

UK elections: Another twist in the tale

SUMMARY

- **In a surprise result, UK PM Theresa May's Conservative Party has fallen short of the 326 seats required for a majority, leading to a hung Parliament.**
- **Risk assets unlikely to be materially impacted.** While the result should lead to higher uncertainty for UK assets, global risk assets are unlikely to be materially impacted. GBP weakened following the results.
- **Brexit implications.** The results are likely to weaken the UK's position in Brexit negotiations.

BACKGROUND

- **On track for a hung Parliament.** The UK's ruling Conservative party has fallen short of the 326 seats required for a majority and their previous tally of 331 seats. The result comes as a surprise to the market, as most pre-election polls indicated a narrow victory for the Conservative party.
- **Market reaction has been muted.** GBP dropped sharply after the release of the exit polls and has been range-bound since then. FTSE 100 futures are down 0.2%. However, global assets remained largely unchanged. Asian equity markets are trading marginally up.

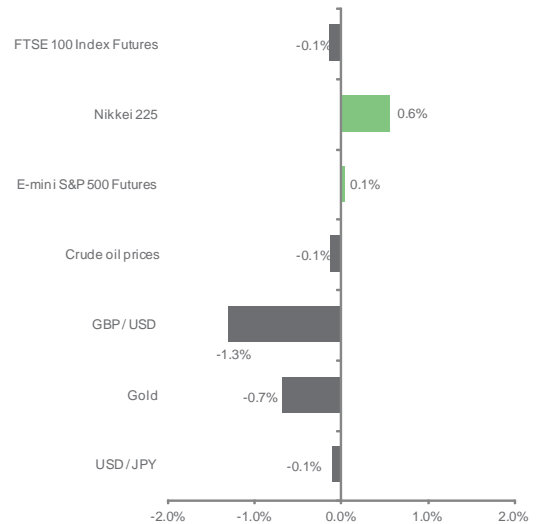
WHAT DOES THIS MEAN FOR INVESTORS?

- **Political uncertainty to remain elevated.** UK PM May had called for the snap elections with the intention to win a greater majority and strengthen the UK's position in Brexit negotiations. The result marks a significant setback for the Conservative party and is likely to lead to a coalition government or even another election.
- **Negative for GBP near term.** Out of all the possible scenarios, a hung Parliament is probably the worst result for the GBP as it leads to higher short term uncertainty. At present, we believe the risks for GBP are skewed to the downside; technically the break below 1.280 confirms this bearish bias, suggesting further downside is in the offing. 1.258 and 1.240 are the next support levels.
- **FTSE 100 likely to outperform domestic equities.** A lower GBP is supportive for the FTSE 100 listed stocks, which include large international companies. The result is negative for domestically focused companies as the greater uncertainty is likely to hurt economic sentiment and impact earnings.

WHAT TO WATCH OUT FOR

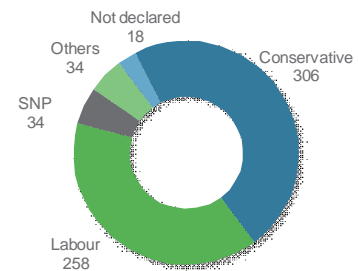
- **Another election or coalition?** Over the next few days, market participants will closely follow whether the Conservative Party chooses to form a coalition government or call for a re-election. There is also a possibility that UK PM May resigns following the poor election results.
- **Implications for Brexit talks.** A weaker than expected mandate for the conservatives has weakened the negotiating position for the UK and, at the margin, reduces the risk of a Hard-Brexit.

Global assets have had a muted reaction 1-day change in asset prices (since 8 June)



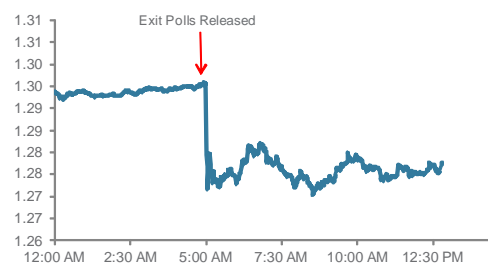
Source: Bloomberg, Standard Chartered
*As of 12:49pm Friday, 9 June

UK election results point towards a hung parliament UK election results



Source: Bloomberg, Standard Chartered
*As of 1:00pm Friday, 9 June

Near-term risks are skewed towards the downside for GBP-USD GBP-USD



Source: Bloomberg, Standard Chartered

Disclosure Appendix

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within Standard Chartered Bank, ("SCB") particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively "SCB") according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation or particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document. This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

Copyright: Standard Chartered Bank 2017. Copyright in all materials, text, articles and information contained herein is the property of, and may only be reproduced with permission of an authorised signatory of, Standard Chartered Bank. Copyright in materials created by third parties and the rights under copyright of such parties are hereby acknowledged. Copyright in all other materials not belonging to third parties and copyright in these materials as a compilation vests and shall remain at all times copyright of Standard Chartered Bank and should not be reproduced or used except for business purposes on behalf of Standard Chartered Bank or save with the express prior written consent of an authorised signatory of Standard Chartered Bank. All rights reserved. © Standard Chartered Bank 2017.

Country Specific Disclosures

Botswana: This document is being distributed in Botswana by, and is attributable to, Standard Chartered Bank Botswana Limited which is a financial institution licensed under the Section 6 of the Banking Act CAP 46:04 and is listed in the Botswana Stock Exchange

China: This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking Regulatory Commission (CBRC), State Administration of Foreign Exchange (SAFE), and People's Bank of China (PBOC).

Dubai International Financial Centre (“DIFC”): The attached material is circulated by Standard Chartered Bank DIFC on behalf of the product and/or Issuer. Standard Chartered Bank DIFC is regulated by the Dubai Financial Services Authority (DFSA) and is authorised to provide financial products and services to persons who meet the qualifying criteria of a Professional Client under the DFSA rules. The protection and compensation rights that may generally be available to retail customers in the DIFC or other jurisdictions will not be afforded to Professional Clients in the DIFC.

Hong Kong: This document, except for any portion advising on or facilitating any decision on futures contracts trading, is being distributed in Hong Kong by, and is attributable to, Standard Chartered Bank (Hong Kong) Limited 渣打銀行（香港）有限公司 (CE#AJI614) which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong.

India: SCB in its capacity of a distributor or referrer of Investment Products may offer advice which is incidental to its activity of distribution/referral. SCB will not be charging any fee/consideration for such advice and such advice should not be construed as ‘Investment Advice’ as defined in the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013. The client can avail of the investment advisory services of SCB only upon (i) executing separate documents with the Investment Advisory Group of SCB for availing ‘Investment Advice’ (as defined in the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013) from it; and (ii) paying specific fees (if applied by SCB) for such ‘Investment Advice’.

Kenya: Our Investment Products and Services are distributed by Standard Chartered Investment Services Limited, a wholly owned subsidiary of Standard Chartered Bank Kenya Limited (Standard Chartered Bank/the Bank) that is licensed by the Capital Markets Authority as a Fund Manager. Standard Chartered Bank Kenya Limited is regulated by the Central Bank of Kenya.

Philippines: This document may be distributed in the Philippines by, and is attributable to, Standard Chartered Bank (Philippines) which is regulated by the Bangko Sentral ng Pilipinas. This document is for information purposes only and does not offer, sell, offer to sell or distribute securities in the Philippines that are not registered with the Securities and Exchange Commission unless such offer or sale qualifies as an exempt transaction under Section 10 of the Securities Regulation Code.

Singapore: This document is being distributed in Singapore by, and is attributable to, Standard Chartered Bank (Singapore) Limited (“SCBSL”). Recipients in Singapore should contact SCBSL in relation to any matters arising from, or in connection with, this document. SCBSL is an indirect wholly-owned subsidiary of Standard Chartered Bank and is licensed to conduct banking business in Singapore under the Singapore Banking Act, Chapter 19.

IN RELATION TO ANY FIXED INCOME AND STRUCTURED SECURITIES REFERRED TO IN THIS DOCUMENT (IF ANY), THIS DOCUMENT TOGETHER WITH THE ISSUER DOCUMENTATION SHALL BE DEEMED AN INFORMATION MEMORANDUM (AS DEFINED IN SECTION 275 OF THE SFA). IT IS INTENDED FOR DISTRIBUTION TO ACCREDITED INVESTORS, AS DEFINED IN SECTION 4A OF THE SFA, OR ON TERMS THAT THE SECURITIES MAY ONLY BE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S\$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION.

Further, in relation to fixed income and structured securities mentioned (if any), neither this document nor the Issuer Documentation have been, and will not be, registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons other than a relevant person pursuant to section 275(1) of the SFA, or any person pursuant to section 275(1A) of the SFA, and in accordance with the conditions, specified in section 275 of the SFA, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Singapore dollar deposits of non-bank depositors are insured by the Singapore Deposit Insurance Corporation, for up to S\$50,000 in aggregate per depositor per Scheme member by law. Foreign currency deposits, dual currency investments, structured deposits and other investment products are not insured.

Thailand: Please study the Scheme Information Documents carefully e.g. investment policy, risks, fund performance before investing.

UAE: For residents of the UAE – Standard Chartered Bank UAE does not provide financial analysis or consultation services in or into the UAE within the meaning of UAE Securities and Commodities Authority Decision No. 48/r of 2008 concerning financial consultation and financial analysis.

United Kingdom: Standard Chartered Bank (trading as Standard Chartered Private Bank) is an authorised financial services provider (licence number 45747) in terms of the South African Financial Advisory and Intermediary Services Act, 2002.

Zambia: This document is distributed by Standard Chartered Bank Zambia Plc, a company incorporated in Zambia and registered as a commercial bank and licensed by the Bank of Zambia under the Banking and Financial Services Act Chapter 387 of the Laws of Zambia.

Market Abuse Regulation (MAR) Disclaimer (2017)

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD. Standard Chartered Bank is

authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively "SCB") according to local regulatory requirements.

Opinions may contain outright "buy", "sell", "hold" or other opinions. The time horizon of this opinion is dependent on prevailing market conditions and there is no planned frequency for updates to the opinion.

This opinion is not independent of SCB's own trading strategies or positions. SCB and/or its affiliates or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document or have material interest in any such securities or related investments. Therefore, it is possible, and you should assume, that SCB has a material interest in one or more of the financial instruments mentioned herein. If specific companies are mentioned in this communication, please note that SCB may at times do business or seek to do business with the companies covered in this communication; hold a position in, or have economic exposure to, such companies; and/or invest in the financial products issued by these companies. Further, SCB may be involved in activities such as dealing in, holding, acting as market makers or liquidity providers, or performing financial or advisory services including but not limited to, lead manager or co-lead manager in relation to any of the products referred to in this communication. SCB may have received compensation for these services and activities. Accordingly, SCB may have a conflict of interest that could affect the objectivity of this communication. SCB has in place policies and procedures, logical access controls and physical information walls to help ensure confidential information, including material non-public or inside information is not disclosed unless in line with its policies and procedures and the rules of its regulators.

Please refer to <https://www.sc.com/en/banking-services/market-disclaimer.html> for more detailed disclosures, including past opinions in the last 12 months and conflict of interests, as well as disclaimers.

This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.