

Brexit: UK election chatter grows as Parliamentary battle recommences

The UK government has signalled it will try to trigger a general election if momentum builds behind a plan to avert a 'no-deal' Brexit. But there's little doubt that an election poses massive risks for both the Conservatives and Labour. Either way, the next few days will prove decisive when it comes to the risk of 'no-deal' next month



Britain's Prime Minister Boris Johnson speaks outside 10 Downing Street in London.

Source: Shutterstock

Election chatter builds as lawmakers return

As Westminster braces for an almighty battle this week, there is a growing sense that prime minister Boris Johnson could be on the verge of calling a general election on 14 October.

This poses a major conundrum for the Labour Party, who will need to give consent to an election. While an election would give them an opportunity to seize power, failure would put the Conservative government in a stronger position to pursue Brexit on its terms later in October - including potentially leaving the EU without a deal.

But a general election also poses challenges for the Conservative party, who will need to win over leave-supporters in Labour-held seats to offset potential losses in Scotland and

Southern England. If the party fails to convert their current lead in the polls into a working majority, then a Labour-led government could be formed, particularly given their wider pool of potential partners in the House of Commons, if the party falls short of an outright majority.

The bottom line is that an election would be extremely difficult to call, which in turn would make the job of putting probabilities on the different Brexit outcomes much harder. But given that Conservatives currently lead in the polls, an election will almost certainly increase the perceived risk of 'no-deal' within financial markets in the weeks leading up to 14 October.

As our FX team notes, this only means further [pressure for the pound](#).

The logic behind Mr Johnson's election push

On the steps of Downing Street on Monday evening, Mr Johnson said that he did not want a general election.

But minutes later, a government source confirmed to the press that the government is prepared to trigger a national vote if legislative efforts to block 'no deal' gain momentum today. It's easy to see why an election is tempting for the government, and the reasons appear two-fold:

Firstly, the Conservative-led government is operating with the thinnest of working majorities in the House of Commons. Whatever happens over the next few weeks, an election could give Mr Johnson an opportunity to boost his standing in parliament and assume greater authority as prime minister.

Secondly – and perhaps more importantly – a pre-Brexit election could (if successful) theoretically aid the government's [reported](#) plan to run down the clock towards the end of October, something that is under threat as lawmakers kick-off their efforts to avert a 'no deal' Brexit.

A pre-Brexit election could aid the government's plan to run down the clock towards the end of October

Today, MPs will attempt to seize control of the House of Commons agenda - the first step on the road to passing a bill that would ultimately force the prime minister to ask for another Article 50 extension, if he fails to agree to a deal with the EU.

This legislative route is fraught with roadblocks (e.g. will Speaker John Bercow allow MPs to seize control using an emergency debate today, something that is unprecedented?). But MPs appear cautiously confident that they have the numbers to get the anti 'no-deal' legislation passed over the next few days.

For Mr Johnson, this risks losing control of the Brexit process altogether - both in negotiations with the EU (he believes his negotiating leverage would decrease) and within parliament.

In short, this is why the government appears prepared to trigger an election for 14 October. This carries an enormous amount of risk, but if Mr Johnson can convert his current lead in the polls into an election victory, he would enter the final days of the Brexit process with greater control.

The government may have greater clout to try and force a deal through parliament - although as the newspaper [The Daily Telegraph](#) notes, there is so far little sign of progress towards a compromise. An election victory could also move the prime minister much closer to a 'no-deal' exit should he wish to take that path.

A pre-Brexit election would be a gamble for the Labour party

An election before the 31 October Brexit deadline poses a major conundrum for the Labour party, who don't forget will need to sign up to an election if it is to go ahead. Under the fixed-term parliament act, two-third of MPs need to approve a motion calling for the country to go to the polls (although we'd note there is talk that Mr Johnson may be able to [circumvent this requirement](#)).

On the face of it, this is a dream opportunity for Labour leader Jeremy Corbyn. He and his party have been pushing hard for a general election over recent months.

But Mr Johnson's proposal is also inherently risky for the opposition. While the election would likely take place before 31 October, signing up to this before the legislative efforts have completed would mean there would be no legal mechanism in place to force an Article 50 extension. Don't forget that the government will presumably not be allowed to continue negotiations during the election campaign, making it even less likely that a revised deal would be in place by the mid-October European Council.

So while an election would give Labour an opportunity to seize power, if they fail, then the risk of 'no deal' could increase substantially.

According to [some reports](#), Mr Johnson also retains the ability to change the date of an election by proclamation after it has been called. Some lawmakers are wary that he could call an election for before 31 October, but subsequently change the date to November, by which time the UK would have left the EU without a deal.

If Labour rejects calls for an election this week, and legislation subsequently passes to force the prime minister's hand when it comes to an Article 50 extension, then this would also undoubtedly deal a blow to the government. An election is still very likely at some stage this year, and if legislation ultimately forces the government to ask for another Brexit delay, then this could complicate Conservative efforts to stem the tide of the Brexit party when/if the nation heads to the polls.

An election is also a massive gamble for the Conservatives

Having said all of that, a 14 October election is also an extremely risky option for the Conservatives, although it's also true that an election on these timescales could also be a reasonable strategic choice for Mr Johnson.

While conventional wisdom suggests that Mr Johnson needs to get Brexit 'done' before going to the polls, an election immediately after a 'no deal' exit would be incredibly risky given the potential for severe disruption.

A mid-October election would allow Mr Johnson to campaign on a tough Brexit stance, without risking the economic impact of a pre-election 'no deal'. It would also allow him to tell voters that he didn't want this election, and attack the opposition for trying block Brexit altogether.

But while the Conservatives have maintained a solid lead in the polls, there are a number of headwinds that could prevent the party from converting this into an outright majority at an election.

In Scotland, the Conservatives may well lose seats to the Scottish National party. The Tories hold 13 Scottish seats, all but one of which voted to remain and in many cases, the SNP were only narrowly defeated by the Conservatives at the last election. Meanwhile, in England, the resurgent Liberal Democratic party pose a risk to Conservative-held seats in the South-West and London. To make up this deficit, Mr Johnson will need to attract leave-supporting voters in Labour-held seats. Here, the Conservatives face two dilemmas.

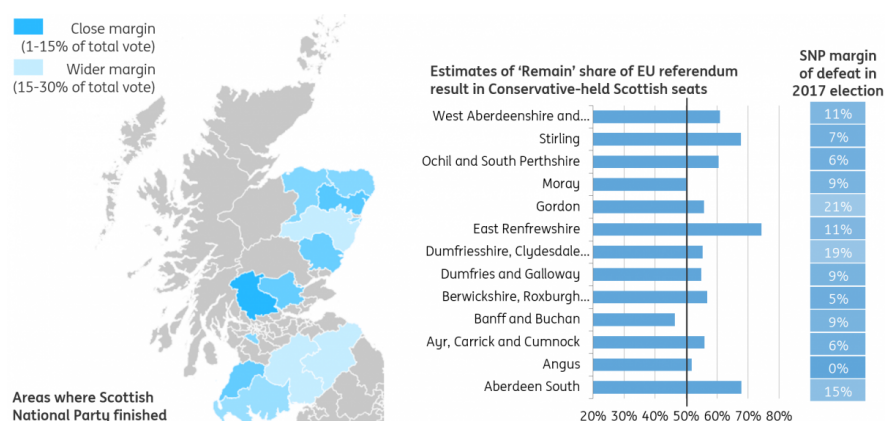
A mid-October election would be impossible to call. But given the Conservatives currently lead in the polls, the prospect of an election means markets will become more nervous about the possibility of a 'no deal' exit.

Firstly, as politics professor [Matthew Goodwin](#) noted, Mr Johnson will have to strike a very fine balance in his calls for a 'no-deal' Brexit. 'No-deal' does not have universal support among the electorate - a [Mail on Sunday/Deltapoll](#) survey found only 28% of voters would prefer to leave without a deal if necessary. Calling outright for a 'no-deal' could hit the party in the polls, but equally watering down the threat risks fuelling further losses to the Brexit party.

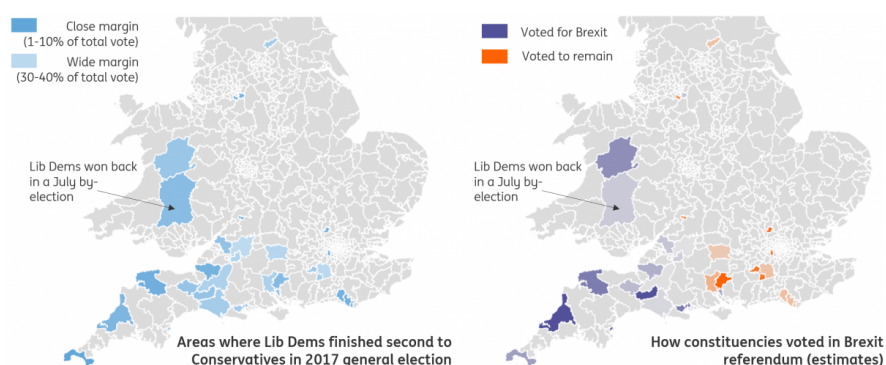
Secondly, Mr Johnson will need to win Labour voters over on key economic policies. Surveys have shown that Labour and Conservative leavers often share views on cultural issues - that's partly why the government is pushing hard on plans to tackle crime but differ on economic interests. Assuming the Labour party fight hard on issues such as nationalisation and public spending, this would pose a challenge for the Conservative campaign.

In short, a mid-October election would be impossible to call. But given the Conservatives currently lead in the polls, the prospect of an election means markets will become more nervous about the possibility of a 'no deal' exit.

Conservatives face challenges in Scotland



Conservatives vulnerable to Lib Dem advances in England



Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.