

Market Comment | Rebound in risk assets as Brexit odds fade

Global Financial Markets Unit 20 Jun 2016

- Rebound in risk assets as Brexit odds fade. A new round of polls regarding the Brexit referendum showed a downturn in the "leave" option, giving some breathing space to risk assets and relieving some of the pressure felt last week, when according to the Financial Times poll tracker the leave option was the more likely. Today the "remain" option gained some pace and brought some calm to financial markets. However, the uncertainty inherent in the narrow difference between both options could cause a renewed bout of risk aversion in financial markets during this week. In fact, markets risk measures such as the implied volatility of assets more exposed to the UK remained high, despite today's moderation (implied volatility in the Euro Stoxx 50 34%, and the GBP/EUR 1M implied volatility 19%). Nonetheless, today's relief rally benefited risky assets across the board, especially those closely related with the Brexit referendum: The FTS100 registered one of its biggest increases since 2011 (+3.1%), while the GBP appreciated strongly against the USD (+2.23%). The performance of the UK sovereign bond market also suggests decreasing risk aversion as demand for UK gilts faded, sending gilt yields higher (UK 10Y yield). In the same line, the positive mood in financial markets halted the demand for safe-haven assets, with the 10Y German bund returning to positive levels (JPY: -0.23% against USD, Gold: -1%, US 10Y +7 bps and GER 10Y +4 bps) while commodity prices increased (copper +1.3% and Brent: +2.5%).
- Equity indices across the board rose confidently, led by European indices (Euro Stoxx 3.4%, S&P 1.2%) and the cyclical sectors. In bond markets, peripheral bonds rose, sending their yields lower (Spain 10 Y -7 bps, Italy 10Y -8 bps). The results of Italian local elections where the Five Start party won in some important cities and the uncertainty regarding next week's elections in Spain were offset by positive mood in market. The ECB announced the amount of corporate bond purchases during last week (€1.9 billion). This is the first time that the ECB has published a complete week's purchases, and if the monetary authority continues at the same pace in upcoming weeks, the monthly amount under the CSPP programme could be around €8 billion.
- In FX markets, the US dollar dropped against its main peers with the exception of the JPY (euro +0.27%, Japanese yen -0.23%, British pound +2.23%). Meanwhile, EM currencies appreciated due to the upward trend in commodity prices coupled with today's positive mood in financial markets (TRY: +0.8%, BRL: +0.8%, CLP: +0.6%, COP: +1.2%, MXN +1%)

Update 17.35 CET 20 June, 2016 Table 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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