

# JUNE GAMBLE DOESN'T PAY OFF FOR MAY

## Key Facts

- Theresa May's Conservative Party still have the largest number of seats in the House of Commons, but fall short of the 326 number required to form a majority Government.
- Jeremy Corbyn's Labour Party gains 29 seats from their result in the 2015 General Election.
- The Scottish National Party (SNP) loses 21 seats, with a strong vote for the "Pro-Union" parties.
- Popular Vote share for National UK parties is Conservative 42%, Labour 40%, Lib Dems 7%, UKIP 2% and the Greens 2% with turnout up 2% from 2015 to 69%.
- "Confidence and supply" agreement is emerging between the Conservatives and the Democratic Unionist Party (DUP) from Northern Ireland.

## Commentary

Theresa May's Conservative Party lost their outright majority in last Thursday's General Election. Out of the 650 seats available (of which 326 seats is needed to form a majority government), the final number of seats won for the main national parties was: Conservative's 318, Labour 262, SNP 35 and the Liberal Democrats 12.

Northern Ireland's DUP (which holds similar political views as the Conservative Party) won 10 seats, and it has been speculated that May will form a "confidence and supply" arrangement with the DUP to allow the Conservatives to form a Minority Government.

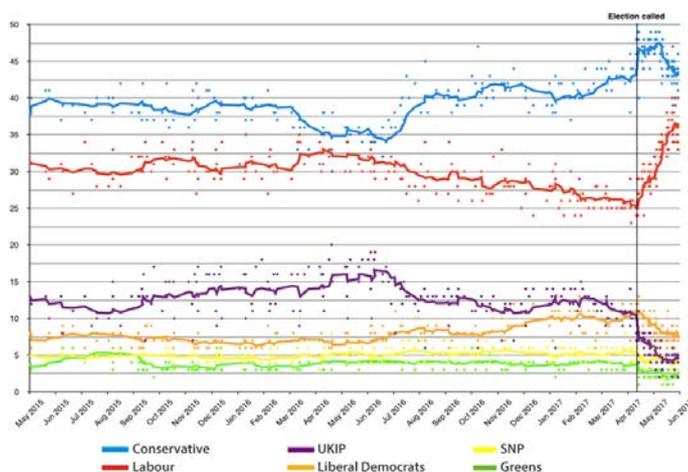
When the snap election was first called, it was done so on the premise that such would allow Prime Minister May to win a larger parliamentary majority in the House of Commons. In turn, this would strengthen her hand in the looming divorce talks with the European Union and give her a strong mandate for her government and her version of Brexit.

When the election was called, her Conservative Party was 20 points ahead in the polls and a large majority victory was predicted. However, after a campaign wobble in which the party's manifesto was launched with controversial policies on social care reform, support started to dwindle. There was a resurgence in support for the more populist Corbyn campaign

driven by an aggressive social media campaign that targeted younger voters with free student tuition fees and forgiveness of existing student debt.

Britons voted in their highest numbers in 25 years. More than 32 million votes out of a possible out of 46.9 million, had been counted, a figure not surpassed since the 1992 poll, when Conservative leader John Major made it four general election wins in a row for the Conservative Party.

Chart 1 – 2 Year UK Rolling Poll of Polls



Source: YouGov, Ipsos, ICM, ComRes

The decline from UKIP's vote share falling from 12.6% in 2015 to 1.8% in this election boosted both main parties, but this tended to help Labour retain and regain seats in the North of England and the Midlands against the Conservatives. A major factor of the result was the turnout amongst young people. Early indications suggest that youth turnout for ages between 18-24 year olds was 72%. This was significantly higher than in the past three general elections and certainly helped to boost Labour's vote share.

In Scotland, the Scottish Nationalist Party lost 21 seats, with the Scottish Conservatives, Labour and the Liberal Democrats all making gains. The Scottish Conservatives led by Ruth Davidson delivered the party's biggest success in Scotland since 1983 and won 13 seats. All three of the pro-Union parties benefited at the expense from the Scottish Nationalists and this result should help to dampen the appetite for a second independence referendum in the short term and perhaps for the foreseeable future.

Labour will be claiming a moral victory in denying the Conservatives an overall majority. Corbyn, with 40% of the vote, exceeded Gordon Brown and Ed Miliband's popular vote in 2010 and 2015, respectively. The count of 262 seats, however, is only seven higher than the total that the party won in 2010 when Gordon Brown's office was ejected from office and remains a long way from Labour winning a full working majority.

## Market Impact and BREXIT Implications

In the aftermath of the result, the markets have reacted nervously. The Pound Sterling (GBP) dropped against the US Dollar and Euro and there have been small gains made on the FTSE 100, as profits earned abroad by multinationals are worth more when converted back into GBP.

Chart 2 – GBP/USD FX



Source: Bloomberg, as at 09/06/2017

An issue that will be debated in great depth during the next session of Parliament will be Brexit, and what type of stance the British government will pursue in their negotiations with the EU, and whether the final outcome is a Hard or Soft Brexit. The Hard Brexit path would have the UK exiting the EU single market and its legislation, regulations and judiciary. In doing so, the UK would resume full control over its own immigration system, introducing stricter controls on immigration from the EU and elsewhere. It also could entail the UK adhering to only WTO rules on its trade.

A Soft Brexit could be in many forms, but would likely revolve around the idea of a compromise arrangement between the British government and the EU, in which the result of the referendum is honoured but without fully severing ties with Europe. Such would also try to control the national immigration rules and allow the UK to maintain access and barriers for trade in the single market. This option would need the permission from the 27 EU governments to allow the UK to access to the single market and it would likely be required for the UK to continue its financial contributions, resembling the Norway style arrangement.

Despite some current downside risk in the currency on the back of the political uncertainty, we believe in the longer term, the election result could lead to a softer Brexit negotiation that may help GBP to strengthen. This is due to a necessity to compromise on key terms including membership of the customs union and the Northern Ireland border.

In the days to come, the main agenda/responsibility for Prime Minister May is to form a Government and pass a Queen's speech (the process where the Monarch sets out the Government's legislative programme for the upcoming session of Parliament). May was asked to form a government on Friday afternoon and since then the talks between the Conservatives and DUP have been progressing. It is believed that the confidence and supply agreement will apply only to "big issues" such as the economy and security. It is also likely that the Queen's Speech will be delayed so the Conservatives can amend parts of the original speech in the light of the result on Thursday.

When May called the election she stated, "Every vote for the Conservatives will make me stronger when I negotiate for Britain with the prime ministers, presidents and chancellors of the European Union." However, the result has been negative for her own position and as a result the status of the Brexit negotiations have been put into jeopardy. The extent of the damage that has been caused by Thursday's result is still unknown and will only be seen in due course. In Europe we will continue to monitor closely the negotiations between the EU and UK Government and whether it will lead to a Hard or Soft Brexit will also have to be seen.

It is widely accepted that the position within her Party and nationally has been damaged by the result of the election. It is likely over the course of this Parliament she will face pressure to leave her post or be forced out of office, "in the interests of the Conservative Party." If such an event occurs, prominent members of her cabinet such as Boris Johnson, Amber Rudd, Philip Hammond and David Davis would be the likely candidates who would inherit the role of Prime Minister. What is clear is Prime Minister May's gamble has certainly not paid off and has delivered the polar opposite result to that intended.

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