

Mayday, Mayday

UK PM May makes last-ditch plea to save Brexit, but looks like going down in flames, what next?



Will the people get a vote?

Our Brexit-guru - James Smith - has done an excellent piece on ["What next"](#) after what looks to be an almost certain rejection of UK PM Theresa May's draft exit bill tomorrow, January 15th. For those who prefer their information in 30-second chunks, the upshot is that Article 50 looks very likely to be extended, with the three likely contenders of alternatives being:

1. General Elections (which the Conservatives won't necessarily lose, especially if opposition leader Corbyn backs Brexit);
2. Some holding pattern like the "Norway for Now" limbo some have suggested whilst renegotiation continues (ignores Norway's antipathy for the UK joining EFTA);
3. A second referendum.

There is a very interesting survey by [YouGov in the centre-left newspaper, the Guardian](#) last week, which shows that in the event of a second referendum, where the choice is remain or May's exit bill, remain would win 63% to 37%, and if it were a choice of remain versus leave with no deal, the lead for remain would still be 58% to 42%. Explaining the difference, many of those who voted leave last time wanted a clean break, which the May bill doesn't offer.

Sadly, we don't look like we will be in a Brexit-free news zone any time soon. As James Smith points out, all of these alternatives would take time to arrange.

US - No end in sight to Government shutdown

As the government shutdown in the US continues, it becomes less of a political only story, and more of an economic one, with around 800,000 estimated government workers affected. There are no talks ongoing, and none scheduled. The main chance for an end to this political mess is President Trump calling a national emergency, which would enable him to syphon money from other budgets, most notably defense, to build his wall and move on. He is being encouraged to open government in advance of this.

As time drags on, and the likelihood of this weighing heavily on 1Q19 GDP and indeed on equity markets increases, the odds of 1Q19 being a "pause" month for the Fed grow.

We still look for 2 rate hikes this year, so if 1Q19 is indeed a pause, this most likely puts these remaining hikes in 2Q and 3Q19. Our main forecasts are included in our [monthly update](#), with the full forecast details published shortly in Think (search INGF). For how this will affect FX markets in Asia, please also refer to our latest ["Asia FX Talking"](#). As the title says, "It's complicated!".

Asia

We get a lot of trade data out of Asia this week, not least from China. China's trade data has been holding up reasonably in recent months, despite the trade war, but mainly, many speculate, because exporters and importers alike have been battling to beat looming tariffs by pushing goods out more quickly than normal, or stockpiling inventories of inputs before they become more costly. December data for trade today will likely show this stimulus waning, with the most likely prospect of further declines in January.

What is important here is not the net trade balance, which in terms of GDP is very small anyway (less than 2%), but the overall **level** of trade in both directions, since that is what determines

employment in those trade-directed industries. Hi-tech jobs may come to China's rescue at some point. But even a command economy like China cannot imagine that it will do so in a rapid enough fashion to absorb all the impact of this dispute. Even with the growing likelihood of massive stimulus, this is going to hurt.

Other events in Asia this week include BI - no change in rates expected from them, and in the rest of the region, Indian and Indonesian trade and Singapore's NODX release.

And this from Prakash Sakpal on India:

India's consumer price inflation data for December is due today. Food prices had been a drag on inflation last year, and prices typically fall more than in other months in December. This underpins our and the consensus view of a further dip in headline CPI inflation to 2.2% YoY from 2.3% in November. Barring supply shocks to food prices or fuel prices, inflation is likely to stay well below the RBI's 4% comfort level for most of this year. Meanwhile, the growth slowdown seems to be accelerating as reflected by last Friday's release of November industrial production data showing only 0.5% growth (consensus 3.6%). With RBI policy being guided by the government to boost growth ahead of the May 2019 general election, a rate cut as early as next month cannot be ruled out, sustaining the INR as Asia's most underperforming currency this year.

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