



PM SEEKS SURPRISE SNAP ELECTION ON 8TH JUNE POUND RALLIES TO 10-WEEK HIGHS

- The Prime Minister's surprise announcement that she will seek a snap election on 8th June has stunned markets this morning. The statement was in stark contrast to her earlier stance not to do so, and she notes "only recently and reluctantly" coming to this conclusion. According to her statement, the main for seeking an early election is to foster greater unity in Westminster as the UK enters the key negotiating stage with the European Union.
- The PM highlighted that recent "political game-playing" had made it increasingly difficult for her to conduct the negotiations. The Liberal Democrats and the Scottish Nationalists have continued to make it clear that they do not support the UK's withdrawal from the European Union, while Labour has threatened to vote against the final deal.
- After an initial wobble, both the pound and UK bond markets have since recovered their poise. The pound is currently around 10-week highs, having rallied two cents from today's lows, towards \$1.27 and €1.19. Judging by the limited reaction in the FX option market, it seems FX traders are not especially concerned at the moment.
- In the bond market, 10-yr UK government yields briefly dipped below 1.0% ahead of the statement, but have rebounded 3bp to 1.03%. UK equities have been the exception. The FTSE was already under pressure and has extended its losses, down by over 100 points at around 7200.
- The focus now switches to the vote in the House of Commons tomorrow on a motion to call an early General Election. The government requires two-thirds of MPs to vote in favour, under the Fixed-Term Parliament Act. The government currently has a majority of only 17 seats in the House of Commons, falling well short of achieving this on its own. However, the leaders of Labour and the Liberal Democrats have welcomed today's announcement. Their combined support would ensure the motion is easily passed. Although the SNP has responded more critically, it is unlikely to vote against. The next election was not due until May 2020.
- Current polling suggests that the Conservative Party stands to significantly increase its parliamentary majority. The proximity of the election is also favourable. This is clearly the context in which the PM has made today's announcement. However, as recent events have demonstrated, polls can be highly misleading. There is also a major risk that the divisions that surrounded the EU

Referendum are repeated. In summary, this is a political gamble the PM is prepared to take.

- Having only recently negotiated the triggering of Article 50, today's news creates yet another layer of political uncertainty for the UK. Judging by the market reaction, it appears that investors believe that the government's hand in the EU negotiations may be strengthened. But it does not necessarily ensure a successful resolution and there remains plenty of scope for heightened market volatility.