# Weekly Market Summary

**24th of June 2016**

## The Debate is Over....UK Votes for Brexit !! May God have Mercy on Financial Assets!!

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It is finally official! The U.K. voted yesterday to quit the European Union after more than four decades, in a stunning rejection of the continent's postwar political and economic order (the "*angry*" vote that upsets the status quo!), prompting Prime Minister David Cameron to resign and sending shock waves around global markets. The outcome - voters backing "Leave" by 52% to 48%, a difference of slightly more than 1 million ballots - is a victory for Boris Johnson, the former mayor of London who broke with former schoolmate Cameron to help lead the "Leave" campaign and sets him up for a potential tilt at the premiership. Still, the vote widens fissures in the U.K. by raising the prospect of another push for Scottish independence and leaves London as one of few pro-EU centers.

"*The British people have made a very clear decision to take a different path, and as such I think the country requires fresh leadership*," Cameron said in an emotional statement to reporters outside his Downing Street residence in London earlier today. He added that he will stay on for the next three months with a new Conservative leader to be installed by October. The U.K. will wait until a new prime minister is in place before triggering exit talks and invoking Article 50 of the Lisbon Treaty (could threaten an immediate clash with Germany, which signaled it will push for a quick exit). Negotiations should be concluded within a maximum of two years, said Manfred Weber, a member of Merkel's party who heads the conservative EPP group in the European Parliament. "*There cannot be any special treatment*," Weber said on Twitter. "*Leave means leave*."

The U.K. must now count the economic and financial cost of an exit that Cameron warned would spark a recession. JPMorgan Chase & Co. and HSBC Holdings Plc have said a so-called Brexit would lead them to move thousands of jobs out of London. The pound plunged to its weakest level since 1985, trading down as low as 1.3228 (before recovering last to 1.3850), while the Japanese Yen rallied sharply ("risk-off" trade) to 99.00 against the US dollar before jumping back up to 103.00. European stocks followed Asian equities in tumbling (anywhere between 5% & 8%) and government bonds surged in one of the most dramatic 24 hours move in modern history (around 15-20 bps lower). Oil tumbled 4.5% (WTI last at $47.97), gold jumped 4.8% (last at $1315/ounce). The selloff was compounded by the fact that markets had rallied over the past week - and up to yesterday night - on optimism that the U.K. would vote to stay.

Still, the major risk now is that the UK result will fan speculation that more countries could withdraw from the EU and gives a push to populist insurgents such as Donald Trump and France's Marine Le Pen. Above all, the outcome shows just how disillusioned Western voters have become with the political establishment for failing to deliver more inclusive economic growth in the era of globalization. "*This is the biggest shock to European politics since the fall of the Berlin Wall*," said Rob Ford, professor of politics at Manchester University.

The White House said that President Barack Obama had been briefed on the results as they came in and was expected to speak with Cameron during the course of Friday. In Europe, governments from Ireland to Malta convened emergency cabinet meetings to discuss the way forward.

Finance officials too have started firefighting. Major central banks have already indicated that they stand ready to support markets by providing liquidity and by reopening existing FX swap lines. The Bank of England - this morning - said it was "*monitoring developments closely*" and will take all necessary steps to ensure stability. Governor Mark Carney may end up having to cut interest rates or revive quantitative easing, though so far only promising to provide an extra GBP 250 billion (US$ 345 billion, but again who's really counting?!) through its existing facilities should market/liquidity conditions deteriorate further (a good indicator of market stress is the "FRA/OIS" spread, which hit today the most extreme level since 2012). The Swiss central bank intervened to stabilize the franc and pledged to stay active in the market. The result may also prompt the Federal Reserve to delay raising rates. Markets are also expecting an ad hoc G-7 meeting this weekend, likely to result in a statement reaffirming the solid fundamentals of major economies and warning against "*non-fundamental*" exchange rate movements

Some Asian and European companies with operations in the U.K. said they would reassess their investments in the wake of the vote. Hankook Tire Worldwide Co. of South Korea said the company will respond by "diversifying global production capability," while Maurice Levy, chief executive officer of French advertising giant Publicis Groupe SA, has asserted that it would be "out of the question" to open new sites in the U.K. as the advertising market will "surely suffer." One industry particularly under threat is financial services, which employs more than 2 million people nationwide and paid 66 billion pounds ($92 billion) in tax last year. The City of London's status as a financial capital may now be eroded, especially if the U.K. loses "*passporting*" rights which allow banks to reside in the U.K. and sell their products and services throughout the EU.

What happens next remains a big uncertainty!! Needless to mention that markets (and I) hate indecision!!

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