

Bond Market Contact Group Ad-hoc teleconference

Frankfurt am Main, Tuesday, 27 June 2016, 15:30-16:00 CET

SUMMARY OF THE DISCUSSION

The Bond Market Contact Group (BMCG) held an ad-hoc teleconference to share its views on the impact on euro area bond markets of the outcome of the UK's referendum on EU membership (so-called Brexit vote).

Members described the bond market reaction as orderly, with no panic in the markets. Euro area bond market liquidity had declined post-Brexit vote, but it was recovering for all jurisdictions.

The BMCG regarded the progressive decline in European equity prices and risky asset prices, with a second wave of weakness on 27 June, as pointing to a longer adjustment period, which would not be atypical for the case of a larger shock such as the Brexit vote. Nevertheless, the prevailing low yield environment and subsequent search for yield from investors, as well as the ECB's expanded asset purchase programme (APP), were expected to limit a widening of bond spreads. The outcome of the Spanish election results had also led to some spread tightening and had partly offset some of the widening as a result of the Brexit vote.

Investor positioning in credit and emerging markets was perceived to be broadly neutral, with many real money accounts also having reportedly postponed investment decisions until the UK referendum and half-year end. The focus had now turned to gauging the implications of Brexit for global and European growth prospects. In this regard, bank equity shares were being carefully monitored, although the sharp correction over the previous days had possibly been exacerbated by thin liquidity conditions. Going forward investors were generally expected to maintain a cautious stance until there was more clarity regarding the timing of the activation of Article 50 of the Lisbon Treaty by the United Kingdom and its consequences, including trade agreements and limitations on the provision of bank services in the European Union.