

GBP: May's Brexit Chequer-mate

Brexit Secretary David Davis' resignation has sparked fears of a UK political 'crisis'. Such fears are not reflected in the price of sterling; what matters for financial markets is the type of Brexit delivered, not necessarily who delivers it



Theresa May, UK Prime Minister

Source: Shutterstock

Initial thoughts on GBP following David Davis' resignation

We've been saying that what matters for GBP markets is the type of Brexit delivered - not who delivers. The pound is able to live with ministerial resignations as long as that is the extent of the fallout. Looking at the tail risks of a Tory leadership contest - or even a General Election - we note the legislative hurdle is pretty high to see either outcome. So at this stage, one is inclined to interpret Davis' resignation as a sign that the UK government is steering towards a softer Brexit - which is the more powerful, positive GBP driver. But one should be wary that the next few days could be quite noisy in terms of the UK political landscape, so it's all about waiting on the sidelines and pouncing for the right opportunity to go long GBP.

For more of our GBP scenario analysis, please see our note [GBP: Theresa May's Impossible Brexit Trinity](#).

A timeline of our @ING_Economics tweets on GBP since Friday



Viraj Patel
@VPatelFX



This looks like a pretty 'soft' Brexit. What matters for **\$GBP** markets now is whether Brussels can work with this plan. If they can - could see a pretty big relief rally in **\$GBP** next week.

If not, last para of 'No Deal' Brexit preparations comes into focus & **\$GBP** under pressure



Sam Coates Times @SamCoatesTimes
Theresa May has today agreed the following 3 page Brexit deal with her cabinet for the softest possible Brexit...

1:12 PM - 6 Jul 2018

8 Retweets 17 Likes





Viraj Patel
@VPatelFX

David Davis quits as #Brexit Secretary. Not necessarily negative for markets. Means UK government more likely to negotiate a softer Brexit. Type of Brexit matters for \$GBP not who delivers it. As for risks... 1/3



10:41 PM - 8 Jul 2018



Viraj Patel @VPatelFX · 4h

Hard to see a new #GeneralElection being called under Fixed Term Parliament Act (requires two-thirds of MPs to vote for one). Tory Leadership contest also difficult to see given what Brexiteers ministers have been saying since Chequers (48 Tory MPs needed to trigger this) 2/3

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Viraj Patel @VPatelFX · 4h

Bottom line: \$GBP tail risks of prolonged UK political uncertainty - either Tory leadership contest or #GeneralElection - haven't materially increased on this news. Uncertainty may keep a lid on \$GBP for now, but softer Brexit hopes means risks are tilted towards the upside 3/3

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Viraj Patel @VPatelFX · 46m

Warning: Don't extrapolate UK political risks from \$GBP's price action today. \$GBP *not* 'higher' because of 'lower' political risks... it's higher because of a weak \$, positive global risk environment. Equally \$GBP didn't move lower because UK political risks aren't material yet

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