FXIN FOCUS

The 2024 UK General Election:

Nothing to see here? Depends on where you are looking

Corpay Cross-Border Senior Trader Gary Wilkinson speaks with Trevor Charsley, Senior Market Strategist, and Darryl Hood, VP and Senior Director of EMEA Sales and Trading about the imminent 2024 UK election, and more.

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NOTE: This is a transcript of our recent podcast, ‘The 2024 UK General Election: Nothing to see here?’ recorded 13 June 2024. It has been edited for length and clarity.

GARY: Today we're talking about the upcoming UK General Election. UK's Prime Minister Rishi Sunak recently announced a general election for the 4th of July. Conventional wisdom says that no matter how anxiously results are awaited, polls are watched and how much ink is spit, election results usually have very little effect on the global currency markets. We’ll test that theory—and others—in our conversation.

I'm Gary Wilkinson, senior trader at Corpay Cross-Border. I'm joined today by my colleagues Darryl Hood, Senior Director of EMEA Sales and Dealing, and Trevor Charsley, Senior Market Strategist. Gentlemen, please tell us a little about your backgrounds.

DARRYL: Thank you, Gary. I’m Darryl Hood. My experience comes from FX hedging, via standard forwards or option strategies in the realm of helping corporates achieve their FX goals.

TREVOR: Thank you, Gary—I am Trevor Charley. I've got over 25 years of experience in the capital markets, mainly foreign exchange. I'm a member of the Society of Technical Analysts. My mission is to help clients determine when and where may be the best time to hedge their exposure.

GARY: OK, great. Thank you. Let's get started.

2024 is the biggest election year in history, with roughly half the world's population some 4 billion people in around 80 countries going to the polls.

The UK local elections in May saw the Conservative party lose a number of seats—even some so-called ‘safe seats’—to the Labour Party.

Trevor, this may be the easiest question of your career. What do we expect to happen on the 4th of July?

TREVOR: The Financial Times have been the most accurate pollsters. In a recent FT piece on the electoral calculus for 2024: FT’s polling data show a 97% chance of a Labour majority.

That was published at the start of June, but as of the middle of June, Labour are still over 21 points in front of the Tories. Therefore it may well be a Labour majority.

GARY: This may be another easy question: how will that affect the market?

TREVOR: First let’s look back at the 2019 election. Some may have thought, with what was going on then, This indicates sterling volatility, uncertainty, we've got another 4 to-6 weeks of this. So you could see this may have encouraged some investors to sell sterling. But it didn’t happen. On the day, actually, 2019 wasn't a surprise election. It was called very early.

With this election, then, it could well be that the market is expecting a Labour majority and is relatively sanguine about the effects. The Labour majority could already be priced into the market.

GARY: Interesting. Do you think there could be any EU membership implications? The pound has fallen an awful lot over the last few years, mainly on the back of the Brexit vote.

TREVOR: Can you believe the Brexit vote was eight years ago? If the Liberal Democrats were gaining power, I'd say yes. In my view, there'd be a definite difference in the response.

But it's the Labour Party, not the Lib Dems. Labour have basically said they want to improve relations with the EU, but they're not looking at going back to the single market.

As to how that will go? I don't think it'll have a material effect on the pound.

It is almost as though the Labour Party has stolen a march on the Tories about business. We all remember that comment from Boris Johnson about his approach to UK business —to put it politely, not always complimentary.

But Labour has been repositioning itself as the Party of Growth, the Party of Enterprise. Those are comments from Rachel Reeves, the shadow Chancellor of the Exchequer. Labour leader Keir Starmer keeps talking about his goal of wealth creation for everyone. We're talking centre ground there.

In that case, I think the market could well, as it did in 1997 when Blair came in, could well give the Labour Party three, six, perhaps nine months' grace as to what to do with the currency, to see how the new Labour government is going to perform.

So we could see a sense of stability in the pound, which would be quite interesting. You know, when you compare it, because obviously it's all relative to what's happening in, shall I say, France. And later around the world with other elections.

GARY: Well, we'll come back to France a little later. But we've learned over the last few years over the last, maybe—15 years—to expect the unexpected when it comes to UK politics. It's never certain.

TREVOR: I agree with that one.

GARY: is that different this time? And what will happen if there is no Labour majority?

TREVOR: If no Labour majority? Electoral calculus gives it a 3% probability.

But having said that, we need to cover it off. That would mean that we would be getting a lot of people saying in the polls that they're not going to vote Tory, but who would vote Tory.

I would suggest that if there isn't a Labour majority, in actual fact you could easily see the pound wobble.

So with something like a hung parliament or a minority government, the market could well see that as not having a clear mandate to govern. That would be the issue. And that could encourage some sterling sales.

But at the moment really, we're seeing some positive sentiment around the pound and also very much on sterling/euro.

GARY: Sterling/euro, why is that?

TREVOR: Well it comes down to Monsieur Macron. After the European Parliamentary elections, we saw many votes for the far right; the far right got more seats. A bit of a surprise.

But even more surprising was the fact that President Macron, who had lost his majority and was finding it difficult to implement his policies, then turned around and called an election. About 3 weeks from today, June 30th, is the first round. The second round is July the 7th.

But Macron is about 15 points behind the far right, Marine Le Pen's National Rally party. And that's quite a lot to build back up in three weeks. There are some concerns that he won't be able to get his majority back, which means he could have a cohabitation government. Marine Le Pen's party could have the Prime Minister governing domestic politics and policies, and President Macron would do everything else, overseas and international relations. So that would be difficult.

And I think that could unsettle the euro if that happens in France. You've got Giorgia Meloni, the far-right Prime Minister in Italy. And Schultz's party in Germany didn't do very well in the elections either. So you could see a shift towards the right.

And that will cause concerns in the FX market, specifically with France, about balancing their budget. That's the issue that everyone's concerned about, and one of the things that Macron wants to do. But in actual fact if he doesn't get the majority, he's not going to be able to do that.

GARY: Tricky times, very interesting. So maybe more about euro than the dollar coming up.

TREVOR: Yes, yes, it could be in the short term, absolutely.

GARY: Darryl, I'll turn to you then. So it seems like "nothing to see here" in the short term, at least, for the UK election, but we've got some more immediate event risk over the next few months.

What should we be concentrating on?

DARRYL: First and foremost, Trevor, thank you for stealing my thunder about the French election. Having said that, you spoke about it better than I would have done. So fair enough.

But I think we are saying the UK election is effectively a foregone conclusion, and therefore won't impact the pound. There's a lot of logic and sense behind that.

The fact that that the French election, as Trevor said, is now running side by side with the UK election" that's really something of note in terms of sterling / euro.

Beyond that—and Trevor already touched on this—is the fact that we've seen, over the course of the last 10 years or so across Europe, increased frustration: more voters turning to a far-right/ more-right-of-centre.

We've seen that in Italy in the last five years, and parts of Eastern Europe, of course. It's not the first time. We could go back beyond this cycle to Marine Le Pen's father, Jean-Marie Le Pen, who started the party originally .

And, whilst they haven't had any kind of political sway in this election, we shouldn't ignore the fact that Nigel Farage has a kind of impact on UK politics. And there's the fact that Donald Trump asked him to speak at his rallies in the last US election cycle. And that kind of circles us back to the fact that we are now less than five months away from the US presidential election.

We very much kind of know who the runners and riders are. We're going to touch on it a little bit later on, but politics itself will definitely have an impact on the currency markets over the course of the next six months. It's just not necessarily going to be UK based, dominated around our own election.

Therefore, we know where the potential turning points are for the pound going forward at this point in time.

But first and foremost. we have to see what the Bank of England does in its interest rate decision next week.

Market expectation from most companies is that it will be a hold, but a dovish hold. With the result that forward guidance may well go not quite as far as outlining strictly what the mandate is for a cut.

But definitely a suggestion, a signpost to the fact that a cut could happen across the remainder of the summer.

Expectations between now and the end of the year is one to two cuts from the Bank of England—that's within the next six months.

Staying on the interest rate theme, the European Central Bank (ECB) cut interest rates last week.

And the expectation is that they'll do so again before the year's out.

ECB members themselves seem to be a little bit torn with the direction that's taken, so comments from them could turn out to be interesting over the course of the next six months.

And then there is the US Fed (Federal Reserve). Just given what has happened with PPI (Producer Price Index), recent jobs data, we're expecting a cut from them over the next three months. But that's not necessarily a one-and-done for 2024. Cuts are expected in Q4 as well.

I think we have gone through a period of time where the central banks had nothing to do: no one could raise rates and no one could cut them. We're now at a stage where—because over the last, what, two years—we've had some aggressive interest rate hiking. The cycles have very much come to an end and now it's a case of 'When do they start to cut? And how aggressive are they when these cuts materialise?' as far as the Bank of England, Federal Reserve are concerned.

And by this time next year, it's expected that all the central banks we're covering here—the ECB, the Bank of England, and the Fed—will all put cuts in place of 1%, maybe even more, over that 12-month period.

GARY: OK. So it's not UK politics. It's geopolitics. It's interest rate cuts around the world. What should people be doing to mitigate this risk?

DARRYL: Exactly the same as I said in our previous podcast. To be honest, it's always the same: be prepared and have a plan.

Ultimately, if you're a corporate, if you have FX exposure, whether it's through your costs or sales, whether it's revenues that generate profits abroad, the reality is, like it or not, you dance with the devil [if you're not planning]. The FX market is going to impact your bottom line.

The reality is how significant that impact is going to be.

Obviously, you can't determine where markets are going, but you can put plans in place. It's also got to fit: very much a horses-for-courses, case-by-case basis.

Some corporates have far more luxury, whereby they get to pass on costs to their suppliers or their customers. Likewise some are in a hand-to-mouth sell cycle, so it's easier to update prices close to the market. In this case FX risk is just part of your pricing mechanism, rather than determining whether you make a profit or not, and the extent to which those profits materialise. And then there's a number of businesses with six months, 12 months, 24 months planning and forecasting, budgeting, and FX exists within that.

Finding the right approach from that perspective—as with any area of life, moving away from FX a little bit: if you're going on holiday, when you buy a home, when you buy a car, you get insurance, and you hope you never have to use it. However, it's there because you now have a commitment where you don't want to be open-ended.

It's a similar view in terms of foreign exchange. Once you know that risk exists, once you've planned for it, you're forecasted for it, it is part of your business. It doesn't make sense, therefore, to leave that risk completely open-ended.

The extent to which you decide to put a plan in place, how far you go out, the ratios of how much you're hedging, how much you're leaving to spot, leaving unhedged at that moment in time, are a personal preference.

The people who really get caught are the people who haven't put anything in place.

And, not that we hope any of this happens again:

Liz Truss's government, 18 months ago, just goes to show how rapidly the market can tank. And for most people listening, this would be bad news: A weakening of the pound.

Or COVID: again, touch wood, something we hope never again materialises.

We see these kinds of exaggerated movements as Black Swan events.

But the reality is, if you look back to the last five years, ten years, even in our own UK politics over the last 10 years, we've seen several general elections, referendums, changes of Prime Ministers within government cycles.

We're saying that this general election is a bit of a damp squib.

But we haven't spoken about how long this government is going to last. Labour is going to have a heck of a majority by the looks of it. How well is that going to go from his own party? Could there be a change there?

This present Tory government, which seems about to end, is also on its third Prime Minister. We've had five different Tory Prime Ministers in the last eight years, going back to David Cameron and Theresa May.

So we can't assume that, just because we get this out of the way, the 2025 market stands still, that we can afford to sit on our hands, that no risks exist.

Because rarely has that proven to be the case.

GARY: I can hear Labour Party members switching off.

OK. Now onto a more difficult question then. The US elections in November may be slightly more difficult to call. What do we think will happen and what will the effect be?

DARRYL: Yes, we touched on this a moment ago. In terms of what's going to happen, we also know our two candidates.

Bookies see them pretty much even money in that respect. So that election is very much more on a knife-edge than what we've discussed with the UK.

One of the reassuring things for financial markets—whether Biden wins the second term or whether we go back to Trump as US president, they're the current and the previous incumbent of the role.

The market knows what they're about and I think therefore unlike, say, eight years ago, when Trump was campaigning to replace Obama, and unlike four years ago, when Biden came in.

We've seen them both. We have an expectation around who they are, what they're going to do, what they're good at, what they're bad at. Some may say that they're both not good at an awful lot. The market expectation, though, is all to some degree priced in. So in a bizarre kind of way, whether they get Republican, whether they get a Democrat, I'll say there's almost an element of certainty to markets.

Because they know who they are. There shouldn't be any surprises. Whether you like one's politics or the other one's politics is kind of neither here nor there from FX perspective. Some expect, actually, that the dollar should be relatively steady despite the fact that we really, at this moment in time, have no idea who could end up being President. Which isn't normally something that you would say attached to that statement.

GARY: OK, Trevor. And what are your opinions? What do you think will happen?

TREVOR: Darryl's quite right, really. They're more known quantities than unknown quantities. However, the markets could react either way whichever gentleman gets into power.

So a Biden victory. Maybe you'd see little movement in the dollar because he's there already, but we would still go back to looking at the inflation and CPI, which was very busy [yesterday] and really did move the marketplace. And the guidance on the path of interest rates from the Fed. So you still get volatility even with Biden.

But interestingly, Trump? In an Financial Times poll in early June, 41% of US registered voters basically trusted Trump on the economy more than Biden. 37% trusted Biden more than Trump.

17% trusted neither, and 5% didn't know what the day was. Obviously, that's a joke.

But the point is Trump is seen at the moment as being a more trusted party on the economy. Then there was a recent Reuters report that said Trump wanted to replace Fed Chair Jerome Powell.

We were talking to a top tier investment bank a little while ago who said that Powell has done pretty well: he's managed to get inflation down from 9.1% or so to the 3.3% that we're seeing in May 2024. And as the economy is still going well, we can actually have a soft landing.

So he's got some gold stars there, but Trump is not impressed. And Reuters reported that Trump wants to get rid of him.

Now if this is the case, then, the top tier investment house is saying, that could start to alarm the financial markets and there could be some volatility around that.

I think the other thing to look at is U.S. Treasury auctions, because the latest U.S. Treasury auctions were turning round and actually rates were going higher. Now that means the US has got a $34 trillion overdraft, a budget deficit. And if that continues to go higher and it's difficult for the Fed to run that overdraft, then we may see some volatility from there.

So yes, while we do know the two gentlemen pretty well, we could get actually some volatility around that election and certainly going from when whoever resumes power or takes power in January next year. So yeah, it could well be an interesting time.

DARRYL: So a slight contradiction of what I said. I believe we'll be steady in the run up to the results themselves. I think the impact around the US selection actually won't necessarily be felt until 2025.

And I think to put it in a historical perspective: When Trump came in first time around he went to great pains to talk about weakening the US dollar, wanting a weaker U.S. dollar, making the US more attractive, In terms of overbought sales, so to speak.

I think that's may be something to keep an eye on. And Trevor's already said the removal of Powell would be a quite controversial move, and a significant moment in relation to the US dollar.

Because he has some 'gold stars'. He's definitely got some 'money in the bank', so to speak, some credit there. So if he is to be removed, that definitely could be a signal for dollar weakness.

But I think a lot of these are more 2025 than 2024 themes. I think the back end of this year is more likely to be dominated by the central banks than it is by any other impacts of election or critical uprisings.

I think it's very much a central bank kind of second-half of the year.

GARY: Right: On the FED, the ECB and the Bank of England, rather than politics.

DARRYL: Won't be as fun, but I think it's probably more likely to move markets more sign

GARY: Well, that brings us to the end of our podcast episode today. Thanks for listening.