

Brexit - hoist on my own petard*

After my Day-ahead commentary yesterday suggested "literally nothing" occurring, the correct entry should have been "further political bafflement". I will insert that as a stock phrase for the time being ([*link for those interested in the derivation of the title expression](#)).



Source: Shutterstock

Leave it to the experts!

With fingers singed, if not totally carbonised, the very first thing I must do today is give you the [link to James Smith and Petr Krpata's piece on Brexit and the pound](#), which runs through the latest mind-boggling piece of political dodge-ball that has resulted in the prorogation of the UK Parliament. That is to say, Parliament will be suspended between September 9 and October 14 - when the Queen's speech will take place. Just a reminder, the Brexit deadline is 31 October. Parliament returns from recess on September 3.

For those short on time, the upshot is that the pound is taking a justifiable stuffing today and will likely continue to do so, but our pundits think that a vote of no-confidence and general election along with a further Article 50 extension are still marginally the more likely outcomes, which would ultimately see the pound recovering some of its lost ground. They admit that this could go down to the wire.

The problem I see with that is not that the no-confidence motion would be defeated, but that to force PM Johnson from office, it would likely require some further Conservative MPs aligning themselves with opposition parties as independents to make up the numbers for an alternative government.

Without this, there is no obvious coalition which could take over the government. PM Johnson may simply not resign following a successful no-confidence vote. And this then just drags the clock down to October 31 and a hard Brexit.

My own personal view, somewhat contrary to our house view, is that the odds now are stacked in favour of hard Brexit. I won't put numbers on it. It is, of course, always easier to take the more damning viewpoint when you have nothing professional riding on it. In the end, it is for you, not me to decide - these are just my opinions which you are free to rebut.

And another thing...

One other thing that grabbed my attention this morning, was a story about the US mulling super-long bond issuance - not that this is that interesting in itself, but mainly because it got top billing in today's top stories. Why is this all that newsworthy? Well maybe the fact that a long-dated zero coupon Bund auction flopped recently, tells you that there is still probably ample appetite for similarly long, but positive yielding assets, like a theoretical 50 or 100 year US Treasury.

But more importantly, it links in with a comment reportedly from Ray Dalio, who was pushing back at recent calls from the White House for the Fed to do more easing.

Dalio apparently makes a point which I have been making since long before the current US President took office, that there comes a point where low interest rates simply stop providing any additional stimulus. A separate piece by the always-excellent Cameron Crise, wondered how a bond that trades at 107 today in the Eurozone and will mature at par 100 in "X" years time can be stimulative to the economy. He tried but failed to come up with an explanation.

And that's probably because he is right.

When naysayers first started to worry about the sorts of unorthodox central bank policies that are looking increasingly mainstream, it was with a fear of hyperinflation. That, as the residents of Venezuela and Zimbabwe know, is bad, because it wipes out the value of its residents' savings.

Well similarly, if your pension fund is invested in bonds that yield a 7% capital loss at maturity, that is delivering the same thing. OK, you say, but what about the stock market? That is up thanks to these same policies? You have a point, stocks are supported by a low risk-free rate. But what helps to keep them elevated, is that there is always an expectation that more can be done. If we are now reaching a limit to where such policy stimulus can go, then maybe these assets won't hold up as well. And if so, that provides the other leg to wealth and savings destruction that hyperinflation in other times might have delivered.

All of which makes me wish I owned more physical gold and helps explain why crypto has had a recent resurgence.

Day ahead

Back to the real world now and Australian 2Q private capex data today provides a pre-GDP release

(next week) preview, that may see the QoQ GDP growth rates push up from the 1Q19 0.4% rate (we think 0.6%). This would also likely dampen any thoughts of a 4Q19 RBA cut. We are jumping the gun and taking out our existing 4Q19 rate cut forecast, though we still have one final cut penciled in for 1Q20. With quite a lot of easing still priced into the Australian money markets, a decent figure today could result in quite a positive AUD reaction.

And besides that, the usual political bafflement and bewilderage (I don't think this is a real word, but I'm hoping to make it one - it seems appropriate in the current environment).

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