

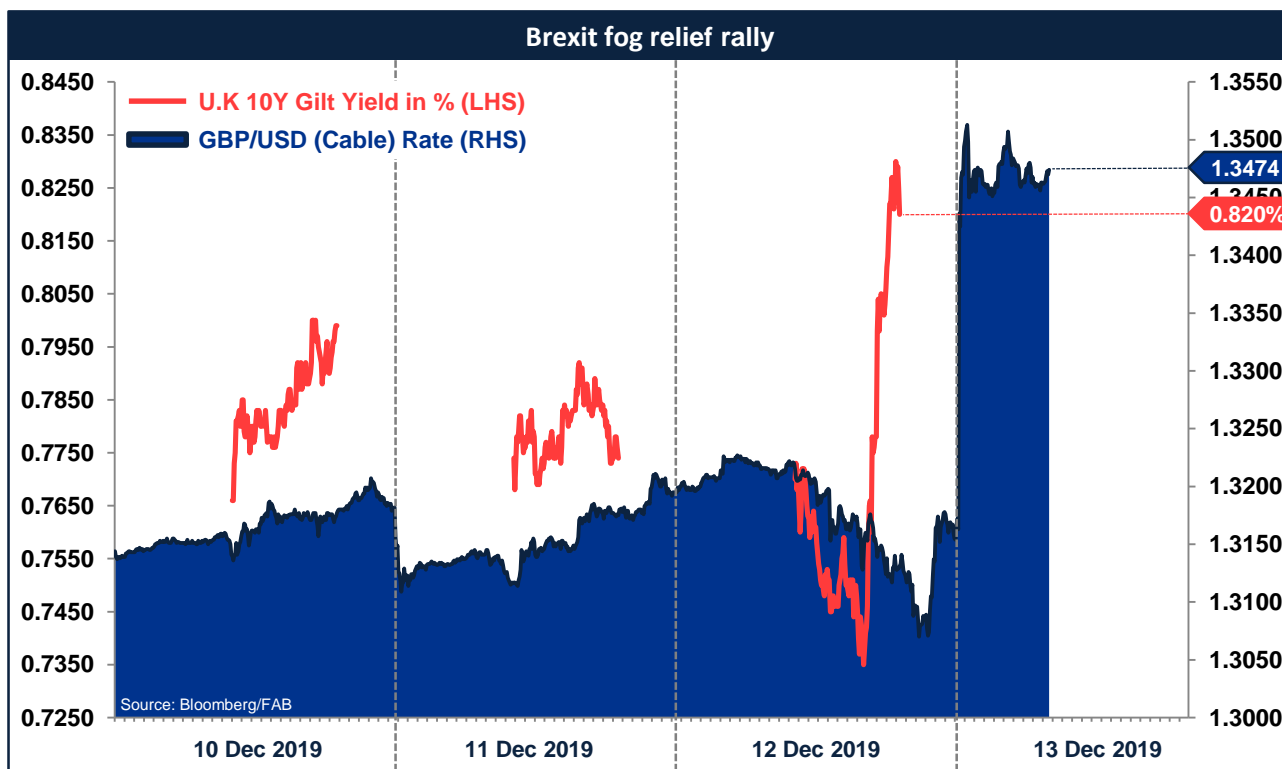
Market Insights & Strategy

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Dissecting a Huge Night in U.K. Politics

- **Conservatives storm to victory in UK election**
 - **Delivering BoJo a strong mandate for January 31 Brexit deadline**
 - **GBP relief rally as election lifts fog of Brexit uncertainty**
 - **But the heavy lifting, securing trade deal(s), still lies ahead**
 - **Questions over longer-term Brexit strategy should curtail exuberance**
- A combination of risk-supportive news flow late last week – U.S./China trade, lifting of U.K. political uncertainty, positive ECB rhetoric – should give a lift to sentiment as we enter the final throes of 2019. The year now seems set to conclude with bond bulls on the back foot and rates nudging higher.
- In some respite from the recent intense focus on U.S./China trade as the major buffeter of global market sentiment though, the spotlight today falls squarely on the U.K. in the wake of the General Election result. Focus on the U.K. has been all the more marked by the extent of Boris Johnson's victory, the poignancy of which was perhaps no better highlighted than by the result in Workington, a coastal town in north-west England. Workington has been a Labour-held constituency for 97 of the past 100 years, but has now turned Conservative blue in this election. BoJo now effectively has a strong mandate to take the U.K. out of the EU (from a legal perspective) as planned by January 31 2020.
- However, as we have discussed previously, while BoJo winning a new majority on Thursday may be one thing, we remain sceptical as to whether that guarantees a smooth Brexit between now and the end of the planned transition period of end-December 2020. Indeed, it will surely be a very challenging time line (11 months) to get a trade deal signed with the EU within this timeframe, failing which the spectre of a 'hard Brexit' could be very much back on the radar in 12 months' time.
- So while there will be near-term Conservative celebrations today, it is clear that now is when the hard work really needs to start. We would therefore conjecture that investors should view the latest strength in sterling with an element of caution and in turn look to fade any further significant upside in cable over the coming quarters.
- Gilts closed Thursday with a bear steepening bias amid an unwind of haven bids ahead of the outcome of the U.K. general election. The 10y gilt yield has risen more than 40bps (a near doubling) since early October and currently sits above 0.82%. Moreover, the final result of a convincing Conservative victory and a clear reduction of the uncertainty that has paralysed sentiment toward the U.K. in recent months, while positive for GBP should also be further supportive for gilt yields in the coming days.



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