

UK Election Primer and Implications for the GBP

Conservative Party likely to be booted out in the upcoming 4th July elections

Labour leading in polls and looks set to return to power after 14 years

Could weigh on GBP if margin of victory is small or coalition needed to form government

Sunak announced surprised snap election scheduled for July 04

UK Prime Minister Rishi Sunak surprised many when he announced snap elections on May 22, scheduled for July 04. With his Conservative Party trailing far behind in the polls to the opposition Labour party, the feeling was that Sunak would stretch the polls date to the end of the current term for the government towards the end of the year.

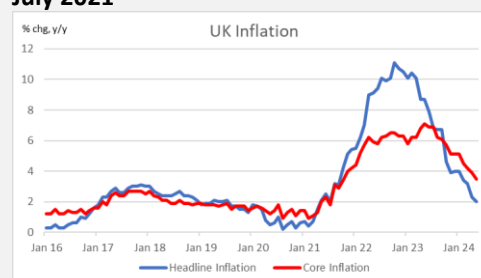
Price pressures in the UK have recently begun to recede, with UK inflation at 2.0% y/y in May, back at the Bank of England's target for the first time since July 2021, after hitting a high of 11.1% y/y in October 2022 (Figure 1). The Bank of England is expected to cut rates in the coming months beginning as soon as August, so many had expected the government to let the feel good factor of lower price pressures and lower borrowing rates permeate before facing the voters.

Currently, the Conservative government holds 344 seats out of the 650 seats in the UK parliament, with the Labour party commanding 205 seats. The Scottish National Party (SNP) controls 43 seats, the Liberal Democrats only hold 15 seats, while the Reform UK party (formerly known as the Brexit Party) holds a solitary seat in Parliament. The full state of picture of seats at the point of dissolution is shown in Figure 2, and the previous share of the popular vote is in Figure 3.

A glance at the main parties and their plans

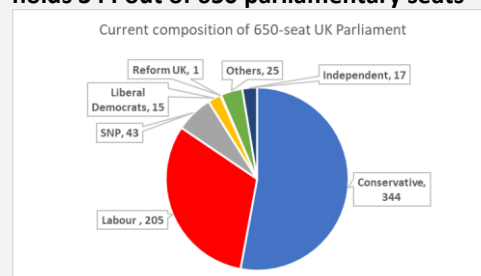
- The **Conservative Party** is led by incumbent Prime Minister Rishi Sunak. They have been in power since 2010. Their manifesto includes reducing borrowing and debt, to cut taxes by GBP17.2bn annually by 2029-2030, to increase spending on the National Health Service (NHS) above the rate of inflation and recruit 92k more nurses and 28k more doctors. They also plan to impose a binding cap for legal migration and to deport asylum seekers who arrive to irregular means to Rwanda.
- The **UK Labour party** is headed by Keir Starmer, a former human rights lawyer. The left-leaning party has moved more to the centre after the previous leader Jeremy Corbyn was ousted, and key items in their election manifesto are the introduction of a new industrial strategy, focusing on wealth creation rather than raising taxes, to cut waiting times for the NHS and double the number of cancer scanners. They are also planning to cancel the government's plans to send asylum seekers to Rwanda and instead tighten border security, and intend to improve the relationship with Europe.
- The **Liberal Democrats** are currently led by Ed Davey, and were last in power in 2010 to 2015 in a coalition with the Conservatives, but were trounced in the last general election in 2019, winning only 11 out of a possible 650 seats. Amongst their pledges are to improve the UK's relationship with the EU, cut greenhouse gas emissions by 2045, raise defence spending to at least 2.5% of GDP per year, to increase the number of doctors and pay for care workers, to cancel the Rwanda plans, and to lift a ban on asylum seekers working.

Figure 1: Inflation in May returned to the BoE's 2.0% target for the first time since July 2021



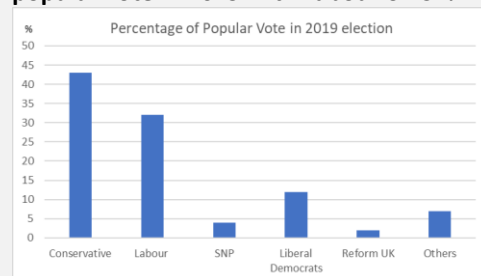
Source: Bloomberg; HLBB Global Markets Research

Figure 2: Conservative Party currently holds 344 out of 650 parliamentary seats



Source: Bloomberg; HLBB Global Markets Research

Figure 3: The Tories won 43% of the popular vote in 2019 with Labour on 32%



Source: Bloomberg; HLBB Global Markets Research

- The right leaning **Reform UK** party was set up in 2019 (formerly known as Brexit Party), and is headed by Nigel Farage, former leader of the UK Independence Party (UKIP) who was one of Brexit’s staunchest supporters. Their election manifesto includes detaining and deporting undocumented immigrants, getting rid of the more than 6,700 EU regulations maintained after Brexit, making it easier to hire and fire workers, and the speeding up of infrastructure projects.

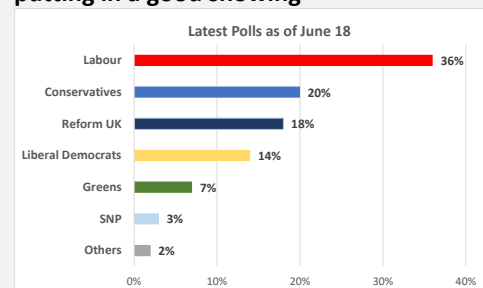
What the latest polls say?

- The latest polls suggest that not only will the Conservatives be booted out, but that the Labour party is on course for their best election showing since Tony Blair came to power in 1998. As on June 18, Labour is leading the Conservatives by 36% versus 20% according to the latest poll by YouGov, the UK market research and data analytics firm (Figure 4).
- Reform UK, which only currently has a solitary seat in the UK parliament, appears to have drawn support for the right leaning Conservative voters, and has chalked up a sizeable 18% support in the same polls. Whether this will be translated to actual votes, and more importantly into seats under the UK’s first-past-the-post system remains to be seen, and we think that how well Reform UK does will be the biggest x-factor for this election.

Conclusion

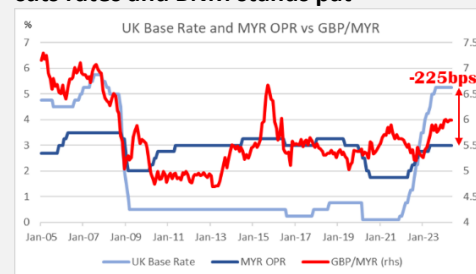
- The Labour party is set to win the elections and Keir Starmer is set to be the next UK Prime Minister, but questions remain on the scale of their victory. The recent EU elections have shown a significant increase of support for right-leaning parties, and some Labour votes could also be swayed towards Reform UK.
- A resounding victory for Labour would boost the Sterling in the short term and conversely, a narrow win or the need to build a coalition in order to form government would pressure the currency.
- Key challenges remain for the UK whatever the result, with migration and the NHS remaining longstanding issues that have proven difficult to resolve. With the Bank of England set to reduce rates starting from their next meeting on Aug 01, we think that the GBP/USD will head lower as the year carries on.
- For the GBP against the MYR, with the Malaysian economic growth likely to be on the strong side at 4.9% this year and BNM set to maintain interest rates for the rest of the year amidst rising inflationary pressures domestically, while the BoE is on a path to cut rates, the diverging monetary policy stance is likely to pressure the cross lower in the months ahead (Figure 5).

Figure 4: Polls showing a commanding lead for the Labour Party, with Reform UK putting in a good showing



Source: YouGov

Figure 5: GBPMYR likely to trade lower on monetary policy convergence as the BoE cuts rates and BNM stands pat



Source: Bloomberg; HLBB Global Markets Research

Figure 6: House view on BOE and BNM benchmark rates; GBPUUSD and GBPMYR

	Q2-24	Q3-24	Q4-24	Q1-25
UK Base Rate	5.25	4.75	4.50	4.50
BNM OPR	3.00	3.00	3.00	3.00
GBP/USD	1.24	1.22	1.23	1.24
GBP/MYR	5.87	5.72	5.72	5.67

Source: HLBB Global Markets Research

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