the technical analyst AWARDS 2011 FINALIST

13th June 2017

Market Update:

General Election Review

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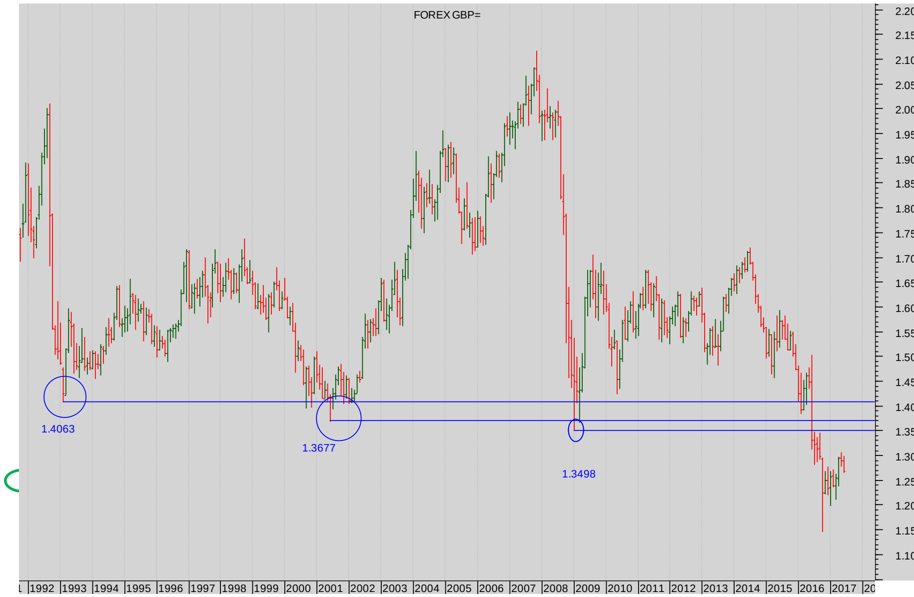
General Election Review



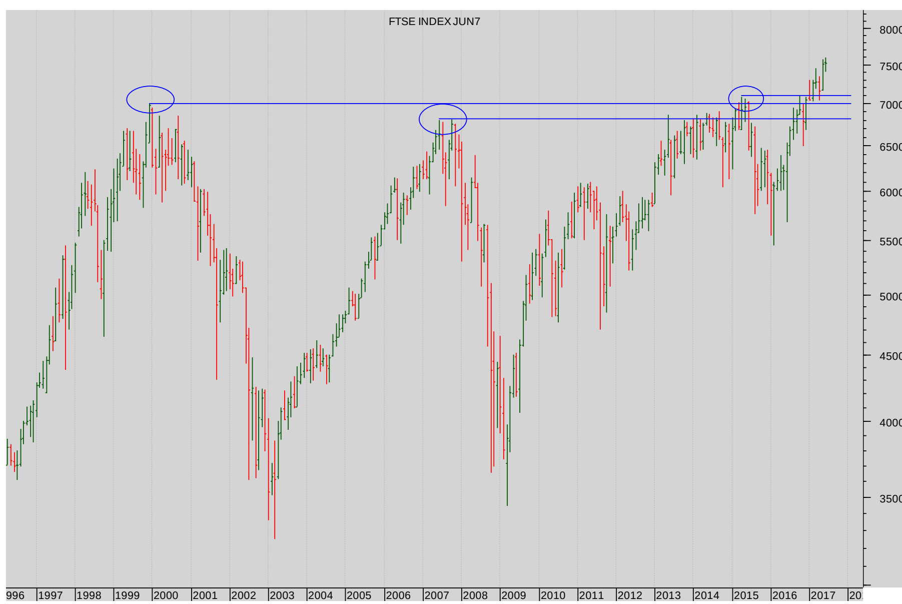
Dollar Sterling

The market has fallen over the last three years, but since the first impact of the Brexit referendum results Sterling has rallied.

The result of the recent General Election saw a sharp sell-off of Sterling. But in the wider context, the size of the move can be seen to have been negligible.

Most chartists will have seen the rally before the election as a retracement within a very bearish scenario : the successive lows above the market have created a horizontal band of resistance between 1.35-1.41 that looks formidable.

The closer the market edges to the 1.35 level, the better the selling oppurtunity. But the election may have ensured that the market gets no closer to 1.35 before selling off



FTSE JUNE 2017 Weekly Futures chart

After the election the FTSE remains powerfully bullish like most World stock markets.

The broad picture is of a market that has overcome the Prior Highs of 1999 and 2007 and when it has shown recent weakness has found those levels to be tremendous support and bounced.

After the election there was a small sell-off and then an immediate bounce further encouraging the bulls.

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FUNDAMENTALS:

The snap General election called by Theresa May produced an outcome very few saw coming. Even during polling day, Thursday June 8th, both Labour and Conservatives were expecting the Prime minister to secure a larger majority, but as we know she didn't. The result was a hung Parliament as no one party is able on its own to command a majority.

However as the leader of the party that won the most seats and gained the most votes, Mrs May has remained PM and is forming a minority government with the support of the 10 DUP MPs. What does all of this mean for the markets and more importantly what does it mean for BREXIT and will Mrs May remain PM over the course of the negotiations?

The answer to the last question is unknown. As the leader of a minority government she could lose a no confidence vote at any time and if the leader of the opposition Labour party failed to construct a coalition with an overall majority there would have to be a fresh General Election.

All of this adds to the already existing uncertainty surrounding BREXIT and we have seen already how the currency reacts to that: it once again sold off.

Before the election Mrs May was vague about her negotiating stance, other than to state no deal is better than a bad deal, but in her now weakened position can she still maintain that stance? We don't think so.

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FUNDAMENTALS: CONTINUED

What we think the election result conveyed to politicians is: yes the UK wants out of the EU, both Conservative and Labour manifestos stated that commitment, but the PM was seeking to leave the single market, the customs union and end all free movement of people from the EU to the UK.

By delivering a hung Parliament the British people appear to have rejected that stance, but if access to the single market is to be retained, then free movement and a contribution to the EU budget goes with it and that negates the whole rationale for leaving the EU and leaves the UK without a voice in decision-making.

We think the Pound is in for a period of volatility since negotiations will likely need to be referred to Parliament. As a result the economy is likely to remain weak as business either cancels or postpones investment due to increased uncertainty. That has implications for monetary policy and probably means the Bank of England facing the need to keep policy at current low levels for an extended period.

As for the UK Gilt, a weaker economy will mean lower tax revenues and either higher taxes which will be negative for already weak growth, or public spending cuts that are unlikely to pass through the current parliament, or more, likely increased borrowing. That is negative for the Gilt. And if inflation continues to rise due to Sterling weakness, doubly negative for Gilts. And yet, and yet, if the Bank maintains its current QE policy due to economic weakness the downside for gilts could be limited.

Turning to stocks, the FTSE could be a beneficiary here as a weak Sterling inflates the value of overseas companies listing on the London exchange, meaning a weaker Pound would likely continue to support the FTSE, at least medium term.

In summary, the position the UK is in now is very different to where it was just a few days ago.

The UK government has moved from a position of strength with a working overall majority in the House of commons to a position of fragility and weakness where the Prime minister may very well find herself continually reporting to parliament and seeking approval from parliament as the "BREXIT" negotiations unfold. That will probably lead to an even more protracted negotiation and heightened uncertainty. Something Mrs May said she wanted to avoid during "BREXIT" negotiation.

The road ahead looks bumpy indeed!

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