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June 2016 BrExit Commentary

The Brexit vote is upon us tomorrow in the UK and the polls are still indicating a very close run referendum. Currently the polls are evenly split at 45% each with 10% undecided. Last week the “Leave campaign” had as much as a 10% lead but that disappeared after the killing of Jo Cox, the pro EU Labour MP, by a deranged right wing nationalist. It’s going to be a close run affair and we will not know the final result until early Friday morning British standard time. The financial press and the UK business community in general will favour the “Remain” vote but the average man and woman on the street has been very vocal about their desire to leave the EU.

If the vote is to leave I think it could spark a “risk off” reaction in the trading markets. Equity markets will decline, bond markets will rally, the euro and the pound will decline against the US dollar and the yen may rally as a safe haven investment. On the commodity side I would expect gold to rally and there may be a general commodity sell off until the impact of the vote is assessed in terms of its effect on global demand and economic growth.

If the vote is to remain it will be seen as a vote of confidence in the EU and I would expect the euro, the pound and equity markets to rally. Bond markets should decline and the dollar may rally even more strongly since it removes one obstacle for the Fed to raise interest rates in the second half of the year. Gold would be expected to break but commodity markets may still struggle depending on how strong the dollar will be and how much of a shift we may see out of commodities and back into equities and bonds.

This will be a historic vote for the future of the EU. If Britain leaves it could spell the end of the EU in the long run as it may inspire other nations to leave also. One way or the other the event will have an impact on global markets in both the short and the longer term. I will update the perspective as the results of the referendum are known.

Best Regards,

Colm Cronin

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