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MACRO NEWS

24/05/19

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MAY RESIGNS - WHAT HAPPENS NEXT?

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The end of May: UK Prime Minister Theresa May announced today she will resign office on 7th June. A Conservative leadership election will officially start the week after. While today's news was widely expected, that the new Prime Minister could be a Brexiteer, possibly even a hardline Brexiteer, adds significant uncertainty to the outlook for the economy and for financial markets. The black box that is British politics just grew again.

Boris Johnson is the favourite to succeed May. [As we argued yesterday, what could happen if Boris became PM is a coin toss.](#) As a late convert to the Brexit cause in 2016, Boris could toe the hard line on Europe and allow a hard Brexit at the end of October. However, he might have the pro-Brexit credentials to unite most of the Conservatives and pass the Withdrawal Agreement. All too often, however, the initial favourite to win the Conservative leadership election does not do so. Boris was the favourite in 2016 but dropped out early-doors.

What happens next: May will remain in office as caretaker PM until the Conservative Party elects a new leader. The Conservative leadership election could take up to six weeks. Sir Graham Brady, chairman of the 1922 Committee (the parliamentary group of the Conservative Party), will manage the first stage: 1) Conservative MPs can put themselves forward for leadership as long as they have two Conservative MPs as backers; 2) ballots are then held by Conservative MPs – historically, every Tuesday and Thursday – to reduce the list of contenders to two finalists. Typically, some candidates withdraw during this phase when they realise that they are unlikely to win. The second stage is a postal vote where Conservative Party members elect a new leader from the final two chosen by MPs. As long as the new leader can command a majority in the House of Commons – from Conservatives plus the DUP, and the Queen signs it off, that person becomes the new PM.

The clock is ticking: If the UK gets a new PM by mid-late July, that will leave just over three months to try and sort Brexit out before the UK is scheduled to leave the EU at the end of October. Who knows exactly what direction a new leader will take? All options remain possible including no Brexit, a hard Brexit and the possibility of a longer extension. For now, we keep the risk of a hard Brexit at 25%. However, this risk could change dramatically in the coming weeks depending on who ends up in Downing Street.

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