NO END TO REFERENDUM TALK

If you were hoping we could talk about something else now that the referendum is out of the way, prepare to be bitterly disappointed. The fallout from the leave vote has been spectacular, with events leaving us with seemingly no government, no opposition and apparently no plan for this eventuality. The Bank of England has told us to expect rate cuts, with even negative rates a distinct possibility. Ironically this brings us more in line with European policy rather than following the US path of gradual rate rises as things returned to normal.

While the immediate shock of the leave vote has abated, we're left with the crushing uncertainty that was warned of. In the long run we'll probably look back and wonder what all the fuss was about, but here in the thick of it, we have no idea which laws we'll be keeping, or what market access we'll have. Expect volatile markets to overreact to every Brexit negotiations headline. Uncertainty is a difficult concept to really get worked up about, but it will now be the dominant theme for at least the next two years and probably longer.

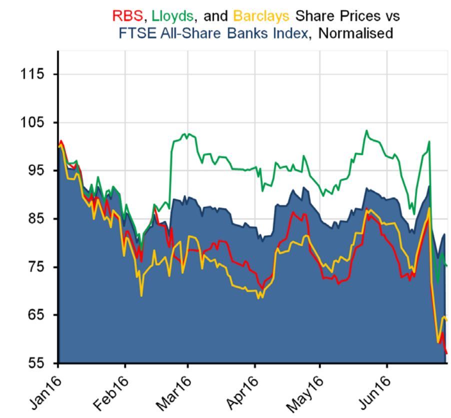
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+5.96%	-2.01%	+4.17%	-2.07%	+1.29%	+3.18%	+4.82%	+3.17%	+9.14%	+0.51%	-5.17%

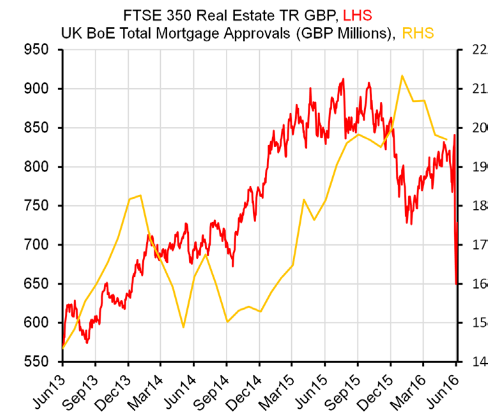
BANKS: UK BANK SECTOR HITS ROCK BOTTOM

The UK financial sector suffered its biggest hit yet from the Referendum outcome on Monday, when trading of two of the largest banks' shares – RBS and Barclays, were temporarily suspended by London Stock Exchange circuit breakers, following a more than 8 per cent fall in price. An estimated £40bn was shaved off the value of the UK's top five banks in just the first two trading days after the result. Banks with large investment divisions and UK-focused banks have suffered the sharpest losses, stemming from market panic over the health of the UK economy, and fears of a rise in mortgage and corporate loan defaults.

The Bank of England hinted this week that a reduction in the UK base rate is more likely, in an effort to fight inflationary pressures of a depreciating currency and a looming recession, which will cut off banks' net interest margin even further, thus squeezing profits. Policy changes are also posing large challenges to the sector as restructuring may be necessary in the form of new regulation and legislature, most immediate being the future EU status of Scotland, which is home to multiple wealth managers and one of the largest UK retail banks.



PROPERTY: UNCERTAINTY TIGHTENS THE MARKET



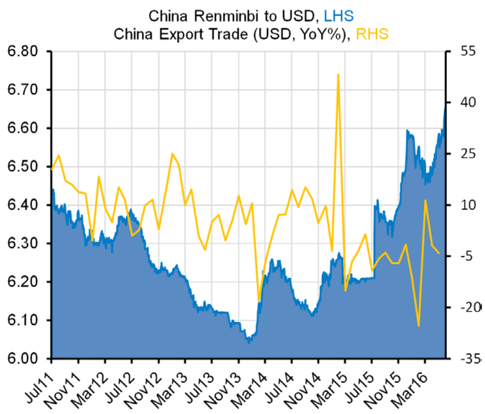
The largest UK property funds have lowered their price by 5 per cent this past week, in line with the Referendum result, which now casts a shadow of uncertainty over both the UK commercial and residential property markets. UK housebuilders are among the hardest hit sectors by last week's developments – the four biggest companies have lost between 28 and 37 per cent of their valuation in the past week. A fall in property prices is expected as more buyers are now delaying home buying decisions, while an economic slowdown could hamper the commercial real estate market.

Some economic observers have expressed doubts, however, blaming the market for overreacting. Pantheon Macroeconomics, for instance, expects a fall between only 2 and 3 per cent over the next 12 months. Some hope that the current weakness in the British pound may encourage overseas buyers. Asian buyers in particular, however could be discouraged as one of the largest Southeast Asian banks, suspended loan applications for residential properties in London this week, in an effort to make decisions in line with long-term currency trends.

CHINA: CURRENCY SET AT STABLE RATES

The People's Bank of China surprised international markets on Wednesday by taking a firmer grip on the renminbi's exchange rate, setting an intraday trading level at Rmb 6.6324. With a stronger US dollar since Brexit, the decision could be interpreted as a sign of a good will in times of enhanced market volatility. Beijing may be avoiding further market jitters, which its currency depreciation can trigger, as we witnessed last year. The rhetoric of the Republican Presidential nominee Donald Trump, who called China "currency manipulator" may not have bothered policy-makers. Yet, their biggest concern is rapid currency depreciation, which they will avoid by limiting rates this year to fall between Rmb 6.7 and 6.8 per dollar.

In the meantime, the struggle to revive China's heavy industry continues as two of the largest Chinese steelmakers are now prepared to discuss a merger. In a highly concentrated industry, the move will help Beijing make much needed capacity reduction, while creating an enterprise valued at a combined $16.3bn. The news comes amid an active M&A season, as so far this year Chinese companies have hit an all-time record of $121.1bn in cross-border deals.



Data Sourced from FE Analytics, and Bloomberg Finance LP