

# UK general election: ruling party dismay at loss of majority

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On Friday night (9 June 2017), British election delivered a blow to the ruling Conservative party, who lost their Parliamentary majority. The final outcome will likely leave the Conservative party with 319 seats compared with the Labour Party's 261 seats, resulting in a hung Parliament (326 seats is the minimum requirement for a majority in the 650-seat Parliament). This is all against the background of the upcoming Brexit negotiations scheduled to begin on June 19.

British Prime Minister, Theresa May called for a General Election six weeks ago to increase the Conservative Party's Parliamentary majority from the 331 seats they held prior to yesterday's election. In addition, it was widely believed that the leader of the Labour party, Jeremy Corbyn was unelectable, given how far left his political policies were. However, as the election neared Corbyn proved to be surprisingly effective and his policies became increasingly popular.

The election certainly proved that: Labour increased their parliamentary representation by 29 seats to 261. What happens next? The most likely outcome from last night's election is a minority conservative government supported by the Democratic Unionist Party (DUP) of Northern Ireland, who have won 10 seats in Parliament and therefore would bring the new Conservative-led government's support to 329 seats. There are implications of this possible grouping for the Brexit negotiations. Although the DUP campaigned for Brexit in last year's referendum, they are now in favour of a so-called soft-Brexit, as they would like to maintain the current free-trade and open borders for free travel between the North of Ireland and the Republic of Ireland, which is still a member of the EU. The DUP's support for the government may effectively rule out the possibility of a hard-Brexit (in this situation the UK leaves the EU without a trade agreement and therefore the European free-trade area and customs union and is left to trade under WTO rules).

Another implication of the result of last night's election is that it may weaken Theresa May's negotiating hand. The Prime Minister explained she was holding this election to strengthen her mandate for negotiating a Brexit deal, which she has clearly failed to do. What are the implications for the financial markets? Initially we have seen a fall in the value of sterling. While there will be increased uncertainty in the markets, there will also be an increased likelihood of a soft-Brexit, which will be interpreted as more benign outcome as it is less disruptive to UK businesses. Since June 2016, the UK's equity markets have benefited, in sterling terms, from the fall in the pound because of the Brexit referendum. Also, the Bank of England is less likely to raise interest rates if members of the Monetary Policy Committee perceive there to be greater economic uncertainty following this election.

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