27 September 2019

The Boris Johnson Effect on Forex Market – What's Next for Brexit?

"Pound Volatility" has become an often-used term in the financial markets, ever since the 2016 Brexit referendum. The ups and downs of Brexit negotiations, over the last 3 years, has taken a toll on this major currency. The Pound Sterling, which was trading at $1.24 on September 23, 2019, has failed to reach its pre-referendum highs against the greenback.

In May 2019, the UK political landscape suffered another setback, when Prime Minister Theresa May decided to call it quits. She had been the face of Brexit negotiations on the global stage and her exit made it evident that a hard Brexit could very well be in the making.

Appointment of a Hard-Brexit Favouring PM

Enter Boris Johnson, an avid proponent of a hard Brexit, and the Pound immediately declined on the charts. Johnson has repeatedly asserted that he means to take the UK out of the EU, with or without a deal, while also rejecting the terms of the withdrawal agreement crafted by his predecessor.

On the eve of his appointment on July 23, 2019, bearish market sentiment caused the Great British Pound to dip for the third consecutive day against the US Dollar, to reach a 27-month low. It was one of the worst performing major currencies that month.

Experts predict that this slide pretty much defined the journey ahead for the GBP, in the months till the Brexit deadline of 31 October, 2019.

Immediately after the announcements, the Pound Sterling rose to trade at $1.2474 against the US Dollar. The market had already reined in Johnson's likely appointment as the next leader and didn't react much to the news. His appointment had brought a much-needed stability to the currency.

Over the next few days, the currency continued to climb at the 0.5% levels, to trade at $1.249 against the USD. This was partly due to Johnson's first speech outside his office, talking about crafting a new and better deal, while asserting that a No-Deal Brexit could only be a remote possibility.

Boris Johnson had been striving to cut a favourable deal with Brussels, and also met the German Chancellor and the French President at the G7 summit, in the process. For a while, it looked like the UK would exit the EU on a positive note.

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Ensuing Volatility Amidst Parliament Chaos and Election Risks

Boris Johnson's tussle with the parliamentary lawmakers continues to take a toll on the forex market. In late August 2019, the GBP suffered tremendous volatility as the Prime Minister asked the Queen to suspend parliament for a month till mid-September 2019. Johnson had been facing staunch opposition from the UK parliament members, who were intent on extending the Brexit deadline. The suspension plan to block opposition to a No-Deal Brexit plunged the GBP to new lows, with the currency trading at $1.21.

This also paved the way for a new set of investor fears. The decision could very well make the MPs bid for general elections in the country, further heightening political instability.

Businesses around the country are already weighing in this likelihood of major disruption, endangering the lives of millions of workers around the nation.

What Lies Ahead?

The President of the European Commission, Jean-Claude Juncker, offered some hope on September 20, 2019, when he said that a Brexit deal was possible. This news took the Pound Sterling to its highest levels since July 2019. This also provided a huge boost to the GBP/EUR exchange rate.

As of September 23, 2019, the hopes of averting a No-Deal Brexit seemed to have all but disappeared. The Prime Minister had recently stated that under no circumstances would the government delay Brexit any further, deal or no deal.

The volatility in Pound Sterling is likely to persist till the Brexit deadline. As positive and negative news keep rolling in, investor sentiment on the UK currency shifts from buying to selling and back. A rebound can be expected, if the parliament is able to vote and push an extension to the Brexit deadline, which seems very unlikely.

In the first week of October, the UK Prime Minister will respond to the Supreme Court's ruling on his parliament suspension decision. All eyes are on his likely stance. Traders are advised to tread cautiously and employ robust risk management measures.

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