GBP: Winning here!

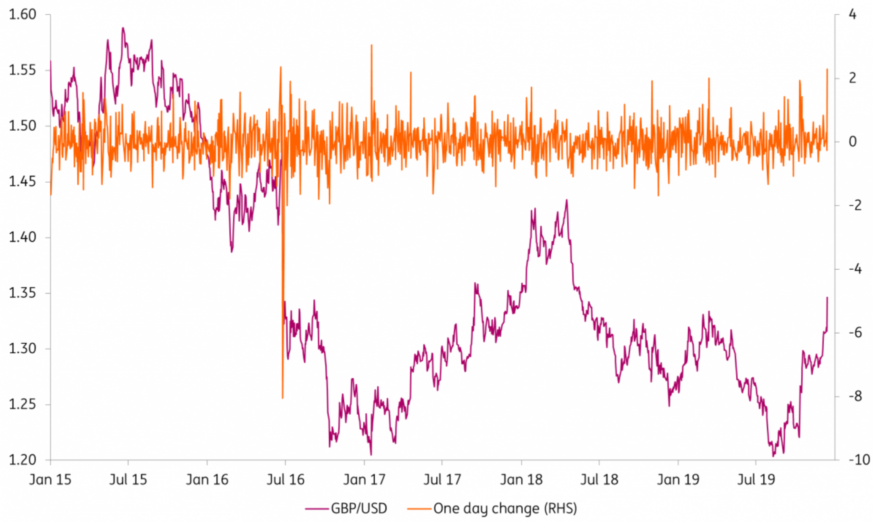
GBP is holding onto the sizable gains made right after the exit poll came out. This is the largest single day rally in GBP/USD since January 2017. Given what seems to be the convincing nature of the win, known early, GBP may not have too much further to rise short term, but a re-pricing of the interest rate curve in early Europe could provide a little more upside

They think it's all over

Coming up to five hours after the exit poll release, GBP/USD has settled into a relatively tight 1.3450-1.3500 range. The big move has happened and all the results we've seen so far corroborate the exit poll. The 2.7% jump in GBP/USD has been the largest one day move since January 2017.

Given what looks to be a convincing a Conservative win, it seems unlikely GBP/USD has too much more to rally in the very short term. The biggest one-day rally over the last five years (3%) has nearly been matched. Perhaps we could see a move to the 1.3550/75 area in Europe.

Sizable one day change for Cable



Source: Bloomberg

Interest rates and equities to re-price

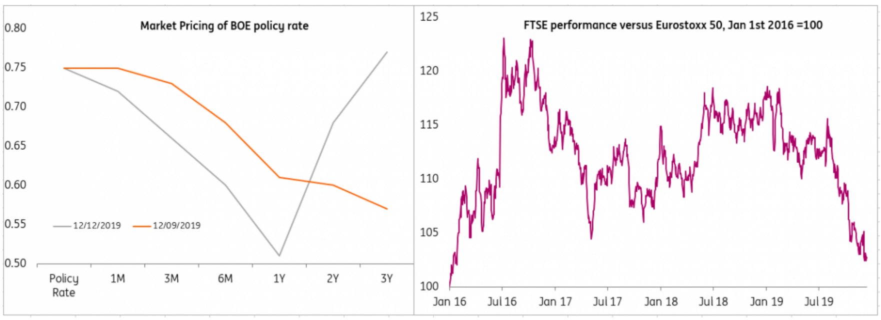
As above, if the majority of the short-term GBP move has been seen, the focus shifts to UK interest rate and equities markets. These open at 0800 GMT and will presumably see some sizable adjustments.

The GBP money market curve yesterday was pricing a 25bp Bank of England rate cut over the next year. Presumably that will largely be priced out. This move and the expected move higher in UK Gilt yields will be aided by news that Donald Trump has signed a Phase One trade deal with China.

We would imagine UK equities would witness a sizable rally. A large Tory majority at least increases the chances of some transparency returning to the business sector and certainly avoids the Labour threat of a large rise in corporation tax and the nationalization of the utility sector. Again a big move for UK equities typically falls into the 2.5-3.0% area and would see the FTSE reclaim some of the ground lost against European equities this year.

Of course, there will be a lot to play for in 1H20, particularly with how PM Johnson approaches trade negotiations with the EU, his stance on extending the transition period and how he handles the SNP (on track to win 56 of 59 seats in Scotland) – but for the time being this will present a tail-wind for UK asset markets heading into 2020.

BOE cycle to be re-priced and FTSE to reclaim some ground



Source: Bloomberg

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