

BORIS FORCES PARLIAMENT INTO DECISIVE NEXT WEEK

MORNING REPORT: 29TH AUGUST 2019



GBP

Sterling weakened yesterday, but remains above the multi year lows seen earlier in the month. Boris Johnson prorogued Parliament from September 9th to October 14th, significantly raising the pressure on Parliament ahead of next week's return from recess and drawing criticism on constitutional grounds. The conservatives hold a narrow working majority in the Commons but the party is divided and Conservative rebels seeking to avoid no deal are threatening to vote against the Government, either in passing legislation mandating a delay in October, or in an outright vote of no confidence. Parliament has two options. The first

is to try to pass legislation mandating an extension in October. The Government and loyal conservative MPs can resist this by slowing the motion down in the House of Lords, interfering with Commons's attempts to control its own schedule, declaring tactical public holidays to prevent the Commons from sitting, or even asking the Queen to delay giving royal assent to the bill. All of these options may lead to civil unrest or even a complete breakdown in constitutional order. Parliament's second option is a Vote of No Confidence. Under the Fixed Term Parliament Act, Boris would get to choose the timing on the next election if the Government failed to demonstrate it's holding the confidence of the Commons within 14 days of a VONC. Government sources have said he would hold the election after October 31st, ie after the UK has left with no deal. Therefore the only way a VONC would prevent no deal would be if an alternative Prime Minister demonstrated they could hold the confidence of the Commons and form a "caretaker" government with the sole objective of delaying Brexit and holding an election while still in the EU. This would mean Conservative rebels would need to vote their own government down and vote for a Corbyn Government. Sterling is trading slightly lower compared to the week's highs, but on the whole Johnson's constitutional chicanery does not represent a material increase in no deal risk compared to the substantial downside already priced in. The key developments that would knock sterling lower are Parliament failing in its resistance next week, or the EU rejecting Boris's negotiation efforts. Both are plausible outcomes. Conservative Rebels may hesitate in taking the ultimate step of voting no confidence in their own Government and delivering Corbyn to power while EU negotiations are ongoing. EU negotiations are still probably set for failure unless one side offers significant concessions. The near term outlook for sterling is therefore still deeply uncertain, with at least one extremely critical vote in the commons likely to see massive volatility.

CAD

The loonie has erased yesterday's losses with a strong rally this morning, but on the whole has been uneventful this week apart from Wednesday's brief burst of strength. The day's key release will be Canada's Trade Balance at 13:30 BST.

EUR

The euro continued its relentless downwards trend against the US dollar yesterday and this morning, but has resisted weakness against sterling. New flow has been thin, although Italian President Sergio Mattarella has offered outgoing Prime Minister Giuseppe Conte a mandate to form a new coalition government. Today's most significant euro data release will be German Inflation, which will be released throughout the morning with the Germany wide release at 13:00 BST.

USD

The US dollar is well bid this morning, with most of the G10 currencies posting losses on the day. The day's key data print will be updated Gross Domestic Product figures at 13:30 BST.

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