



*May 11<sup>th</sup> 2016*

***Bears back for more porridge? Banking turmoil shall continue – fasten your seat belt! UK referendum – pro EU camp has threatened everything except the Black Death! Turkey plays hardball with human beings – we are beyond shocked!***

***Are the bears back for more porridge?***

*Are the bears back for more porridge? European markets have gotten out bed on the wrong foot, with the never ending bank problem dealing a powerful body blow to the Italian market. Oil is slightly firmer on yet another “disruption” story – this time from Nigeria. Brexit continues to roll forward, with ever more intimations of eternal damnation against those voting to opt out.*

***Economic outlook uncertain capital investment collapses and capital flight increases – AM banks not commercial banks!***

*What do we make of the above? We are not surprised by the Italian banking story. As we mentioned yesterday, better than expected results from banks focused on asset management are almost a contrarian indicator of the health of the global economy. With business confidence and capital investment weak, the “Pavlovian” instinct to build up cash and “sit it out” rapidly becomes the dominant strategy.*

***This is not only about Italy – fasten your seat belt!***

*We are starting to see a growing realization that the Italian banking crisis, seen initially as a legacy problem with scant EU ramifications – has considerable potential for contagion. The sovereign risk – banking system link is being rapidly reinstated and we shall continue to see 10 per cent plus drops in banking stocks. Investors are advised to keep their seat belts fastened!*

***UK referendum starting to resemble 1948 elections in Italy!***

*Brexit continues to dominate the headlines, with the campaign starting to resemble the historic 1948 Italian election and the defeat of the left-wing coalition! The anti-communists used the highly effective slogan “God sees you – Stalin doesn’t”! Voting for exit is seen as tantamount to wishing to become a popular republic.*

***This seems to be the style of the pro- EU camp – which is threatening everything except for the Black Death should the “exiteers” carry the day!***

***For an unlikely event – a lot of FX hedging!***

*This has not seemed to deter the “hard core” 40 per cent of voters who appear ready for the great leap into the unknown. In this situation, we are not surprised to see massive hedging by the large UK groups – who we read are buying insurance against more than 80 per cent of their long sterling exposure.*

***There is no such thing as a domestic company***

*For an event whose odds the bookmakers put as slight – the smart money is taking no chances! Smaller domestically focused companies are not hedging with the same ardor, seeing limited cash transaction exposure. What many shall wake up to is economic exposure driven by uncertainty ripping through their balance sheets.*

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***Will UK trade data encourage the “exiteers”?***

*With regard to the UK – EU referendum trade data may play to the “exiteers”. While exports to the EU are falling, trade with some of the emerging markets is up sharply. This shall lend further credibility to the view that Europe is a slowly sinking ship. The future is in other markets and the UK needs the flexibility to make better trade deals.*

***Has empire gone full circle?***

*Looking back it is tempting to view the exit UK movement as a desire for the UK to play a global role, following the end of empire in the early 1960’s, decline in the 1970’s and renaissance within the EU. The legacy of the English language and in some countries – similar institutions – is now coming to fruition.*

***Turkey threatens to unleash flood of refugees – some call it blackmail***

*Turkey is playing hard ball with the EU regarding the refugees. A flood of refugees is threatened should visa free travel not be rapidly approved and Euro 3 billion of aid be disbursed. The money is to be handed over with scarce controls over its use – some call this blackmail.*

***Not appropriate viewing for the faint of heart!***

*We shall not comment on the level of the discussion – tactics reminiscent of those used by the “Ancien regime” of Gheddafi in Libya. What is however evident is that the Turkey – Germany axis – if it had ever existed – is rapidly coming unglued. This does not bode well for the future of the EU. Expect some very ugly scenes – not appropriate viewing for the faint of heart.*

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His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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## Research Highlights

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