

Report | 11 November 2019

FX UNITED KINGDOM

What the UK election means for Brexit

How the UK's election could impact the Brexit process, the economy and financial markets. Plus, why December's vote could produce some surprising results. Read more in our latest Brexit report



Source: iStock

Seven scenarios for Brexit after the UK election

Large Conservative majority

- Easy to pass withdrawal agreement bill and UK leaves EU at end of Jan.
- Crucially it could also give Johnson the political breathing space to extend the transition period – and commit to the associated EU budget payments.
- Equally if the government decides it doesn't want to extend the transition, it could be very hard for MPs to force an extension – repeat 'Benn bill' attempts will be tough.

Thin Conservative majority

- Brexit deal ratified and the UK to leave the EU at end of Jan, although the legislation could be vulnerable to amendment (MPs trying to set the direction of trade talks).
- Johnson could also have limited room to manoeuvre on extending the transition period – politically challenging to sign up to extra EU budget payments.
- May increase the risk of an abrupt single market/customs union exit in Dec 2020.

Solid Labour-led minority government

- Conservatives fail to secure majority. Labour gains more seats than expected, so has more scope to build a stable working majority with other parties (most likely using an informal confidence-and-supply deal).
- Second referendum happens – perhaps on an accelerated timeline. Article 50 extended.
- Either UK remains in the EU, or leaves with a deal (likely 'softer' than Johnson's). 2nd Scottish referendum may be avoided if Labour can govern without SNP involvement.

Fragile Labour-led minority government

- Labour government heavily reliant on multiple parties to support a thin working majority focused only on key policy areas
- Second referendum still likely, but scope for disagreement over the question and process. The type of deal that is put forward in a referendum will also be controversial.
- Likely that Labour will be reliant on SNP support – a second Scottish referendum more likely. Question is when: 2020 or 2021?

Conservative (+DUP) minority government

- Conservatives fail to gain a majority. Party secures DUP support (or less likely Brexit Party) but this requires wholesale changes to the deal. Realistically, this three-way UK-DUP-EU deadlock is unlikely to be broken
- This leads to more uncertainty and an elevated 'no deal' risk at the end of Jan, echoing September/October impasse

Conservatives try to 'go it alone'

- Conservatives get the most seats but fall short of a majority and fail to find a partner in Parliament. Labour also can't form a government. Impasse continues, maybe leading to another election. 'No deal' risk rises

Labour majority

- Labour defies the odds and gains enough seats. Party still likely to push for a second referendum, but bigger focus for markets will be on their economic campaign pledges (e.g. nationalisation, share ownership)

Source: ING

Seven scenarios for Brexit after the UK election

Market positive • Neutral • Market negative

	No deal exit on/after 31 Jan	Abrupt end to transition period in Dec 2020	Second Brexit referendum	Scottish referendum	Economic policy
Large Conservative majority	Unlikely Deal set to be ratified	Fairly unlikely PM has political space to extend transition	Very unlikely Deal set to be ratified	Very unlikely Government not relying on SNP support	Neutral Fiscal rules tweaked and modest investment
Thin Conservative majority	Unlikely but possible Deal ratified but bill could meet tricky amendments	Low possibility EU budget payments may prove too controversial	Unlikely Deal likely to be ratified	Very unlikely Government not relying on SNP support	Neutral Fiscal rules tweaked and modest investment
Conservative (+DUP) minority government	Possible Deal rejected, but MPs could block 'no deal' again	Possible But Parliament may try to force extension	Low possibility Deal fails, Johnson opts for this as 'least worst' option	Very unlikely Government not relying on SNP support	Neutral Modest spending increase but risk MPs block budget
Conservatives try to 'go it alone'	Very possible Govt could fall apart. Risk of accidental 'no deal'	Possible But Parliament may try to force extension	Unlikely but possible Govt vulnerable - risk of another election	Unlikely but possible If there's another election & SNP holds key to power	Neutral Without majority, budget gets stuck in Parliament
Fragile Labour-led minority government	Unlikely but possible If government falls apart, 'no deal' risk could return	Fairly unlikely Transition extended if voters back deal in 2 nd ref	Likely Can opposition parties agree on the process?	Likely Q is whether it happens before/after 2 nd Brexit ref	Modest changes Expansionary policy, but scope of reform limited
Solid Labour-led minority government	Unlikely Second referendum likely. Article 50 extended	Unlikely Transition extended if voters back deal in 2 nd ref	Highly likely Choice between softer deal and 'remain'	Reasonably likely Depends if SNP hold key to power	Some changes Some bold reform, looser fiscal policy
Labour majority	Unlikely Second referendum likely. Article 50 extended	Unlikely Transition extended if voters back deal in 2 nd ref	Highly likely Choice between softer deal and 'remain'	Unlikely Government not relying on SNP support	Big changes Nationalisation, changes to share ownership

Source: ING

Sterling and UK gilt yields under each scenario

Market positive • Neutral • Market negative

	Immediate/short-term (Dec)	First-half 2020 (Feb-June)	Second-half 2020 (July-Dec)
Large Conservative majority	Deal ratified EUR/GBP: 0.83 GBP/USD: 1.33 2Y yield: 0.50% 10Y yield: 0.75%	Transition uncertainty EUR/GBP: 0.85 GBP/USD: 1.32 2Y yield: 0.75% 10Y yield: 0.88%	Transition extended until 2022 EUR/GBP: 0.82 GBP/USD: 1.38 2Y yield: 1.00% 10Y yield: 1.00%
Thin Conservative majority	Deal ratified EUR/GBP: 0.84 GBP/USD: 1.31 2Y yield: 0.38% 10Y yield: 0.68%	Transition uncertainty EUR/GBP: 0.88 GBP/USD: 1.27 2Y yield: 0.75% 10Y yield: 0.88%	Transition not extended by June deadline EUR/GBP: 0.93 GBP/USD: 1.20 2Y yield: 0.75% 10Y yield: 0.88%
Conservative minority (DUP/alone)	No deal risk rises amid impasse EUR/GBP: 0.90 GBP/USD: 1.20 2Y yield: 0.25% 10Y yield: 0.50%	Art. 50 extended, repeat election possible EUR/GBP: 0.90 GBP/USD: 1.22 2Y yield: 0.50% 10Y yield: 0.75%	Uncertainty persists EUR/GBP: 0.90 GBP/USD: 1.24 2Y yield: 0.68% 10Y yield: 0.88%
Fragile Labour-led minority government	Second referendum likely - unstable govt EUR/GBP: 0.83 GBP/USD: 1.33 2Y yield: 0.50% 10Y yield: 0.75%	Referendum process drags on EUR/GBP: 0.87 GBP/USD: 1.29 2Y yield: 0.50% 10Y yield: 1.00%	UK votes to leave (softer deal). Election? EUR/GBP: 0.81 GBP/USD: 1.40 2Y yield: 0.68% 10Y yield: 1.13%
Solid Labour-led minority government	Optimism on referendum EUR/GBP: 0.80 GBP/USD: 1.38 2Y yield: 0.50% 10Y yield: 0.88%	Uncertainty as Brexit referendum set-up EUR/GBP: 0.84 GBP/USD: 1.33 2Y yield: 0.50% 10Y yield: 1.00%	UK stays in EU albeit Scottish risk remains EUR/GBP: 0.78 GBP/USD: 1.45 2Y yield: 0.75% 10Y yield: 1.25%
Labour majority	Economic policy concerns EUR/GBP: 0.90 GBP/USD: 1.22 2Y yield: 0.50% 10Y yield: 0.75%	Focus switches from policies to second ref EUR/GBP: 0.86 GBP/USD: 1.30 2Y yield: 1.00% 10Y yield: 1.25%	Softer or no Brexit but bold policy EUR/GBP: 0.86 GBP/USD: 1.31 2Y yield: 1.25% 10Y yield: 1.50%

Source: ING

Forecasts from ING's FX and Rates Strategy teams

Report updated on 14 November to correct an error with the table on Scottish polling margins

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