

Market Comment | Brexit wreaks havoc across markets

Global Financial Markets Unit
24 Jun 2016

- **Brexit wreaks havoc across markets.** Surprising result of UK referendum (51.9% to leave and 49.1% to stay) ([see note](#)) hit financial markets and triggered volatility across the board due to the challenging future in the global economy once the UK decided to leave the European Union. The first to feel the consequences were Asian markets. Later on, European assets were the most punished at the beginning of the session: the British pound ly depreciated 7.5% against the dollar and the FTSE 100 fell by around 8% but trimmed losses during the session. Yet the British sovereign bond served as domestic refuse: the 10Y Gilt yield has fallen by -34bps (to 1.04% - a new record low). The US and the German bond also attracted fresh haven flows. Falls in European risk assets were even more pronounced, especially among peripheral countries (double digit drops in Italy and Spain at opening time). The move moderated slightly as the session went by, but sharp losses remained in financial assets.
- **Global investors veer towards defensive assets.** The Japanese yen appreciated 3.8% against the USD (ly below 99 against the USD and later correcting part of the move). 10Y yields declined across safe-haven bonds: US -18bps, Ger -14bps (falling once again into negative territory). Moreover the 2Y yields fell broadly in the same proportion as the 10Y in both the US and Germany. This environment delayed market expectations of the next rate hike until 2018. Moreover, the markets' inflation expectations fell abruptly in both the euro zone (5Y5Y inflation swap from 1.41% to 1.31%) and the US (5Y5Y inflation swap from 2.0% to 1.89%). Commodity markets also reflected the increase in risk aversion. Gold prices increased by 4.8%, while Brent crude futures declined by 4.3%. Peripheral bonds felt the pressure. 10 Y yields rose in peripheral curves, widening their risk premiums (Spain +30 bps to %, Italy +31 bps, Portugal: +41 bps).
- **Equity indices drop strongly across the board in a high volatility context** (VIX 22% and Euro Stoxx implied volatility 35%) European indices were the clear underperformers (Euro Stoxx: -8.2%, IBEX -11.9%, CAC -7.6%, DAX -6.5%) led by the banking sector. European banks with exposure to the UK are falling side by side with their UK counterparts. Drops in the US were contained compared to European indices (S&P -2.8% and DJ -2.6%).
- **Safe-haven mood in currencies:** The USD appreciated against major currencies (EUR -2.2%), the only exception being the JPY (+3.7%). Meanwhile, EM currencies were stable against the USD.

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Table 1

Current level and changes at daily, weekly, monthly and annual frequencies

Debt markets (changes in bp)

US 2yr 8.04 (24) (-28) (41)
 US 5yr 1.00 (21) (-12) (48)
 US 10yr 1.37 (4) (-4) (20) (70)

Japan 10yr 4.17 (3) (-2) (18) (44)
 GBR 5yr 4.64 (7) (-10) (11) (20)
 GBR 10yr 4.53 (4) (-1) (16) (48)
 GBR 15yr 4.24 (4) (-1) (13) (47)

Belgium 10yr 6.43 (4) (-2) (16) (44)
 France 10yr 5.39 (4) (-2) (16) (48)
 Greece 10yr 10.07 (20) (-1) (19) (41)

India 10yr 7.54 (6) (-1) (13)
 Mex 10yr 1.07 (7) (-1) (13) (3)
 Netherlands 10yr 5.21 (2) (-1) (11) (15)
 Portugal 10yr 5.36 (27) (-1) (40) (81)
 Spain 10yr 5.94 (17) (-1) (17) (27)

Colombia 10yr 12.45 (2) (-28) (143) (407)
 Chile 10yr 4.54 (1) (-1) (11) (12)
 Colombia 10yr 8.13 (1) (14) (12) (43)
 Greece 10yr 10.07 (20) (-1) (19) (41)

Peru 10yr 6.80 (6) (-4) (121) (-123)
 Poland 10yr 5.81 (1) (2) (1) (1) (4)
 Russia 5yr 5.78 (9) (-1) (12) (1) (109)
 Russia 10yr 6.8 (11) (-1) (12) (1) (65)
 Turkey 10yr 8.5 (2) (-1) (13) (1) (47)

India 10yr 7.48 (2) (2) (1) (23)
 Indonesia 10yr 7.79 (2) (1) (-1) (1) (146)

C country risk (changes in bp)

1-yr sovereign spreads (against Germany)

Belgium 41 (8) (2) (1) (13)
 France 44 (8) (2) (1) (11)
 Greece 165 (10) (4) (2) (19)
 Ireland 20 (2) (1) (2) (6)
 Italy 141 (20) (1) (2) (26) (64)
 Netherlands 20 (4) (1) (1) (1) (13)
 Portugal 241 (11) (1) (2) (1) (152)
 Spain 182 (7) (1) (1) (2) (6) (64)

5-yr sovereign spreads (against Germany)

Belgium 34 (12) (2) (1) (16)
 France 34 (12) (2) (1) (16)
 Greece 165 (10) (4) (2) (19)
 Ireland 15 (1) (1) (1) (1) (4)
 Italy 141 (20) (1) (2) (1) (15)
 Netherlands 21 (4) (1) (1) (1) (13)
 Portugal 274 (14) (1) (2) (1) (163)
 Spain 112 (7) (1) (1) (2) (4)

3-yr sovereign spreads (against Germany)

Belgium 11 (1) (1) (1) (1) (1)
 France 11 (1) (1) (1) (1) (1)
 Greece 165 (10) (4) (2) (19)
 Ireland 15 (1) (1) (1) (1) (4)
 Italy 141 (20) (1) (2) (1) (15)
 Netherlands 21 (4) (1) (1) (1) (13)
 Portugal 158 (23) (1) (2) (1) (111)
 Spain 71 (14) (2) (1) (1) (5)

5-yr sovereign CDS

Spr CDS Belgium 58 (6) (2) (1) (15)
 Spr CDS France 38 (6) (2) (1) (15)
 Spr CDS Germany 2 (1) (1) (1) (1)
 Spr CDS Greece 108 (8) (3) (1) (1) (132)
 Spr CDS Ireland 47 (4) (1) (1) (1) (11)
 Spr CDS Italy 138 (10) (3) (1) (1) (14)
 Spr CDS Netherlands 27 (4) (1) (1) (1) (12)
 Spr CDS Portugal 302 (8) (2) (1) (1) (134)
 Spr CDS Spain 182 (8) (2) (1) (1) (113)
 Spr CDS UK 38 (8) (1) (1) (1) (18)
 Spr CDS US 21 (8) (1) (1) (1) (2)

Emerging markets

5-yr sovereign CDS

Spr CDS Argentina 428 (1) (-26) (1087) (1087)
 Spr CDS Brazil 138 (1) (-27) (137) (137)
 Spr CDS China 100 (1) (-1) (1) (1) (1)
 Spr CDS Colombia 216 (1) (-19) (1) (1) (23)
 Spr CDS Mexico 163 (1) (-1) (1) (1) (1)
 Spr CDS Peru 44 (1) (-1) (1) (1) (1)
 Spr CDS Venezuela 416 (1) (-1) (1) (1) (1)

Spr CDS Pakistan 8 (1) (1) (1) (1)
 Spr CDS Russia 24 (1) (1) (1) (1) (1)
 Spr CDS Turkey 243 (1) (1) (1) (1) (1)
 Spr CDS China 123 (1) (1) (1) (1) (1)
 Spr CDS India 71 (1) (1) (1) (1) (1)
 Spr CDS Indonesia 187 (1) (1) (1) (1) (1)

Credit risk

Vol 20 27 (1) (1) (1) (1) (1)
 VIX100 25 21 (1) (1) (1) (1) (1)
 EFT weekly index 27 (1) (1) (1) (1) (1)
 Dailymove weekly 12 7 (1) (1) (1) (1) (1)
 EFT weekly index 27 (1) (1) (1) (1) (1)
 Credit spread (Baa) 303 (17) (1) (1) (1) (1)
 US bonds weekly index 74 (1) (1) (1) (1) (1)

Bank risk (changes in bp)

US banks CDS 81 (2) (1) (1) (1)
 EU banks CDS 110 (2) (1) (1) (1) (1)
 UK banks CDS 105 (1) (1) (1) (1) (1)

Latin American banks CDS

Latin American CDS 142 (1) (1) (1) (1) (1)

Country risk (changes in bp)

EW Non-Accred CDS 345 (1) (-1) (1) (1) (1)
 UK Non-Accred CDS 148 (1) (-1) (1) (1) (1)

Interbank markets (changes in bp)

EUR OIS spread 3m 18 (2) (1) (1) (1)
 EUR OIS spread 6m 41 (1) (1) (1) (1)
 EUR 10Y spread 3m 30 (1) (1) (1) (1) (1)

US OIS spread 3m 26 (1) (1) (1) (1) (1)
 US OIS spread 6m 47 (1) (1) (1) (1) (1)
 US 10Y spread 3m 36 (1) (1) (1) (1) (1)

Spain Ted Spread 3m -16 (1) (1) (1) (1) (1)

EWNA index 435 (1) (1) (1) (1) (1)
 Euribor 3m -0.26 (1) (1) (1) (1) (1)
 Euribor 6m -0.26 (1) (1) (1) (1) (1)

Libor 3m 0.64 (1) (1) (1) (1) (1)
 Libor 6m 1.25 (1) (1) (1) (1) (1)

Stock markets (Changes in percentage)

High-yield indices

S&P500 2005 12 (1) (1) (1) (1) (1)
 Dow Jones 1786 (1) (1) (1) (1) (1)
 Nikkei 1402 (1) (1) (1) (1) (1)
 FTSE 100 871 (1) (1) (1) (1) (1)
 Euro Stoxx 50 1792 (1) (1) (1) (1) (1)
 MSCI EAFE 115 (1) (1) (1) (1) (1)
 DJIA 115 (1) (1) (1) (1) (1)
 CAC40 174 (1) (1) (1) (1) (1)
 NYSE 1000 115 (1) (1) (1) (1) (1)
 AEX 100 115 (1) (1) (1) (1) (1)

Bank stocks

JPM 65 (1) (1) (1) (1) (1)
 Cit 41 (1) (1) (1) (1) (1)
 BofA 12 (1) (1) (1) (1) (1)
 WFC 14 (1) (1) (1) (1) (1)
 GS 143 (1) (1) (1) (1) (1)

HSC 45 (1) (1) (1) (1) (1)
 RBS 205 (1) (1) (1) (1) (1)
 Barclays 102 (1) (1) (1) (1) (1)
 Lloyds 57 (1) (1) (1) (1) (1)

BNP 30 (1) (1) (1) (1) (1)
 BNP 30 (1) (1) (1) (1) (1)
 Citigroup 17 (1) (1) (1) (1) (1)
 Deutsche Bank 135 (1) (1) (1) (1) (1)
 ING 31 (1) (1) (1) (1) (1)
 Intesa 112 (1) (1) (1) (1) (1)
 Societe 20 (1) (1) (1) (1) (1)
 Unicredit 21 (1) (1) (1) (1) (1)

Large Spanish banks 154 (1) (1) (1) (1) (1)
 Santander 14 (1) (1) (1) (1) (1)
 BBVA 4 (1) (1) (1) (1) (1)

Medium Spanish banks 142 (1) (1) (1) (1) (1)
 Caixabank 1 (1) (1) (1) (1) (1)
 Previsur 12 (1) (1) (1) (1) (1)
 Sabadell 1 (1) (1) (1) (1) (1)
 Bancoled 5 (1) (1) (1) (1) (1)
 Bankia 6 (1) (1) (1) (1) (1)

China banks 21 (1) (1) (1) (1) (1)
 Alpha Bank 1 (1) (1) (1) (1) (1)
 Asian Bank 1 (1) (1) (1) (1) (1)
 National Central Bank 1 (1) (1) (1) (1) (1)
 European Central Bank 1 (1) (1) (1) (1) (1)

Emerging Markets

Latin equity indices

MSCI Latin AMER 171 (2) (1) (1) (1) (1)
 Bovespa 102 (1) (1) (1) (1) (1)
 Mexico 47 (1) (1) (1) (1) (1)

MSCI E Europe 404 (1) (1) (1) (1) (1)
 Poland 170 (1) (1) (1) (1) (1)
 VIXex Russia 102 (1) (1) (1) (1) (1)
 VIX 100 100 (1) (1) (1) (1) (1)

MSCI E Asia 602 (1) (1) (1) (1) (1)
 Shanghai Composite China 2004 (1) (1) (1) (1) (1)
 Jakarta Composite Indonesia 452 (1) (1) (1) (1) (1)

Bank stocks

Turkish banks 80 (1) (1) (1) (1) (1)
 Akbank T.A.S. 8 (1) (1) (1) (1) (1)
 Denizbank 14 (1) (1) (1) (1) (1)
 Turkiye Is Bankasi 4 (1) (1) (1) (1) (1)
 Raiffeisen 172 (1) (1) (1) (1) (1)
 Sparkasse 133 (1) (1) (1) (1) (1)
 VTB Bank 0 (1) (1) (1) (1) (1)

Currencies (per percent/100, positive for dollar depreciation)

EURUSD 111 (22) (1) (1) (1) (1)
 GBPUSD 136 (27) (4) (1) (1) (1)
 USDJPY 102 (5) (1) (1) (1) (1)
 DXY 95 (2) (1) (1) (1) (1)

Commodities (change in percentage)

WTI 42 (4) (1) (1) (1) (1)
 Copper 21 (1) (1) (1) (1) (1)
 Gold 107 (7) (1) (1) (1) (1)
 Baltic Dry Index 596 (1) (1) (1) (1) (1)
 S&P 500 Spot commodity index 307 (1) (1) (1) (1) (1)
 S&P 500 Index Spot 402 (1) (1) (1) (1) (1)
 S&P 500 Index 308 (1) (1) (1) (1) (1)
 S&P 500 Agriculture Spot 314 (1) (1) (1) (1) (1)

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CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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