

11 July 2016

# Brexit Monitor #19

## Theresa May 'crowned' as new Prime Minister

### Summary of recent developments

- Today Theresa May was 'crowned' as new Conservative party leader as Andrea Leadsom pulled out of the leadership and in a press conference Prime Minister David Cameron announced he will step down on Wednesday, see [BBC](#). This means that political chaos is waning and the UK can spend time preparing the difficult withdrawal negotiations. **This was welcomed by markets.**
- Theresa May repeated that '*Brexit means Brexit*' and that there will be no early general election or a second EU referendum. She also said '*we are going to make a success of it*'.
- The next big question is when Theresa May will trigger Article 50. She has previously said around year-end this year. The EU is likely to push for the UK to trigger it sooner as the UK leadership crisis has now ended.
- Chancellor of the Exchequer George Osborne said today he wants to begin negotiations with the North America Free Trade Agreement (NAFTA) bloc (US, Canada, Mexico) on a free trade deal. For more see [The Guardian](#).
- Tomorrow's ECOFIN meeting will attract attention as the EU finance ministers will discuss whether to punish Spain and Portugal for not meeting their budget targets or not. For the EU, it is a difficult balancing act between enforcing fiscal rules and making a problematic political situation for the EU worse following the UK's decision to leave the EU. Today Eurogroup chairman Jeroen Dijsselbloem said that it is possible to give 'zero-euro fines', according to a Bloomberg story.
- Although not officially on the agenda, the EU-Italy negotiations on recapitalisation of Italian banks are set to continue. While Italy wants to spend public money, the EU wants Italy to deal with the problem within the existing rules.
- We expect Bank of England to make a precautionary 25bp cut from 0.50% to 0.25% on Thursday. BoE Governor Mark Carney was very dovish in his recent speech, which we interpreted as a preannouncement of monetary policy easing. Since he said that the full new economic projections of a Brexit would not be available before August when the next Inflation Report is due and that he considers the July and August meetings as a 'package', we think the Bank of England will ease further in August, possibly also using unconventional tools.

### Calendar – next week

- 12 July: Carney speaks in Parliament
- 12 July: BoE indexed long-term repo operation results
- 12 July: ECOFIN meeting
- 13 July: Theresa May new PM
- 14 July: Bank of England meeting

### Overview

Page 1: Summary of today's developments

Page 2-5: Brexit timetable and financial market developments

### Links

[Research: Global growth revised down following Brexit](#), 28 June

[Nordic Outlook after Brexit](#), 1 July

[FX Forecast Update: The GBP sell-off has just started](#), 28 June

[Yield Forecast Update: Global yields are set to stay 'low for even longer'](#), 1 July

[Presentation: Brexit – policy responses and market implications](#), 24 June

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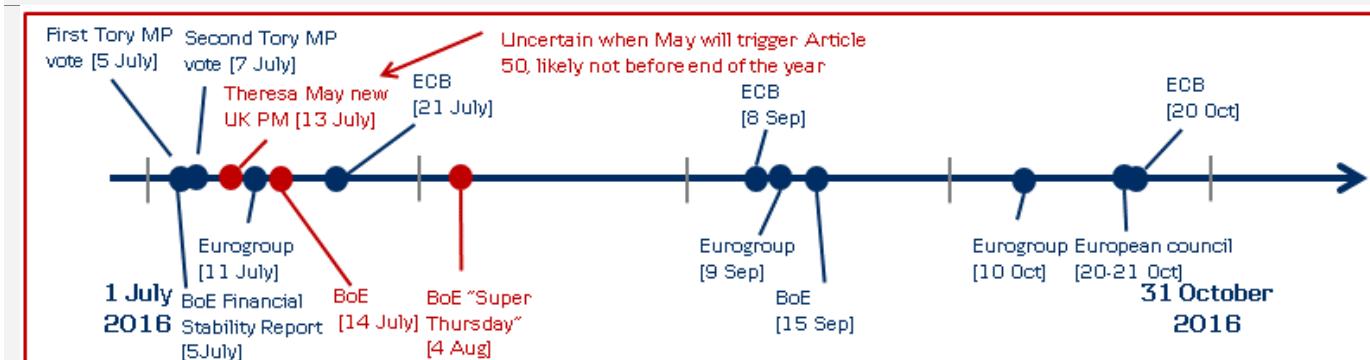
## Financial market developments

### Financial market developments

	Level				Change				
	Asset		Last value	Unit	Daily		Weekly	Post Brexit	YTD
<u>Equities</u>	EuroStoxx50	🇪🇺	2885	Index	1.7 %	🟢	1 🟡	-5 🟥	-12 🟥
	DAX	🇩🇪	9833	Index	2.1 %	🟢	1 🟢	-4 🟥	-8 🟥
	FTSE100	🇬🇧	6683	Index	1.4 %	🟢	2 🟢	5 🟢	7 🟢
	FTSE250	🇬🇧	16706	Index	3.3 %	🟢	4 🟢	-4 🟥	-4 🟥
	S&P500	🇺🇸	2137	Index	0.3 %	🟡	2 🟢	1 🟢	5 🟢
- Financials	EuroStoxx Banks	🇪🇺	84.2	Index	1.5 %	🟢	2 🟢	-18 🟥	-34 🟥
	Barclays PLC	🇬🇧	145.4	Index	4.4 %	🟢	6 🟢	-22 🟥	-34 🟥
	Deutsche Bank	🇩🇪	12.0	Index	2.3 %	🟢	-3 🟥	-23 🟥	-47 🟥
	Unicredit SpA	🇮🇹	1.85	Index	-2.9 %	🟥	3 🟢	-32 🟥	-64 🟥
<u>Fixed Income</u>									
	US 10Y	🇺🇸	1.43	%	7 bp	🟢	-1 🟡	-32 🟥	-84 🟥
	Germany 10Y	🇩🇪	-0.17	%	2 bp	🟢	-3 🟥	-26 🟥	-80 🟥
	Japan 10Y	🇯🇵	-0.27	%	2 bp	🟡	-3 🟥	-13 🟥	-53 🟥
	UK 10Y	🇬🇧	0.76	%	2 bp	🟢	-8 🟥	-62 🟥	-120 🟥
<u>Credit and liquidity</u>									
- CDS	ITRAXX 5Y	🌐	75	bp	-1 bp	🟡	-5 🟥	0 🟡	-2 🟥
	ITRAXX 5Y Sen Fin	🌐	105	bp	-1 bp	🟡	-5 🟥	11 🟢	29 🟢
- CCS	1Y EUR/USD CCS	🌐	-42	bp	1 bp	🟢	0 🟡	-6 🟥	-17 🟥
- Money Markets	EUR FRA/OIS	🇪🇺	7	bp	0 bp	🟡	0 🟡	-1 🟡	-3 🟥
	USD FRA/OIS	🇺🇸	28	bp	0 bp	🟡	0 🟡	3 🟢	4 🟢
	GBP FRA/OIS	🇬🇧	8	bp	0 bp	🟡	0 🟡	0 🟡	6 🟢
<u>FX</u>									
	EUR/GBP	🇬🇧	0.851	Spot	-0.1 %	🟡	1 🟢	11 🟢	16 🟢
	EUR/USD	🇺🇸	1.106	Spot	0.1 %	🟡	-1 🟡	-3 🟥	2 🟢
	EUR/SEK	🇸🇪	9.48	Spot	0.0 %	🟡	1 🟡	2 🟢	3 🟢
	EUR/NOK	🇳🇴	9.40	Spot	-0.3 %	🟡	2 🟢	1 🟢	-2 🟥
	EUR/DKK	🇩🇰	7.4378	Spot	-24 pips	🟥	-30 🟥	-67 🟥	-252 🟥
	EUR/DKK 12M	🇩🇰	7.4280	Forward	-39 pips	🟥	-61 🟥	-67 🟥	-222 🟥
<u>Commodities</u>									
	Oil (Brent Crude)	🌐	46.1	USD	-1.5 %	🟥	-8 🟥	-10 🟥	24 🟢
	Copper	🌐	760	USD	0.6 %	🟡	1 🟡	5 🟢	-4 🟥
	Gold	🌐	1355	USD	-0.8 %	🟡	0 🟡	8 🟢	28 🟢

Source: Bloomberg, Danske Bank Markets

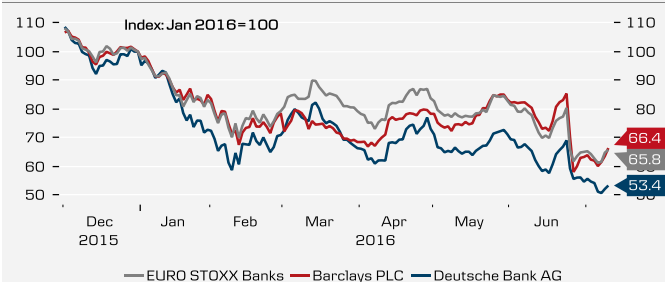
### Brexit - time table autumn



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

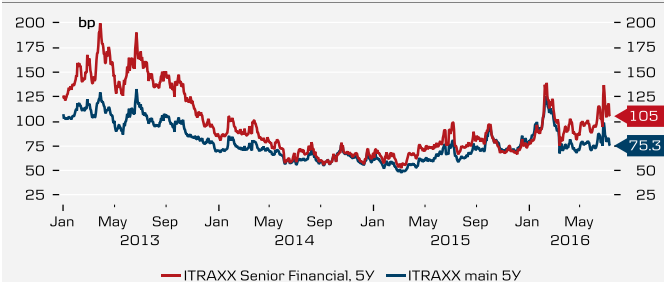
## Financial market charts

### European banks in focus



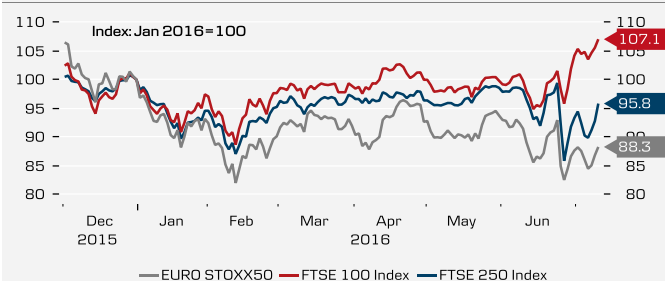
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### ITRAXX main and ITRAXX senior financials



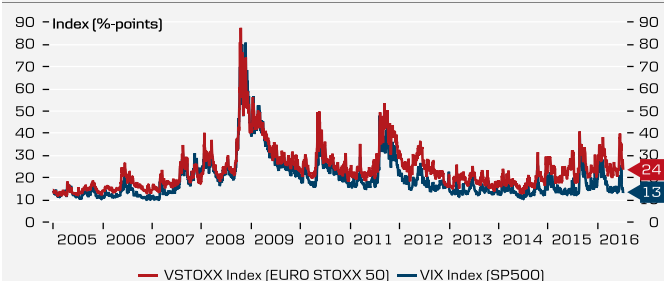
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### UK and European equities



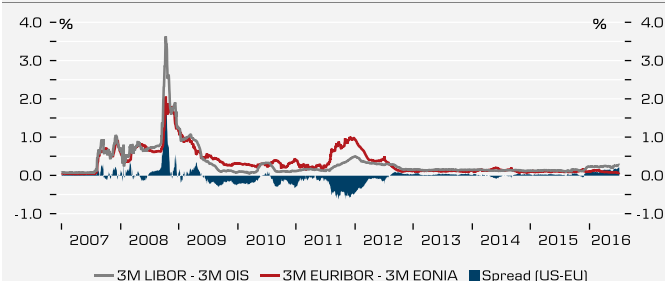
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### Equity volatility (S&P 500 and Euro Stoxx option impl. vol.)



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### FRA-OIS in EUR and US (credit spread)



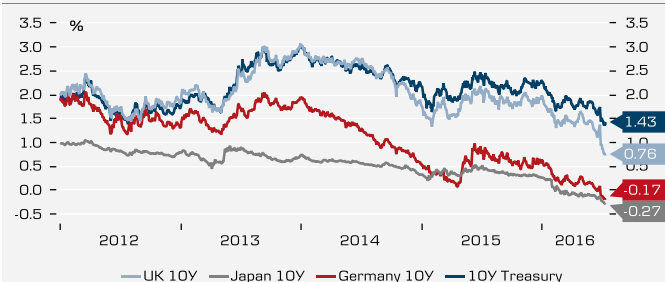
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

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



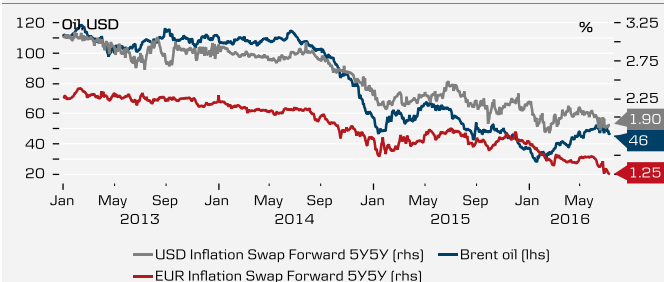
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### Global fixed income markets



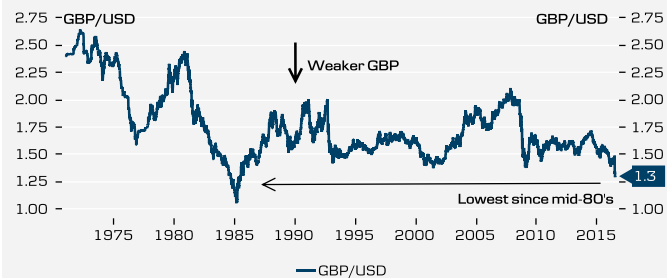
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

### Inflation and oil prices



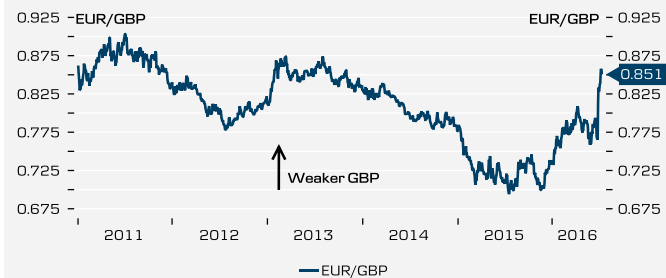
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

## GBP/USD



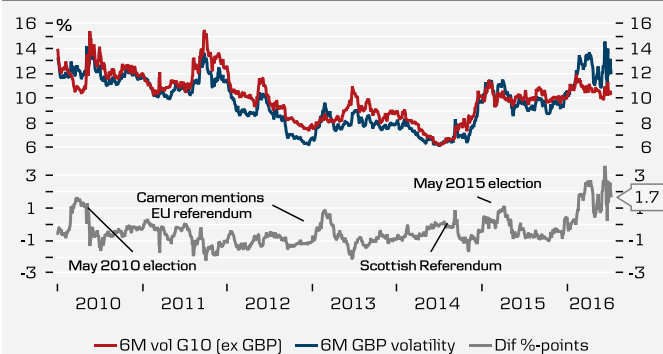
Source: Bloomberg, Macrobond Financial, Danske Bank Markets

## EUR/GBP



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

## GBP volatility vs G10



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

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