

Brexit Monitor #8

It's the final countdown

We have been through a very long and tough EU referendum campaign but **on Thursday, it is finally time for the British to decide: Do they want to remain or leave the European Union?** Although more opinion polls have begun to show a majority to the 'leave' side, the two camps are almost equal in size. In addition, there are still many undecided voters although the number has declined through the campaign. Currently 10-15% of the voters say they do not know what to vote for (down from 15-20% previously). **In other words, nothing is decided yet and it is not over until the fat lady sings, as we have said multiple times in recent weeks.** While the opinion polls indicate a very close race, the implied probability of a 'Brexit' from Betfair odds is only 35%. That said, this probability has increased in recent weeks.

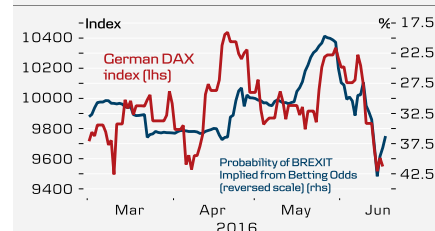
Risk sentiment has been really poor this week due to an increasing fear of a 'Brexit' among investors and we believe markets will be extremely sensitive to any news, polls etc. on the referendum next week. Some polling institutions have said they will not publish opinion polls next week so it is not certain that we will get much

In *FX Forecast Update: In the hands of British voters* (17 June), we highlight that the **GBP is very much the epicentre of 'Brexit' risk and there is set to be a 'knee-jerk' reaction either way next week.** Given our spot risk premium estimates we expect EUR/GBP to decline to a 0.7500-0.76500 range under a 'remain' vote. Under a 'leave' vote it is very difficult to say just how much intraday GBP weakness there will be, but we want to stress that fundamental models do not rule out EUR/GBP rising to 0.90. More importantly, irrespective of the size of the initial reaction under a 'Brexit' we would expect the GBP to trade at much weaker levels for a prolonged period of time. In our base case of a 'Bremain' we forecast EUR/GBP at 0.76 in 1M, 0.76 in 3M, 0.74 in 6M and 0.75 in 12M.

Yesterday was a very sad day as MP Jo Cox (Labour, pro-remain) was murdered while campaigning in her constituency. A 52 year-old man was arrested by the police shortly after. It is speculated that it was a politically motivated murder as witnesses have said the killer shouted 'Britain first' during the incident. Both 'remain' and 'leave' suspended their campaigns both yesterday and today. It is difficult to say whether it will have an impact on the referendum outcome; we lean towards the view that it will not. The killing of Anna Lindh just a few days before the Swedish euro referendum in 2003 did not change the outcome.

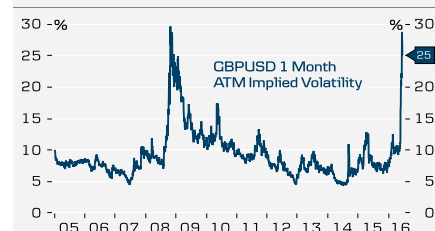
See overleaf for timetable during the referendum day on Thursday

Brexit fears explain poor risk appetite



Source: Bloomberg, Oddschecker, Danske Bank

1-month GBP/USD volatility very high



Source: Bloomberg, Danske Bank Markets

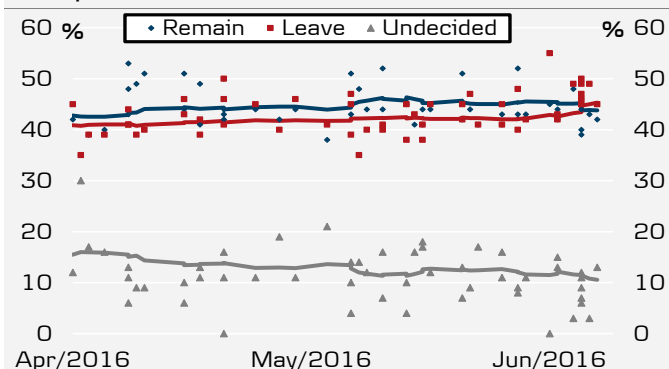
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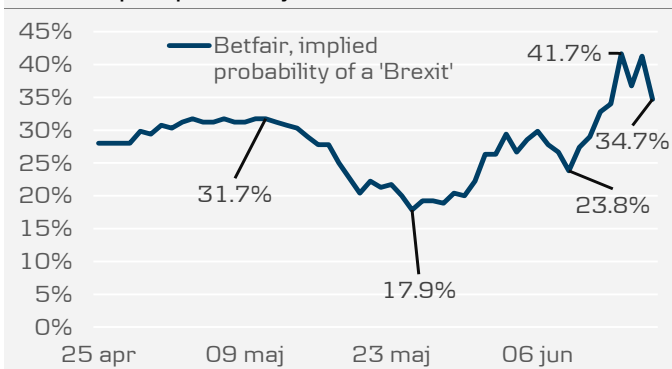
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More polls have 'leave' ahead but still a close race



Source: Financial Times <https://ig.ft.com/sites/brexit-polling/>

Betfair implied probability of a Brexit at 35%



Source: Betfair, Danske Bank Markets

Referendum day – time table

- Polls will be open from 8am-11pm CEST (7am to 10pm BST) on Thursday, 23 June.
- It is illegal to publish any opinion/exit polls during the day as long as polls are open for people to vote. Exit polls are allowed to be published as soon as the polling stations are closed, but there are currently no plans by broadcasters for an exit poll as the margin of error is deemed to be too large.
- However, Britain’s hedge fund industry is commissioning private exit polls to get an early warning of the result. Electoral Commission rules allow exit polls on the day of a referendum so long as they are not published until polls close at 11pm CEST.
- When polls are closed, local results will be declared as the counts are completed. The bulk of the results should be in somewhere between 3am-5am CEST (2am-4am BST) on Friday morning, depending on how quickly the votes are counted and how close the results are running.
- The BBC estimates that it should be possible to make a projection of the result some time around 4am BST.
- The Electoral Commission, which is in charge of overseeing the referendum, estimates the final result will be announced at ‘breakfast time’ on Friday, 24 June.

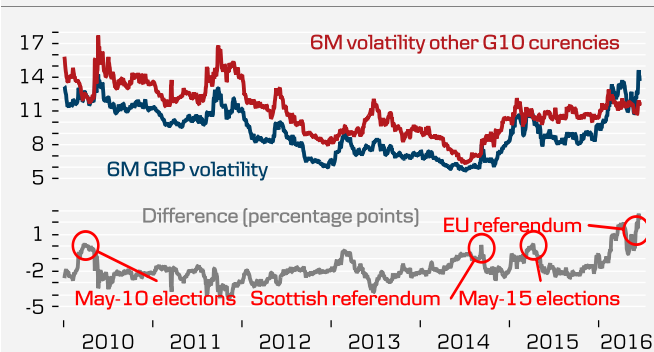
Referendum day – timetable

When	What
Thursday 8am CEST	Polls open
	Illegal to publish exit polls during the day
Thursday 11 pm CEST	Polls close
Thursday 11 pm CEST	No plans by broadcasters for an exit poll
Friday 3am-5am CEST	Most results tick in
Friday 5am CEST	BBC estimates that it should be possible to make a projection of the result
Friday 'breakfast time' BST	Electoral Commission estimates the final result will be announced at 'breakfast time' on Friday

Source: BBC, Electoral Commission, Reuters, Danske Bank

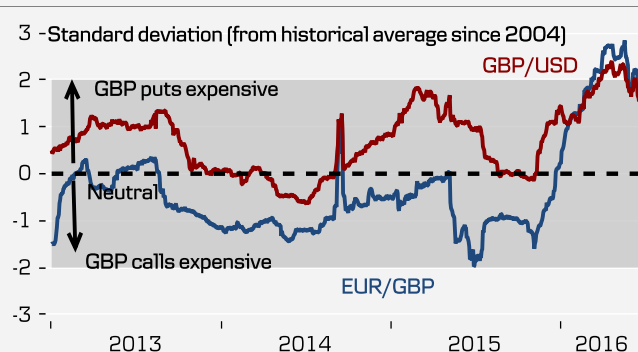
FX option market

GBP volatility relative to other majors



Source: Bloomberg, Danske Bank Markets

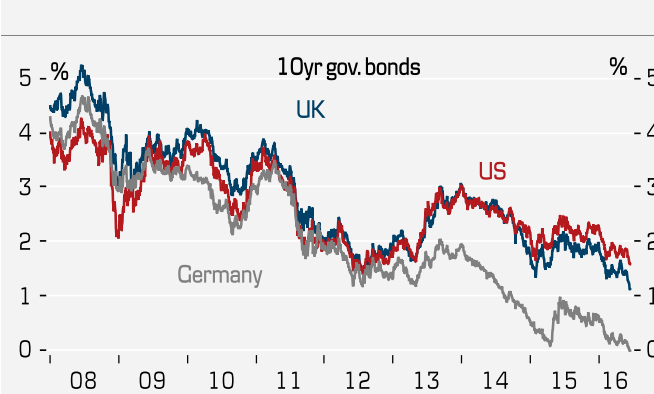
1Y 25 delta risk reversals



Source: Bloomberg, Macrobond Financial, Danske Bank Markets

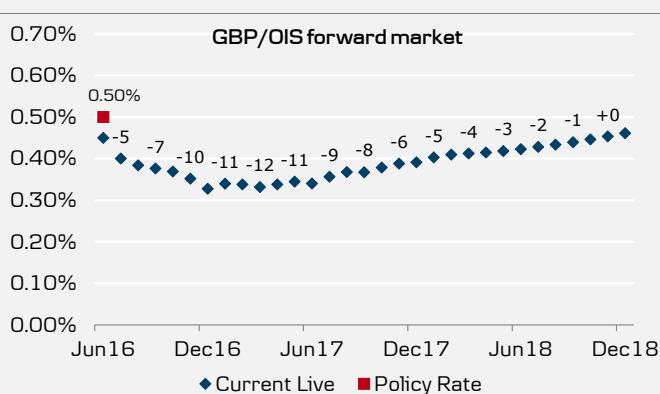
Rates and sovereign debt rating

UK 10Y government bond yields vs US and German



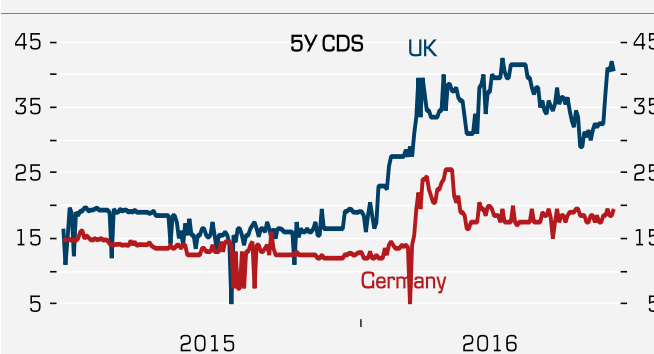
Source: Bloomberg

Markets have priced in close to a fifty-fifty chance of a BoE cut by year-end.



Source: Danske Bank Markets

5Y CDS: UK vs Germany



Source: Bloomberg

UK sovereign debt rating

United Kingdom sovereign ratings			
	Foreign currency Long Term Rating	Outlook	Since
Fitch	AA+	STABLE	19/04/2013
Moody's	Aaa	STABLE	22/02/2013
Standard & Poor's	AAAu	NEG	12/06/2015

Source: Bloomberg

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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 Mikael Olai Milhøj, Senior Analyst and Morten Thrane Helt, Senior Analyst.

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None.

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