How global markets are reacting to UK’s Brexit vote

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Sterling had its biggest drop in the era of free-floating currencies, equities fell and gold jumped as Britain’s historic decision to leave the EU reverberated across financial markets. Investors, who had been confident that the British public would choose to stay in the UK, also dumped bonds of the eurozone periphery countries and punished European banks shares as the future of the EU is questioned. US stocks dropped 3.6 per cent, led by banks and asset managers.

Sterling

The pound was at the sharp end of markets’ reaction, with the currency at one point tumbling 11.1 per cent to $1.3229, its weakest level since the mid-1980s. Its decline comfortably eclipsed that of Black Wednesday in 1992, when the UK left the Exchange Rate Mechanism. By the close of trading in New York, sterling had bounced from its low to trade down 8 per cent at just under the $1.37 mark. Traders and investors will now watch to see whether it advances when markets reopen next week beyond the $1.40 level, a historic floor for the currency, or whether that will now represent a ceiling. The currency’s weakness was widespread, with a 11 per cent decline versus the yen and a 5.8 per cent drop against the euro.

Equities

The FTSE 100, London’s index of blue-chip companies, crumbled almost 9 per cent at the open in London as investors took fright at the decision. However, by the end of the day the index, whose member companies generate about 70 per cent of their revenues outside the UK, had recovered much of its decline to close down 3.2 per cent. Banks, homebuilders and retailers were among the companies hit hardest, with Lloyds Banking Group falling just over 20 per cent. Investors’ anxiety over the fallout for the UK economy showed up clearly in the FTSE 250, an index of mid-cap companies far more dependent on the UK for revenues. It finished down 7.2 per cent. European equities fared little better, with the Euro Stoxx 600, a major gauge of stocks across the continent, closing down 7 per cent. The S&P 500 fell 3.6 per cent — its biggest one-day drop since August — leaving it below where it finished 2015. A sell-off on Wall Street was paced by declines in the financials and technology sectors, as investors shifted into haven assets. Banks and asset managers were among the hardest hit as traders priced in a far shallower pace of rate rises from the US central bank, a potential weight on profit margins. Utility stocks, generally considered less geared to the global economy with relatively stable cash flows and debt profiles, defied the wider drop to climb 0.1 per cent. In Asia, Japan’s Topix closed 7.3 per cent lower and the Nikkei 225 fell 7.9 per cent. In Australia, the ASX index settled down 3.2 per cent.

Gold

It was a good day for gold investors, with the metal rising as much as 8.1 per cent before easing back to just over the $1,300-an-ounce mark, still up nearly 5 per cent on the day. Even before Brexit, gold has been one of the best performing financial assets of the year and is up 24 per cent for the year. Banks Asia provided an early taste of the pain for banks that subsequently spread to London, Paris, Frankfurt and Milan. The Hong Kong-listed shares of HSBC and those of Standard Chartered plunged 10 per cent at one stage. The worst punishment was reserved for European banks, already hurting because of negative interest rates, as the UK vote reignited questions about the future of the eurozone and wider EU. The Euro Stoxx Banks index plunged 18 per cent, its worst ever drop. UK banks were also hit hard, with Royal Bank of Scotland, Barclays and Lloyds Banking Group clocking double-digit declines.

The yen

A haven currency in times of turmoil, the yen soared as much 6.7 per cent to ¥99.02 at the worst of the fallout in currency markets. The scale of the rise, which eased to 3.7 per cent, raises the prospect that authorities in Tokyo may seek to intervene. Bonds Investors are piling into Treasuries, the anchor for the global financial system, with the yield on the 10-year note falling more than 30 basis points to 1.40 per cent, its lowest level since 2012. The yield — a benchmark for corporate borrowing costs in the US — eased back to 1.56 per cent in late afternoon trading on Wall Street. The 10-year UK Gilt yield fell to a record low of 1.02 per cent, a decline of 35bp, as investors expect easing and additional liquidity from the Bank of England. It slipped back to close at 1.08 per cent. The German 10-year Bund yield hit a record low of minus 0.18 per cent as peripheral yields rose sharply, led by a 35bp rise in Portugal’s 10-year yield to 3.4 per cent. The Portuguese note finished at 3.31 per cent as the market calmed. Emerging markets With the prospect of a Brexit deepening risk aversion, emerging markets suffered as the US dollar rallied. The South African rand, the Polish zloty and Mexican peso are down more than 3 per cent and at the vanguard of the EM sell-off.