

## DisMay

Brexit Draft in tatters; no-confidence vote in PM May asked for; GBP smashed by markets; May determined to fight on, though the middle ground seems to be disappearing fast; More positively, US and China seem to be sounding more constructive over trade; ASEAN central banks get hawkish.



Theresa May holds cabinet meeting

Source: Shutterstock

### "Tis only a flesh wound

UK PM Theresa May's defiant stand to push on with the UK draft leaving bill reminds me of a scene in Monty Python and the Holy Grail, where King Arthur fights the Black Knight and having cut off both of his arms, assumes the fight is his, only to hear "It's just a flesh wound, I've had worse!".

Our FX strategists have been busy overnight, [re-assessing the outlook for the GBP](#), which despite yesterday's pummeling, they feel has a further 3-4% additional downside in the event of a no-deal exit. We wait to see today if any further cabinet ministers resign, after the quitting of Raab and McVey yesterday. Leadsom and Gove must presumably be poised to jump ship?

Still, the prospects of a swift end to the Brexit saga look as far away as ever, though the new turns could make it very interesting over coming months. Our UK economists will no doubt be covering all this in much greater detail, but a few questions that would be worth answering would be:

1. If a leadership challenge set in train a move for a no-deal exit as Pro-Brexit politicians took over the steering, but that was voted down by Parliament (which seems likely) wouldn't

that lead to a General Election?

2. Is failure to get the current draft bill through parliament now the new base case?
3. And so wouldn't this also likely topple the government? (Would presumably be a "no-confidence" vote, whose loss would also spur an election).
4. And could a party take control of government by offering a more clear-cut referendum, with "leave" options defined (e.g leave with no deal, leave the single market / customs union etc)

I will get back to you as soon as we hear what they think

Then it gets interesting, because we may then finally see where Labour's true colours lie with respect to Brexit, and whether a party like the Liberal Democrats could re-emerge on a pro-European ticket. Of course, none of this is helped by the current squabbling in Europe over Italy. And weak European growth no longer makes tying one's hands to the European project look all that appealing. What a mess.

## US-China...let's talk

There are more positive noises coming out of the US and China about the prospects for some sort of deal over trade. We imagine that China is prepared to make further concessions, given that its economy does really appear to be suffering, and will likely suffer more as tariffs are widened and tariff rates increased.

We imagine that the US is also prepared to hold fire on some of the remaining tariffs (conflicting comments overnight from the likes of Lighthizer and Wilbur Ross), and tariff rate increases as a sign of good faith as talks progress.

However, it seems unlikely to me that anything other than a skeleton framework for future talks could be agreed upon at the G-20 meeting, and even then, I suspect that President Trump would be inclined to leave tariff extension and tariff rate increases on a timer to push China into striking a deal.

## BI and BSP hikes - BI was a surprise.

While the 25bp hike from the Philippine Central Bank (BSP) yesterday was no big surprise, it had always been a tight call, [the 25bp hike by Bank Indonesia \(BI\) was not at all expected](#). This now lifts BI's cumulative hiking to 175bp since the start of the year, and there is a chance that they do more at their December meeting. Strong growth provides the cover BI needs to hike rates again, and also the justification, as it is the principle reason for the current account deficit. BI and BSP's moves yesterday also raise the pressure on other regional central banks, the Bank of Thailand, for example, which we believe markets see as the next central bank to hike.

Today's data has already kicked off with a more-or-less consensus outcome for Singapore's non-oil domestic exports, which at 8.3%YoY, are barely any different to the 8.1% growth rate shown in September. An outsize 89.7%YoY rise in the volatile pharmaceutical sector provided almost all of the lift. The question is, can it keep doing this? It looks improbable. And is such narrow support sustainable or safe? Electronics exports fell again (-3.5%YoY) as did petrochemicals (-0.1%YoY).

Today's data highlight at 12:00 local time is Malaysian GDP. We see this coming in softer than the consensus following recent activity reports on manufacturing.

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