

FOREX TRADING

# WILL THERE BE A NEW PM?



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# HOLDING ONTO POWER

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## FOREWORD

British politics has been anything but stable in the last few years. It seems this uncertainty is set to continue thanks to Brexit negotiations and the stability of the current Prime Minister.

Theresa May, who succeeded David Cameron as the Prime Minister after the EU referendum, has seen her authority diminish over the course of 2017.

The purpose of this eBook is to analyse the chances of her staying in office beyond the next general election - and how her tenure could affect the markets.

**Patrick Latchford**  
**CEO, Blackwell Global Investments (UK) Limited**

# WHY DOES THIS MATTER?

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## STRONG LEADERSHIP REQUIRED

Firstly, let's emphasise why Theresa May's premiership matters to Forex traders.

In Brexit, the United Kingdom is facing the biggest constitutional change in its modern history. As such, this change has the potential to cause economic upheaval for the United Kingdom and its trading partners.

Proof of Brexit's importance can be seen in the immediate aftermath of the EU referendum vote. The value of the pound sterling fell by 10% against the US dollar. A significant fall by any measure.

Despite the Brexit vote, the British economy has remained fairly robust. For example, Britain enjoys a historically low unemployment level.

However, new importance has been attached to the 'Brexit Negotiations'. This is an ongoing series of talks between Britain and the European Union about the terms of Brexit.

At the time of writing, both parties are negotiating the status of existing EU nationals, the Irish border and the so-called 'Divorce Bill'.

If and when these issues are settled, negotiations will then centre around Britain's future trading relationship with the European Union. Britain's position since early 2017 has been that it intends to leave the European single market (a system that allows tariff-free trade with other states). The reason for this is simple: a condition of being a part of the single market is the freedom of movement of EU citizens across all member states. Many believe the Brexit vote was a rejection of this principle.

However, it remains unclear what trading relationship will replace Britain's single market membership.

This phase of negotiations will be of particular interest to investors and traders, as they could have a direct impact on business confidence and foreign direct investment in Britain. Clearly, business confidence and foreign direct investment can influence the value of the pound sterling.

## THE KEY TO A FAVOURABLE OUTCOME

It goes without saying that the Brexit negotiations are complex. Britain effectively has to negotiate with a block of 27 member states.

In order to do this, Britain needs to have a strong government and Prime Minister.

This was recognised by Theresa May in early 2017 when she called a snap UK General Election. With a double-digit lead in various opinion polls, it looked like she would win the election comfortably with an increased parliamentary majority.

Remember, an increased majority makes it easier for British Prime Ministers to pass bills through the House of Commons.

However, the UK General Election didn't go to plan for Theresa May or her party (the Conservatives). The party underperformed at the ballot box, losing their already slim majority in the House of Commons. Despite this result, the Conservatives still emerged from the election as the biggest party. This allowed Theresa May to form a minority government, with support from the Democratic Unionist Party.

Clearly, Theresa May's authority has been significantly diminished since the UK General Election. It's made it more difficult for her to command respect in Brexit negotiations, while also maintaining rule in her cabinet.

It's this situation that has led many pundits to question her long-term future at Number 10 Downing Street.

# WILL THERE BE A NEW PM?

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## THE CONSERVATIVE PARTY

To answer this question, we need to look at the dynamics of the Conservative party, which Theresa May currently leads.

The issue that continues to dominate the party is Brexit. Specifically, there's a split between pro-European Conservatives MPs and pro-Brexit Conservative MPs. It's an issue that has divided the party for decades - and those divisions have been exposed by Brexit talks.

Theresa May's public performances during the UK General Election and party conference season have also drawn criticism from some within her party. A selection of MPs doubt her ability to lead the party and country through a critical period for Britain.

## OTHER CANDIDATES

What's making life difficult for Theresa May is other leading cabinet

ministers who likely hold leadership ambitions of their own.

These politicians include current foreign secretary Boris Johnson, who some think has the charisma to unify the Conservative party and negotiate effectively with the European Union.

There are other candidates too, including pro-Brexit MP Jacob Rees-Mogg. His articulation for how Brexit should be executed has garnered many admirers within the Conservative party.

It remains a distinct possibility that a Conservative leadership election will be triggered in the next 12 months.

## LOOKING BEYOND 2020

In our view, Theresa May is unlikely to contest the next UK General Election. Her performance in the 2017 UK General Election has cast doubt over her ability to campaign and connect with people.

Our recommendation to traders is to closely monitor the news for unrest in the Conservative party. A leadership election in the Conservative party would very likely result in Theresa May resigning as Prime Minister.

Recent history suggests that downward pressure could be applied to the pound when uncertainty over Theresa May's future gathers steam.

Keep in mind that the markets do not like uncertainty.

However, should the Conservatives elect a new leader in the near



future, it could act restore certainty from a British perspective. A new leader could also give fresh impetus to the negotiations with the European Union.



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