

## Britain, Brexit and Boris's big majority

**6am update:** A large Conservative majority should lead to a smoother Brexit outcome. It will give Boris Johnson more breathing room to extend the transition period, and if that happens the pound could push higher



Boris Johnson voting earlier with his dog, Dilyn

### Polls point to a big Conservative win

The opinion polls always suggested Boris Johnson and his Conservative Party would win the UK general election. But few predicted the scale of his win and just how badly the opposition Labour party would perform. Johnson, who campaigned with the slogan 'Get Brexit Done', is set to have a majority of nearly 80 in the House of Commons.

For Brexit, this all means that Johnson's deal will be ratified, most likely allowing the UK to leave the EU at the end of January. But more importantly, it could give the prime minister the political breathing room to ask for an extension to the transition period.

This is the standstill phase where the UK's trading relationship remains unchanged, where the government hopes to negotiate the terms of the future deal. But spanning just 11-months, this is unlikely to be long enough. An extension is an option, but the EU has signalled the UK will need to sign-up to budget payments beyond 2020 – and importantly that this needs to be agreed by the end of June.

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This would undoubtedly infuriate hardline pro-Brexit Conservative MPs, and until now the government has ruled out an extended transition. But with a sizable majority, this could change – an extension is probably more likely than not.

Don't forget that with a strong majority, the government may not face the electorate for another five years. An abrupt end to the transition period would be economically damaging, could limit UK negotiating power in future trade talks, and would also draw time/money away from other domestic priorities.

That said, if the government decides that there is merit in ending the transition period in 2020, there is really very little Parliament can do about it. MPs are unlikely to be able to seize control, as they did in March and September. Don't forget a number of the moderate Conservative MPs that backed efforts to force an Article 50 extension in April and October stood down at this election.

**Watch our video on the poll result below**



### **Brexit and the pound after Johnson's big win**

ING's Chris Turner and James Smith take a look at Britain's path to Brexit after Boris Johnson's big win in the UK general election

[Watch video](#)

## GBP/USD jumped sharply on the exit poll news



## 2020 will still be an uncertain year for the UK economy

So until we get more clarity on the transition, this all means the start of 2020 will be an uncertain phase for the UK economy. For many firms, an abrupt end to the transition period – which would see the majority of the UK leave the single market and customs union – would be very similar to a ‘no deal’ Brexit.

Even if an extension is ultimately agreed, there's a clear risk this doesn't happen before the EU's June deadline. If that's the case, then firms will likely allocate extra resources to contingency planning. Alongside weak capital spending, this could amplify the current fragility in the jobs market.

But if an extension can ultimately be agreed, a cloud of uncertainty would lift. If coupled with better global activity and an improved jobs backdrop, this would probably persuade the Bank of England to steer away from interest rate cuts next year.

Either way, it's worth remembering that it could still be some time before we get better clarity on the future relationship for specific industries. Investment will remain capped.

# What a large Conservative majority could mean

## Large Conservative majority

Market positive • Neutral • Market negative

No deal exit on/after 31 Jan	Abrupt end to transition period in Dec 2020	Second Brexit referendum
<b>Unlikely</b> Deal set to be ratified	<b>Fairly unlikely</b> PM has political space to extend transition	<b>Very unlikely</b> Deal set to be ratified
Scottish referendum	Economic policy	
<b>Very unlikely</b> Government not relying on SNP support	<b>Neutral</b> Fiscal rules tweaked and modest investment	



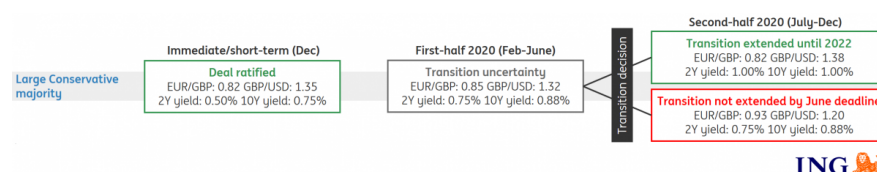
Source: ING

## Conservative majority positive for the pound

Understandably the pound surged on news that the Tories could secure a thumping majority. In previous articles, we had highlighted how the FX options market was pricing a +/- 190 pip move in GBP/USD on election day and in fact we've already seen a 310 pip move taking GBP/USD close to 1.35.

Large working majorities have typically been good for the pound over the last forty years and under a scenario of a large Conservative majority we had a short-term target for GBP/USD at 1.35 – already hit. We ultimately expect GBP/USD pushing onto the 1.38/40 area through 2020, assuming a Brexit transition extension is negotiated.

## An indicative path for the pound



Source: ING

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