis point interest rate cut to cushion the effects of Brexit amid a backdrop of softening global economic data.

However, the outlook ahead is still fraught with uncertainty even if the Tories gain an overwhelming majority. For example, a clear Tory majority could embolden UK Prime Minister Boris Johnson to be more aggressive in negotiations with the European Union (EU) on the trade relationship as the UK leaves the bloc. The outcome on these trade agreements would determine the UK's market access to the EU on goods and services, security matters, other ties and have a significant bearing on the longer term prospects for the UK economy.

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