

## What now for the pound and Brexit as May faces a no-confidence vote?

The British Prime Minister is facing a vote of no confidence from her own MPs this Wednesday. A victory for Theresa May may give the pound a modest boost but the challenge she faces getting her Brexit deal through parliament won't have gone away



British Prime Minister, Theresa May, leaves Downing Street on day of no-confidence vote

Conservative Members of Parliament will vote tonight (between 6-8 PM GMT) on whether they want Theresa May to remain their leader of the party. So far on Wednesday, lawmakers have largely rallied around May and the BBC reckons the number of Conservative MPs that have publically aired their support is now sufficient for her to win - assuming, of course, these individuals vote as they say they will in the secret ballot this evening.

**Here, we take a quick look at what either a win or a loss might mean for Brexit and the pound.**

### 1 Theresa May survives as Conservative leader

Even if Theresa May survives, the fact remains that the EU is highly unlikely to offer the

reassurance MPs are demanding on the Irish backstop. From Brussels' perspective, if the UK were to have a legal way of avoiding the backstop - be it through a unilateral exit mechanism or another legal means - then it would not represent a strong enough insurance policy against a hard border.

However, given that Theresa May would be safe as Conservative leader for a year, a victory today could give her some political clearance to seek a broader Brexit consensus across the House of Commons. In our view, that could ultimately boost the odds of either a softer Brexit (e.g. 'Norway Plus') or a second referendum, which seem like the options most likely to garner a majority across Parliament.

That said, it seems unlikely any of this would happen until after May's deal has been put to a vote in Parliament. The Prime Minister said today she intends to hold this before 21 January, but the [House of Commons appears to have suggested](#) this is no longer a legal deadline, meaning there is still a risk the vote doesn't happen until later in Q1. In turn, this raises the likelihood that the March 29th Brexit date will need to be pushed back.

In the meantime, the lack of clarity and elevated risk of 'no deal' is set to see economic activity [slow further](#) (we expect growth to halve in the fourth quarter relative to the third).

### The pound's likely reaction

GBP could enjoy a modest and temporary rally were PM May to survive the confidence vote. Modest, because PM May is widely expected to win the vote, and temporary because she still has to put her withdrawal agreement to parliament and face likely rejection. We suspect a GBP/\$ would struggle to sustain a rally above the 1.2650/2700 area should PM May win the vote tonight.

## 2 Theresa May loses, initiating a Conservative leadership contest

In this case, a leadership contest would be initiated, and various contenders would likely throw their names into the ring. These names would be whittled down until the two most popular candidates among Conservative MPs are left. Theresa May, having been ousted, would be excluded from this process.

The two-person choice would then be put to party members, and the betting markets are suggesting ex-Foreign Secretary Boris Johnson would be most likely to win (currently 4/1 odds), with Dominic Raab, Sajid Javid, Michael Gove and Jeremy Hunt close behind. In reality, it's likely the Pro-Brexit European Research Group (ERG) would rally behind only one of those candidates to prevent diluting their vote.

Gauging what all this means for Brexit is tricky. A more pro-Brexit candidate might be more likely to curry favour amongst the grassroots of the Conservative Party, and if they were to win may increase talk about a 'no deal' scenario. That said, any new leader will still face the same parliamentary arithmetic, so getting a harder form of Brexit approved would be very challenging.

Whatever happens, all of this will take time. Based on historical races, Conservative leadership

contests typically take around two months to complete. This factors in time for hustings, printing and posting ballot papers and so on, although given the urgency of the situation, it's not clear whether this timetable could be accelerated.

Either way, it would all bring us much closer to the EU exit date - or perhaps more importantly, the 26 February cut-off for the withdrawal act to pass. This date relates to a Parliamentary requirement for it to be laid down 21 sitting days before coming into effect.

Some form of delay to the Brexit vote - most likely via an article 50 extension - would seem more inevitable.

## GBP could be hammered if May loses

A surprise defeat would likely hit the pound hard, potentially paving the way for a more pro-Brexit PM and greater acceptance of the risk of a Hard Brexit. GBP is trading on exceptionally high volatility at the moment and a rudderless UK government at this vulnerable time could see the BoE's Broad Sterling Trade Weighted Index fall back to the lows seen in 2008 and 2016 – effectively a 3% GBP decline from current levels.

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