

Johnson Plays “Chicken” with EU over Brexit

The EU aren't blinking - but the pound is sinking.



A Chicken

Source: Shutterstock

Close your eyes and it might all go away

I've been trying really hard to think of an excuse not to write about Brexit this morning. But I should probably have done so yesterday. Pretending that Brexit isn't happening by closing your eyes and hoping it will go away is about as fulfilling and futile as the opposite exercise of willing Brexit to be an economic success, just by keeping a stiff upper lip and believing it will be so.

PM Johnson (it still feels a bit weird to write this) has packed his cabinet with pro-Brexit bulldogs and despite his earlier "million to one" comment about the odds of a no-deal Brexit, each day that passes makes those odds seem wildly off-price. If any bookie had actually been offering that price, you would have been mad (or very highly principled) not to have had a flutter. [Oddschecker](#) now puts the chances of a no-deal Brexit at 6/4 just for your reference.

The pound has been getting battered amidst all of this, with cable falling to 1.22 yesterday. Our UK Economist, James Smith, has been making films and charts of all of this. Check out both the following links for a more colourful approach to this subject. ([Link 1](#) and [Link 2](#)).

The bottom line of this is that a no-deal Brexit could see cable crashing down to 1.10, a bit more than Cameron Crise is suggesting in this morning's Bloomberg Daybreak, where he talks about 1.15. Both are sensible ball-park figures. Our number allows for a bit of overshooting, though 1.15 may well be a level to consider once the dust settles after this event.

BoJ on hold, probably forever

It still surprises me that there is any interest at all in the Bank of Japan's policy meetings. There has been no meaningful policy change from them since January 2016, when the overnight policy rate went negative. Even that was a move of debatable significance given the decades of unorthodox policy that preceded it.

Most of the consensus seems to be with me, with only a third even looking for a change to the forward guidance. Pushing the guidance on short and long term interest rates beyond the current ["at least through Spring 2020"](#) is simply acknowledging the failure of current policy stances to achieve an unrealistic and possibly even unattainable inflation target. It should surprise no-one as it contains no real information about the policy stance, which would remain unaltered. The ability of such a statement to shift markets except in the very short term is negligible.

Thai production data to remain weak

Prakash Sakpal has penned this on the only other noteworthy release out of Asia today, Thailand's manufacturing production: "In Thailand, we will be reviewing our 3.0% GDP growth forecast for the second quarter of the year in light of the June manufacturing data to be released today. Exports declines deepened in 2Q and so did the manufacturing decline, dragging GDP growth lower. On the flip side, a low base effect may help with some pick up of GDP growth from a four-year low of 2.8% in 1Q. With the Bank of Thailand's 3.3% GDP growth forecast for 2019 (revised recently from 3.8%) subject to asymmetric downside risk, the case for a policy rate cut at the 7 August meeting remains strong".

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