

If at first you don't succeed...

You can't criticize her tenacity, UK PM, Theresa May, is having another go at trying to break the Brexit deadlock - James Smith offers his thoughts on the likelihood of another crashing Commons defeat (spoiler alert - it's high!)



Mayday, Mayday

James Smith has given me some bullet points on the latest (and surely last) attempt by Theresa May to get a version of her Brexit deal over the line: Here are his unedited thoughts:

"May has unveiled a "bold" "new" proposal to get her deal over the line, but the changes are really just reheated things from before:

- Legal guarantees to find 'alternative arrangements' to the Irish backstop by 2020 – basically magic up some technology that doesn't currently exist... not going to happen
- Workers' rights and environment commitments – stuff that she agreed with Labour during the cross-party talks, so nothing really new
- Otherwise the same deal

The thing that caught market's attention is a commitment to giving MPs a vote on a 2nd referendum, but this is heavily caveated:

- Because May can't hold another meaningful vote (Bercow said you can't do the same vote more than once), she's doing it in the form of a bill this time
- This has the following stages:
 - First reading: Basically a simple vote – do you want to consider this bill yes or no
 - Second reading: Debate in Parliament followed by another vote – take it to the next stage yes/no
 - If yes – goes to the committee stage where amendments are added, then these are voted on in the third reading
- May has basically said: Approve my deal in the first and second reading, and I'll allow you have a vote on a 2nd ref and a *temporary* customs union as part of the committee stage/third reading

But MPs are not really buying it:

- Brexiteers who backed the deal before are now not doing so - if the second reading of the bill succeeds, then there would be vote on 2nd ref, which obviously they don't want to happen.
- Labour have said they won't vote for it. Why would they vote in favour of May's (Tory) deal at second reading, with no prospect of a vote on a PERMANENT customs union (May is only promising a vote on a temporary one, which is a bit nonsense)
- Pro-people's vote MPs are wary that even if they vote the bill through at second reading AND MPs vote in favour of a 2nd ref (big if), there doesn't appear to be a legally binding mechanism to make it happen. Given that May will resign, what's there to force the next PM to follow through Parliament's demands?

In other words – she will probably be defeated on the bill at the first or second reading, with a margin of defeat much higher than her last attempt in March. Clear possibility that she just cans the whole thing and resigns to save a final unnecessary humiliation.

The other key point is that, even if there is another vote (or set of votes) on different Brexit options, MPs failed to settle on any particular one last time – what's changed since then? No majority for a second referendum.

Election?

Thanks to James Smith for that: This certainly looks as if it will be the end of May as PM, but will it lead to General Election as some newswires and the bookmakers in the UK seem to suggest?

It could do, but it is not a given: If May steps down, the Conservative Party will hold elections to elect a new leader. This could take some months. That leader may then want to try to re-open the draft bill to negotiate a better deal for the UK, but that is not on the table and they won't get anywhere. So the only course of action seems to be at that stage to either wait for the UK to be ejected on October 31st (hard Brexit as a default outcome and opposed by the majority of MPs) or call a General Election to see if a new party or coalition can see a way through the quagmire.

That said, elections are not due until May 5, 2022, and as this from the UK's Guardian says "Under the Fixed-Term Parliaments Act (2011), brought in under the coalition government, the only way to call an early election is if a motion to do so is backed by at least two-thirds of MPs, or if a no-confidence vote is passed and no alternative government can be cobbled together within 14 days".

With polls showing Labour would be the largest party in an election, it is hard to see why any new Conservative PM would throw in the towel until then and call an early election (which would be backed by Labour) or indeed why they would back a no-confidence motion if Theresa May stepped down.

In short, this remains a political mess with no clarity about the way forward or the outlook for the GBP. Might we see a succession of extensions? Let's face it, we have made no progress in almost three years. I can't see the UK being ready to take action on October 31st, so it's entirely possible...

Asia Day ahead

The release calendar doesn't contain anything as exciting today as the RBA Governor Lowe's speech from yesterday ([see also this](#)) but there are some construction works data that might add to the RBA rate cut debate - though forthcoming labour data will be the clincher. Our 50bp of rate cuts forecast for this year looks in good shape, the only question is whether it will be back to back cuts of 25bp or whether the RBA will insert a pause. I'm leaning towards back-to-back, which will require some forecast tweaks.

Japanese April machine orders have also posted a decent 3.8% growth from March, which suggests that after a surprisingly good first quarter, the second quarter may not be shaping up too badly either. We may have to rethink our consumption tax view, which we cut out of the forecasts on earlier weakness. We might have to reinstate if this decent run of data continues.

Yesterday's export data out of Korea were weak. Household credit data today are second-tier and won't likely move markets. The KRW at 1194 has already gone a very long way, probably only an imminent rate cut can shift it meaningfully higher. We think that will happen this quarter (next meeting is on May 31st, and there is no June meeting, with the following meeting on 18 July). Our USD/KRW 1190 end of second-quarter forecast has already been overtaken by events and will need pushing higher, perhaps above 1200.

(And from Prakash Sakpal on Thailand): Following yesterday's data showing a sharp slowdown in Thailand's GDP growth to a 4-year low of 2.8% YoY in the first quarter of 2019, we have revised our

full-year growth outlook to 3.1% from 3.8%. Our view on the central bank (BoT) policy is also changed from no policy change this year to a 25bp rate cut at the next meeting in June. We don't see this severely impacting the THB's Asian outperformer status, which remains backed by the large current account surplus. That said, the April trade report due today is forecast to show swing in the trade balance to a deficit from a surplus in March.

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