

## Key Market Theme

- **There won't be an election before 31st October in UK.**
- **If the Prime Minister pursued a no deal Brexit on 31st October he would probably lose a vote of no confidence, perhaps on the 22nd October.**
- **The most likely scenario seems to be that there is another delay to Brexit.**

## Macro Analysis

The first thing to point out is that there won't be an election before 31st October. Parliament turned down the Prime Minister's proposal of a snap election for a second time on Monday. There has to be at least 25 working days between an election being called and polling day. With Parliament now suspended until 14th October, the earliest an election can be held is 20th November.

Prime Minister Johnson will attempt to reach a deal with the EU while Parliament is suspended, although how earnestly he does so is open to question. The EU Council meeting of heads of state on the 17th/18th October appears to be one of his last chances to get a deal.

The recently passed law that attempts to rule out no deal says that unless a deal is approved by Parliament or Parliament has voted for no deal by 19th October, the Prime Minister has to seek to delay Brexit until 31st January. As a result, unless a deal is reached at the EU Council meeting and ratified the day after (which would require Parliament to sit on Saturday 19th) the PM would have to ask the EU to delay Brexit again.

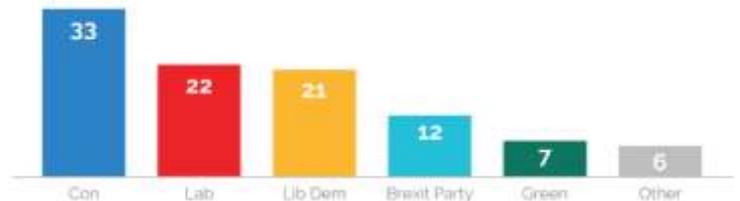
There is speculation that the Prime Minister will find a way to circumvent the law. If the Prime Minister breaks the law or finds a loophole it is likely there would be an emergency court case which could force his hand. But we don't know what the verdict would be, or if it would be delivered before 31st October.

Either way there looks set to be an election. The opposition parties have said they will agree to one after Brexit has been delayed. Alternately, if the Prime Minister pursued a no deal Brexit on 31st October he would probably lose a vote of no confidence, perhaps on the 22nd October. The opposition could then attempt to form a temporary coalition Government in order to delay Brexit until 31st January.

There is an outside chance this coalition goes further and holds a referendum on something similar to the existing deal and "Remain". It is more likely, though, that this caretaker Government exists only to delay Brexit and trigger a general election in the hope that the latter breaks the Brexit impasse.

The upshot is that the risk of a no deal at the end of October cannot be entirely dismissed. No Deal on 31st October is the default until a delay is agreed with the EU or there's a deal. And Boris Johnson could ignore the law, the courts might not intervene, the opposition might fail to work together to form a new Government, or Johnson could refuse to recommend the would-be Prime Minister to the Queen.

The economy could swing onto a different path after an election. According to the polls a Conservative majority (perhaps facilitated by a pact with the Brexit party) or a hung Parliament are the most likely outcomes. The former would probably usher in a no deal Brexit and a recession thereafter, albeit a mild one. A hung Parliament might see Brexit continue to be delayed. If an anti-no deal coalition can be formed, or there is a surprise Labour victory, that would steer the economy towards our deal scenario. However, we think the initial boost to the economy from a resolution to Brexit would be offset in the longer term by Labour's anti-business policies were it able to follow through with them.



Source: You Gov

But the most likely scenario seems to be that there is another delay to Brexit, explaining the recent rise in the pound and gilt yields and in keeping with our "repeated delays" scenario. In that case we forecast that the economy will grow by 1.3% this year. Indeed, the GDP and labour market data released this week suggest the economy has remained resilient to the political crisis. Moreover, if Brexit continues to be put off, that the MPC may even raise interest rates slightly next year.

## Year end Forecast

Variables	Forecast	Latest
Brexit	Extension	Uncertainty
Pound/Dollar	1.1800	1.2490
Bank Rate	0.75%	0.75%
GDP	1.30%	1.80%
CPI	2.40%	2.10%

## Market Data

FX Majors	CMP	1W	1M
EURUSD	1.1067	0.53%	-0.17%
GBPUSD	1.2489	1.30%	3.00%
USDJPY	108.24	0.39%	1.52%

FX Cross INR	CMP	1W	1M
USDINR	71.50	-0.11%	0.07%
EURINR	79.13	0.40%	-0.10%
GBPINR	89.29	1.17%	3.07%
JPYINR	66.06	-0.49%	-1.42%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.72	13.00	17.40
US	1.81	25.50	25.14
Germany	-0.47	16.10	21.13
UK	0.69	18.92	22.71

Flows	DTD	WTD	MTD
FII's (INR Crs)	-808.29	-914.56	-6375.55

Note: 1W refers to 1 week change from CMP | 1M refers to 1 month change from CMP

## Pivot Levels

Currency	Pivot	S1	S2	S3	R1	R2	R3
USD/INR (SEP)	71.92	71.75	71.59	71.42	72.08	72.25	72.41
EUR/INR (SEP)	79.36	79.11	78.89	78.64	79.58	79.82	80.05
JPY/INR (SEP)	66.53	66.40	66.26	66.13	66.66	66.79	66.93
GBP/INR (SEP)	89.29	89.07	88.89	88.67	89.47	89.69	89.86

## Economic Data

	IST	Previous	Median	SMC's Forecast
GBP UK CPI y/y	14:00	2.10%	1.80%	1.70%
USD US Federal Funds Rate	23:30	<2.25%	<2.00%	<2.00%
-	-	-	-	-

**Currency Research Team****Aditya Thukral - Technical Analyst**  
adityathukral@smcindiaonline.com**Arnob Biswas - Fundamental Analyst**  
arnobbiswas@smcindiaonline.com

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

**Corporate Office:**11/6B, Shanti Chamber,  
Pusa Road, New Delhi - 110005  
Tel: +91-11-30111000  
www.smcindiaonline.com**Mumbai Office:**Lotus Corporate Park, A Wing 401 / 402, 4th Floor,  
Graham Firth Steel Compound, Off Western  
Express Highway, Jay Coach Signal, Goreagon  
(East) Mumbai - 400063  
Tel: 91-22-67341600, Fax: 91-22-67341697**Kolkata Office:**18, Rabindra Sarani, Poddar Court, Gate No-4,  
5th Floor, Kolkata - 700001  
Tel.: 033 6612 7000/033 4058 7000  
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

**Disclaimer:** This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.