

Brexit Monitor # 15

Day 7 after UK's decision to leave the EU

Summary of today's developments

- **Bank of England Governor Mark Carney delivered a very dovish speech today**, stating that the *'economic outlook has deteriorated'* due to Brexit uncertainties and that **he personally thinks 'some monetary policy easing will likely be required over the summer'**. Carney said that he viewed the two meetings in July and August as a *'package'* and that BoE will publish the first full projections after Brexit in the next Inflation Report due in August. **We believe the BoE will eventually cut the bank rate to 0.00% from 0.50% and to expand the Asset Purchase Facility (APF) by GBP150-200bn.**
- **Nomination for the UK Conservative party leadership closed today. Surprisingly, the favourite Boris Johnson is not in the race while Justice Secretary Michael Gove is.** It was expected that the two would launch a common bid. **Home Secretary Theresa May announced her candidacy today as well.** We are now down to five candidates: Theresa May, Michael Gove, Stephen Crabb, Liam Fox and Andrea Leadsom. **After Boris Johnson is out of the race, Theresa May is the clear favourite to succeed David Cameron as UK Prime Minister with Michael Gove and Stephen Crabb as outsiders.** At her press conference Theresa May said *'Brexit means Brexit'* as the referendum result was clear with high turnout. She ruled out a second referendum and early general election before 2020. She also said that Article 50 will not be triggered before year-end due to negotiation preparations. For more see *The Guardian*. For more on Michael Gove's bid see *Independent*. Most interestingly, Gove said he will not be hurried to trigger Article 50.
- **Now Conservative MPs are to reduce the number of candidates down to just two before the party members are to vote.** As we have a ballot with five candidates, the Conservative MPs will vote every Tuesdays and Thursdays until only two candidates are left. Thus we should know the two candidates on Thursday 12 July at the latest. That said, it is not unusual for other candidates to drop out voluntarily early on if they know it is 'game over'. Conservative party members will then vote and the result will be announced on 9 September.
- **The leadership crisis in Labour is still ongoing.** Angela Eagle has delayed her bid for the Labour leadership to give Corbyn time to step down himself, see *BBC*.
- **The ECB is said to be considering loosening the rules about QE purchases to ensure enough bonds can be bought in the aftermath of the UK's vote to leave the EU.** Euro area officials familiar with discussions said some ECB members would prefer to buy bonds in line with outstanding debt instead of following the capital key, although the Bundesbank would probably be concerned about this.
- **In terms of responses from EU politicians, it has been quiet today. A survey showed that 62% of Germans say the EU should hand some powers back to member states, see *Die Welt* (in German).**
- **See overleaf for comments on financial markets and Brexit time table. See financial markets table and charts from page 3 and onwards.**

Calendar – next week

- 5 July: BoE Financial Stability Report
- 5 July: First Conservative MP vote on party leadership
- 7 July: Second Conservative MP vote

Overview

- Page 1: Summary of today's developments
- Page 2: Comments on market developments and Brexit time table
- Page 3-5: Financial market developments

Links

- [Research – Global growth revised down following Brexit](#)
- [FX Forecast Update: The GBP sell-off has just started](#)
- [Presentation: Brexit – policy responses and market implications](#)

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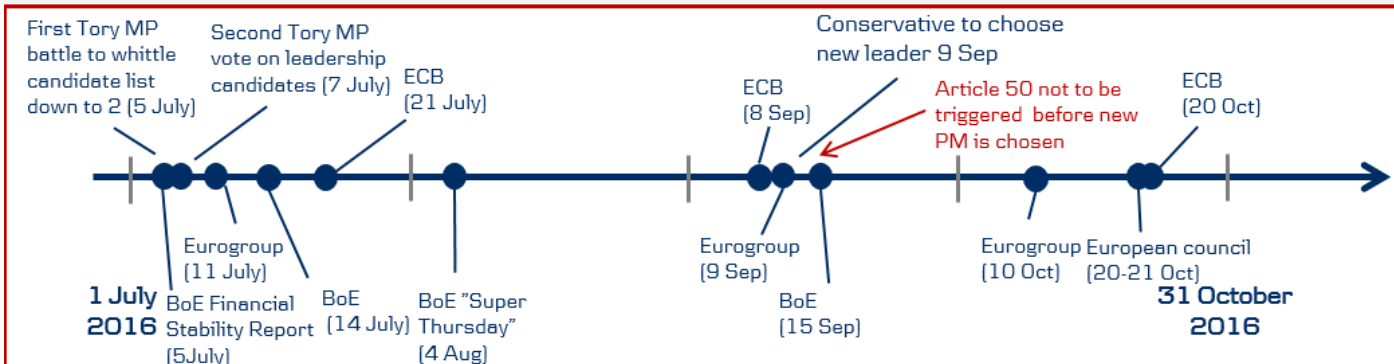
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Market developments

- **Risk sentiment improving across asset classes again today with equities moving higher.** FTSE 100 ended the session up by 2.3% and Euro Stoxx increased 1.2% fuelled by a dovish BoE message.
- **The German 30Y (BUXL) future sold off 5 big figures around the European close on the back of this *BBG story*.** It states that 'Some Governing Council members favour changing allocation of bonds purchases away from size of nation's economy toward one more in line with outstanding debt'. Will Germany really allow 25% of PSPP purchases in BTPS? For cross sovereign market implications of altered QE weights see our *tweet*.
- **After an initially quite day in FX markets, volatility spiked on the back of Mark Carney's soft comments,** which drove the 2Y GBP swap rate more than 7bp lower. 10Y gilts rate has fallen 10bp to 0.87%.
- **The GBP weakened heavily** with EUR/GBP initially spiking to the highest level since 2014 (to above 0.8380) before settling c. 40 pips lower. We still maintain the view that risks are skewed towards an even weaker GBP over the coming months and we forecast EUR/GBP at 0.86 in 1M (see *FX Forecast Update – The GBP sell-off has just started*, 28 June).
- **In the Scandies both SEK and NOK are little changed on the day. EUR/DKK has edged slightly higher over the last days but still trades close to 7.4400.**

Brexit - time table autumn



Source: EU, ECB, BoE, EU Treaty, Bloomberg

Financial market developments

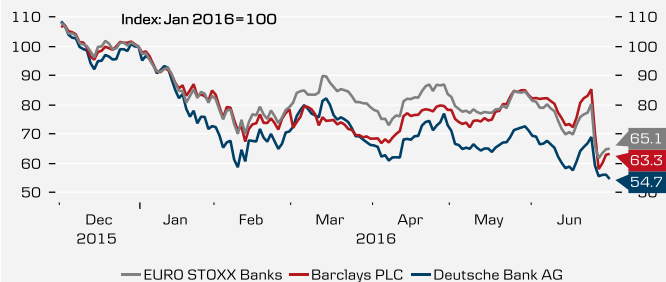
Financial market developments

	Asset	Level			Change				
		Last value	Unit	Daily	Weekly	Post Brexit	YTD		
Equities									
	EuroStoxx50	€	2865	Index	1.1 %	↑	-6 ↓	-6 ↓	-12 ↓
	DAX	🇩🇪	9680	Index	0.7 %	→	-6 ↓	-6 ↓	-10 ↓
	FTSE100	🇬🇧	6504	Index	2.3 %	↑	3 ↑	3 ↑	4 ↑
	FTSE250	🇬🇧	16271	Index	1.7 %	↑	-6 ↓	-6 ↓	-7 ↓
	S&P500	🇺🇸	2086	Index	0.7 %	→	-1 ↓	-1 ↓	2 ↑
- Financials	EuroStoxx Banks	€	83	Index	0.3 %	→	-19 ↓	-19 ↓	-35 ↓
	Barclays PLC	🇬🇧	139	Index	0.5 %	→	-26 ↓	-26 ↓	-37 ↓
	Deutsche Bank	🇩🇪	12	Index	-2.6 %	↓	-21 ↓	-21 ↓	-45 ↓
	Unicredit SpA	🇮🇹	2	Index	2.3 %	↑	-28 ↓	-28 ↓	-62 ↓
Fixed Income									
	US 10Y	🇺🇸	1.47	%	-5 bp	↓	-28 ↓	-28 ↓	-80 ↓
	Germany 10Y	🇩🇪	-0.13	%	0 bp	→	-22 ↓	-22 ↓	-76 ↓
	Japan 10Y	🇯🇵	-0.22	%	1 bp	→	-8 ↓	-8 ↓	-48 ↓
	UK 10Y	🇬🇧	0.87	%	-8 bp	↓	-51 ↓	-51 ↓	-109 ↓
Credit and liquidity									
- CDS	ITRAXX 5Y	🌐	85	bp	-1 bp	↓	9 ↑	9 ↑	8 ↑
	ITRAXX 5Y Finance	🌐	111	bp	-5 bp	↓	17 ↑	17 ↑	35 ↑
- CCS	1Y EUR/USD CCS	🌐	-41	bp	-1 bp	↓	-6 ↓	-6 ↓	-16 ↓
- Money Markets	EUR FRA/OIS	€	7	bp	0 bp	→	-1 →	-1 →	-3 ↓
	USD FRA/OIS	🇺🇸	27	bp	0 bp	→	3 ↑	3 ↑	4 ↑
	GBP FRA/OIS	🇬🇧	11	bp	2 bp	↑	3 ↑	3 ↑	9 ↑
FX									
	EUR/GBP	🇬🇧	0.835	Spot	1.3 %	↑	9 ↑	9 ↑	13 ↑
	EUR/USD	🇺🇸	1.105	Spot	-0.4 %	→	-3 ↓	-3 ↓	2 ↑
	EUR/SEK	🇸🇪	9.40	Spot	-0.1 %	→	1 ↑	1 ↑	2 ↑
	EUR/NOK	🇳🇴	9.28	Spot	-0.5 %	→	0 →	0 →	-4 ↓
	EUR/DKK	🇩🇰	7.4390	Spot	9 pips	↑	-31 ↓	-31 ↓	-240 ↓
	EUR/DKK 12M	🇩🇰	7.4323	Forward	49 pips	↑	3 ↑	3 ↑	-180 ↓
Commodities									
	Oil (Brent Crude)	🌐	49.7	USD	-1.9 %	↓	-2 ↓	-2 ↓	33 ↑
	Copper	🌐	749	USD	1.1 %	↑	3 ↑	3 ↑	-5 ↓
	Gold	🌐	1319	USD	-0.4 %	→	4 ↑	4 ↑	24 ↑

Source: Bloomberg, Danske Bank Markets

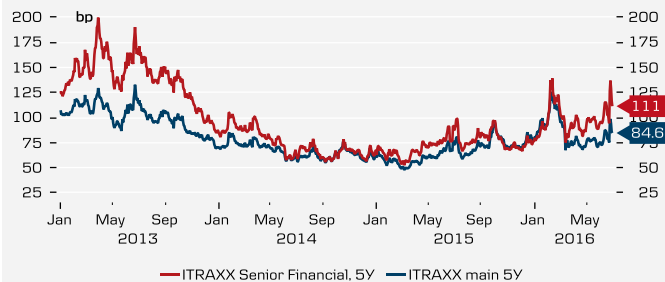
Financial market charts

European banks in focus



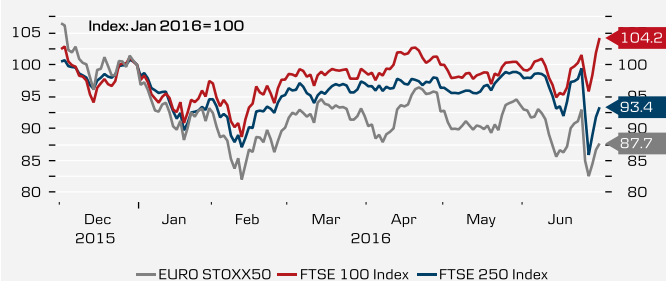
Source: Bloomberg, Macrobond and Danske Bank Markets

ITRAXX main and ITRAXX senior financials



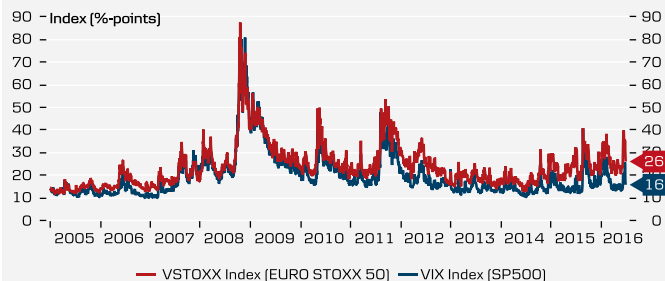
Source: Bloomberg, Macrobond and Danske Bank Markets

UK and European equities



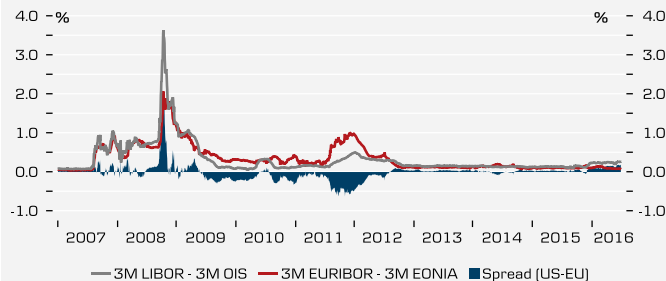
Source: Bloomberg, Macrobond and Danske Bank Markets

Equity volatility (S&P500 and EURO STOXX option impl vol)



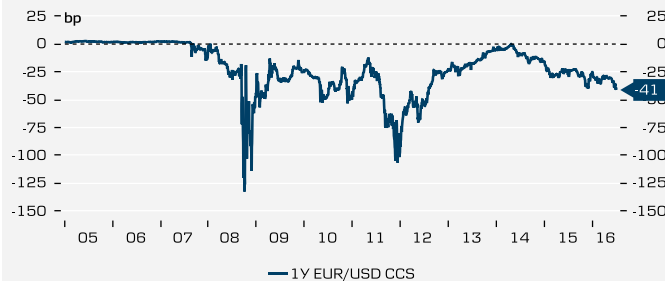
Source: Bloomberg, Macrobond and Danske Bank Markets

FRA-OIS in EUR and US (Credit spread)



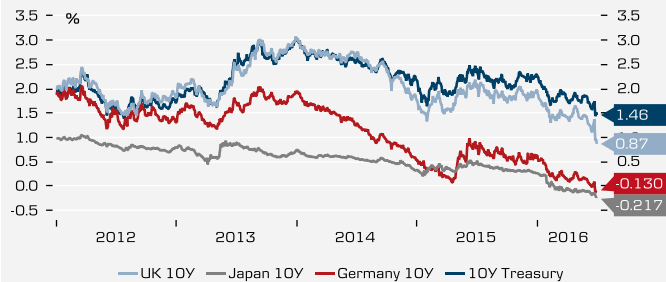
Source: Bloomberg, Macrobond and Danske Bank Markets

1Y EUR/USD CCS - (USD liquidity preference and credit)



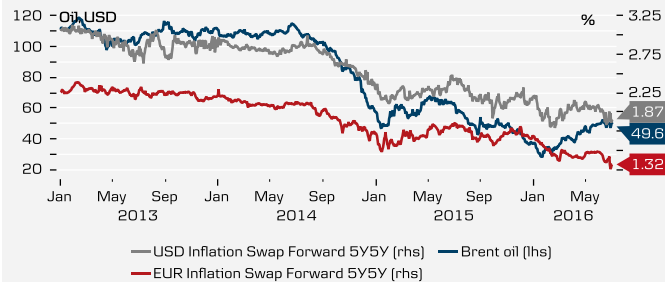
Source: Bloomberg, Macrobond and Danske Bank Markets

Global fixed income markets



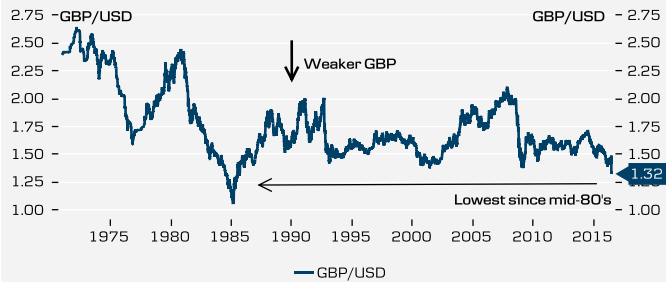
Source: Bloomberg, Macrobond and Danske Bank Markets

Inflation and oil prices



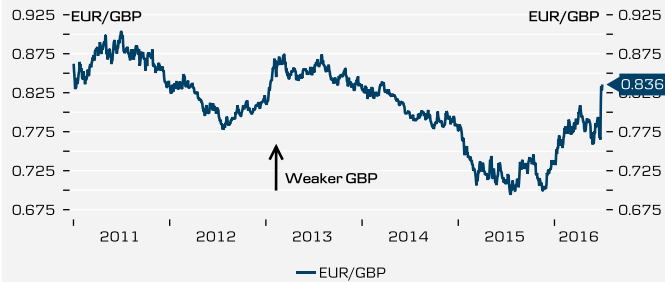
Source: Bloomberg, Macrobond and Danske Bank Markets

GBP/USD



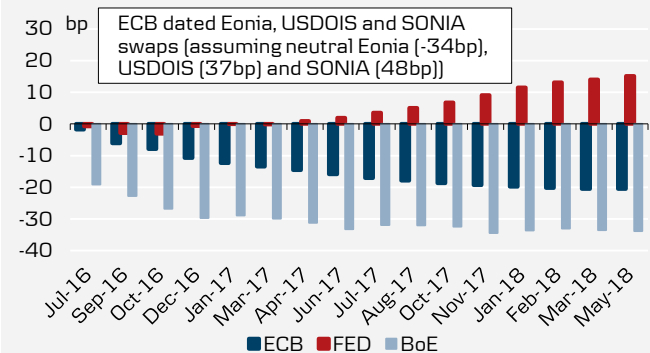
Source: Bloomberg, Macrobond and Danske Bank Markets

EUR/GBP



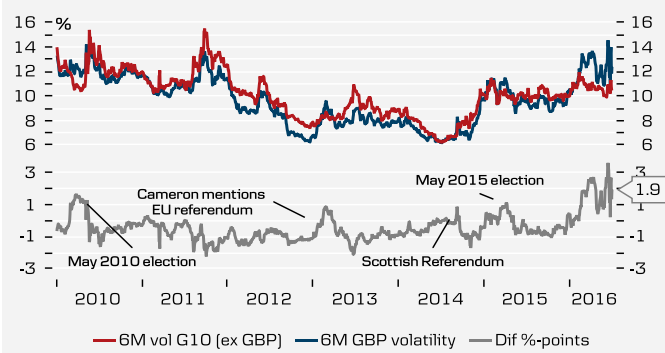
Source: Bloomberg, Macrobond and Danske Bank Markets

Central Bank pricing



Source: Bloomberg, Macrobond and Danske Bank Markets

GBP volatility vs G10



Source: Bloomberg, Macrobond and Danske Bank Markets

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Anders Møller Lumholtz, Chief Analyst, Pernille Bomholdt Henneberg, Senior Analyst and Mikael Olai Milhøj, Senior Analyst, and Kristoffer Kjær Lomholt, Analyst.

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