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R&R Weekly Column
By Brunello Rosa

UK General Election Results In A Landslide Victory For Boris Johnson

As we discussed in our in-depth analysis, the UK general election resulted in a historic victory for the Tory Party, which will now gain the largest parliamentary majority of any British government since 1987, under PM Thatcher. It was also the worst electoral defeat for the Labour Party since 1935. The Conservatives gained 48 seats (for a total of 365) compared to their performance in the 2017 general election. The Scottish National Party gained 13 seats (for a total of 48), while Labour lost 59 seats (bringing it down to 202) and the Liberal Democrats lost 1 (it now has 11). Still, the Conservative victory was unquestionable only in England, where Labour now remains strong only in urban areas. Regional parties won their respective nations: Plaid Cymru in Wales, Sinn Fein and DUP in Northern Ireland, and especially the SNP in Scotland.

As of now, we believe that the main political consequences of the vote will be the following: (1) Boris Johnson remains prime minister and, as discussed below, will carry on with his Brexit plan; (2) Jeremy Corbyn, who already said that he will not lead the Labour party at the next general election, will likely resign from his position as party leader in the next few weeks; Labour will now face a harsh leadership contest between the so-called "True Corbynistas", such as Rebecca Long-Bailey, currently the shadow business secretary, and moderate left-wing figures such as Keir Starmer, the shadow Brexit secretary. If the party does not want to disappear, it will likely shift back to the centre in coming years, following the disastrous results of Corbyn's attempt to bring Marxism back into the UK political system; (3) Jo Swinson, the Lib-Dem leader who lost her seat in favour of a SNP MP, will also likely resign her position as party leader in the next few days. She carries the responsibility for having forced Labour to accept this snap election that has led to the largest Tory victory in recent history; (4) Nicola Sturgeon, whose SNP party has won 48 out of the 59 seats in Scotland, will press further for a second referendum on Scottish independence.

At this point, Brexit will happen for certain, most likely by January 31st, as is currently planned. This does not automatically mean the end of the Brexit uncertainty. Boris Johnson has promised to conclude a trade deal with the EU by 31 December 2020, a virtually impossible task unless by reaching a deal he means merely an agreement in principle, or only a sort of UK version of the "Phase-1 deal" from the US-China trade dispute. A renewed phase of uncertainty might therefore occur towards the end of the year, when a no-deal Brexit could once again become a possibility if the transition period is not postponed to 2022. The decision must be made by 30 June 2020, and given the ample majority that will now exist in parliament, and the government's strong negotiating position deriving from the large popular mandate the election has given it, it is unlikely as of now that Johnson will request such an extension in the summer.

Most importantly, if Johnson's deal is finally approved by parliament, Northern Ireland will become a very special zone. It will be part of both the UK and the EU customs unions, a privileged position that Scotland especially would aspire to have. As in the case of Spain, where the Catalans ask to have the same privileges of the Basque Country in return for giving up their quest for independence, Scotland will probably ask to obtain the same status as Northern Ireland in return for giving up its intention to ask for a second independence referendum.

To conclude, while this election has removed some of the Brexit-related uncertainty and all of the Corbyn-related fears, the road ahead for the UK remains bumpy and winding. For this reason, it is likely that fiscal policy will be more growth-friendly, and monetary policy will remain supportive. As such, the election-induced GBP rally might prove to be more short-lived than is currently thought.

Our Recent Publications

- Flash Preview: Riksbank To Normalise Rates Before A Long Pause, *by Brunello Rosa, 13 December 2019*
- Flash Preview: Norges Bank To Remain on Pause In December, And For Some Time, *by Brunello Rosa, 13 December 2019*
- *UK Election, Brexit and BoE Update: Johnson's Landslide Victory Opens The Gates To Brexit, By Brunello Rosa,* *13 Dec. 2019*
- Flash Review: SNB On Hold, With An Easing Bias, *by Brunello Rosa, 12 December 2019*
- Flash Review: "Owl-ish" Lagarde Plays It Safe At First ECB Presser, *by Brunello Rosa, 12 December 2019*
- Flash Review: Dovish Fed Pledges To Stay On Hold During 2020 Electoral Year, *by Brunello Rosa, 12 December 2019*
- *Flash Preview: SNB Likely To Hold Off, For Now, By Brunello Rosa,* *Farah Aladsani and Fawaz Al Mughrabi, 10 Dec. 2019*
- *Fed Preview: Managing The Pause,* *By Nouriel Roubini and Brunello Rosa, 9 December 2019*

Looking Ahead

The Week Ahead: Manufacturing And Services PMIs Expected To Decline In The US And Improve In The EZ

In the US, the December Markit PMI Composite is expected to slightly soften to 51.9 (p: 52.0) – driven by a decline in both: 1) manufacturing (c: 52.4; p: 52.6); and 2) services (c: 51.4; p: 51.6). IP is expected to improve to 0.8% m-o-m, after the biggest annual decrease in three years (p: -0.8%). Core PCE and PCE are anticipated to remain unchanged at 1.6% y-o-y and 1.3% y-o-y, respectively.

In the EZ, the December Markit PMI Composite is expected to improve to 50.9 (p: 50.6) – driven by improvements in both: 1) manufacturing (c: 47.4; p: 46.9); and 2) services (c: 52.1; p: 51.9). In November, the CPI inflation rate is likely to remain unchanged at 1% y-o-y, well below the ECB's 2% target.

The BoJ, BoE, and ***Norges bank*** are all expected to keep their key policy rates unchanged at -0.10%; 0.75%; and 1.50% respectively - while the ***Riksbank*** is expected to hike its repo rate by 25bps, to 0%, as "a prolonged period of sub-zero rates could lead to unspecified negative effects".

The Quarter Ahead: The 'Phase One' Trade Deal - Reached By The US And China To De-Escalate Trade War

The US-China trade war will likely scale back the December 15th US tariffs on some USD 160bn on Chinese goods. The details of the agreement - hailed by President Trump as "phenomenal" - remain largely unknown. Beijing pledged to buy USD200bn of goods.

In the US, the President is likely to confront impeachment prospects while seeking to boost his chances of re-election in 2020. The process against President Trump, led by the House Judiciary Committee, will likely focus on: 1) abuse of power; and 2) obstruction of justice. The Fed signaled it would "alter the level of accommodation" only if there were: 1) "material" changes in its outlook – including global developments; and 2) muted inflation pressures. Hence, the market expectations of a Fed rate cut in 2020 fell to 61% (p: 69%).

In the UK, in the December 12 general election the Conservative party won a majority of 43.6%, while the Labour party declined to 32.2%. The Conservative win will provide PM Johnson enough backing to break the Parliament deadlock and get the 'Brexit agreement' passed by the January 31, 2020 deadline.

Last Week's Review

Real Economy: US Inflations Rises – Central Banks Remain Accommodative, Supporting Growth

In the US, in November consumer prices rose more than expected, to 2.1% y-o-y (CPI, c: 2.0%; p: 1.8%), reaching the highest level since November 2018, supporting the Fed's intention not to further cut interest rates in H1-2020. The Fed deemed "the current monetary policy stance as appropriate" and kept the 'Federal Funds rate' unchanged in the 1.50-1.75% range as: i) labor market data remains robust; ii) economic activity continues to expand; and iii) inflation is close to the FOMC's 2% target.

In the EZ, IP fell deeper into contractionary territories (IP Oct., c: -2.3% y-o-y; p: -1.7%), hampering market sentiment towards the EUR. The ECB held its: i) 'key rate' - i.e., the interest rate on the main refinancing operations; and ii) 'deposit rate' – i.e., the rate on the deposit facility used by banks for overnight deposits, unchanged at 0.0% and -0.50% respectively.

In Japan, in Q3 the economy grew at a faster pace than expected (Q3 GDP, a: 1.8% y-o-y; c: 0.7%; p: 0.2%), as resilient domestic demand and business spending offset falling exports, due to global trade tensions.

In Switzerland, the SNB followed the ECB's lead and kept the 'SNB policy rate' unchanged at -0.75%.

In Turkey, the CBT continued to ease, as it cut the 'one-week repo auction rate' more-than-expected, by 200bps to 12% (p: 14%).

Financial Markets: US-China 'Phase One' Trade Deal Improved Investor Confidence

Market drivers: global stocks rallied on improved global trade conditions and eased Brexit-related uncertainties.

Stocks: w-o-w, global equity indices rose (MSCI ACWI, +1.3% to 555), led by DMs, where the S&P500 hit fresh record highs (MSCI World, +1.0% to 2,320; S&P 500, +0.7% to 3,169); EM stocks also rose (MSCI EMs, +3.6% to 1,087).

Bonds: Returns rose w-o-w (BAML Global, +0.2% to 285.2).

FX: w-o-w, the USD weakened against other currencies (DXY, -0.5% to 97.172), while the EUR and GBP appreciated (EUR/USD, +0.6% to 1.112; GBP/USD, +1.4% to 1.333) - led by the UK election results, which reduced uncertainties and the perceived need to hedge the GBP. On the back a weak USD, EM currencies strengthened w-o-w (MSCI EM, +0.9% to 1,649); the TRY weakened following the greater-than-expected CBT policy-rate cut;

Commodities: Oil prices hit a three-month high amid fading uncertainty around US-China trade and Brexit (Brent, +1.3% to 65.2 USD/b).

Farah Aladsani *contributed to this Viewsletter.* *The picture in the front page comes from this website*

Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*Five Star Movement, Italy*
ann.	*annualized*	*m-o-m*	*Month-on-month*
ARS	*Argentinian Peso*	*mb*	*Million barrels*
avg.	*Average*	*mb/d*	*Million barrels per day*
bn	*Billion*	*MENA*	*Middle East and North Africa*
BoC	*Bank of Canada*	*MHP*	*Nationalist Movement Party, Turkey*
BoE	*Bank of England*	*mn*	*Million*
BoJ	*Bank of Japan*	*MPC*	*Monetary Policy Committee*
bpd	*Barrels per day*	*NAFTA*	*North-American Free Trade Agreement*
bps	*Basis points*	*NATO*	*North Atlantic Treaty Organization*
BS	*Balance sheet*	*OECD*	*Organization for Economic Cooperation and Development*
c	*Consensus*	*Opec*	*Organization of Petroleum Exporting Countries*
C/A	*Current account*	*p*	*Previous*
CB	*Central bank*	*P2P*	*Peer-to-peer*
CBB	*Central Bank of Bahrain*	*PBoC*	*People's Bank of China*
CBK	*Central Bank of Kuwait*	*PCE*	*Personal Consumption Expenditures*
CBT	*Central Bank of Turkey*	*PE*	*Price to earnings ratio*
CDU	*Christian Democratic Union, Germany*	*PM*	*Prime minister*
CNY	*Chinese Yuan*	*PMI*	*Purchasing managers' index*
CPI	*Consumer Price Index*	*pps*	*Percentage points*
DJIA	*Dow Jones Industrial Average Index*	*pw*	*Previous week*
DJEM	*Dow Jones Emerging Markets Index*	*QCB*	*Qatar Central Bank*
d-o-d	*Day-on-day*	*QAR*	*Qatari Riyal*
DXY	*US Dollar Index*	*QE*	*Quantitative easing*
EC	*European Commission*	*q-o-q*	*Quarter-on-quarter*
ECB	*European Central Bank*	*RE*	*Real estate*
ECJ	*European Court of Justice*	*RBA*	*Reserve Bank of Australia*
EIA	*US Energy Information Agency*	*RRR*	*Reserve Requirement Ratio*
EM	*Emerging Markets*	*RUB*	*Russian Rouble*
EP	*European Parliament*	*SWF*	*Sovereign Wealth Fund*
EPS	*Earnings per share*	*tn*	*Trillion*
EU	*European Union*	*TRY*	*Turkish Lira*
EUR	*Euro*	*UAE*	*United Arab Emirates*
EZ	*Eurozone*	*UK*	*United Kingdom*
Fed	*US Federal Reserve*	*US*	*United States*
FOMC	*US Federal Open Market Committee*	*USD*	*United States Dollar*
FRB	*US Federal Reserve Board*	*USD/b*	*USD per barrel*
FX	*Foreign exchange*	*UST*	*US Treasury bills/bonds*
FY	*Fiscal Year*	*VAT*	*Value added tax*
GCC	*Gulf Cooperation Council*	*VIX*	*Chicago Board Options Exchange Volatility Index*
GBP	*British pound*	*WTI*	*West Texas Intermediate*
GDP	*Gross domestic product*	*WTO*	*World Trade Organisation*
IMF	*International Monetary Fund*	*w*	*Week*
INR	*Indian Rupee*	*w-o-w*	*Week-on-week*
IPO	*Initial public offering*	*y*	*Year*
IRR	*Iranian Rial*	*y-o-y*	*Year-on-year*
JPY	*Japanese yen*	*y-t-d*	*Year-to-date*
k	thousand	*ZAR*	*South African Rand*
KSA	*Kingdom of Saudi Arabia*	*2y; 10y*	*2-year; 10-year*