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Il Sole240re

Greek emergency and the new Europe

The "vote" effect
European stock markets have already lost 10% since the highs of April. Uncertainty over Athens could bring further deterioration of 10-15%

Stock exchanges on the alert, banks in the headlights

The referendum "no" vote put to the test of the markets: risk of volatility and pressure on financial stocks

By Maximillian Cellino

You don't need to look far back in time to understand how the stock markets might react to the clear dominance of the "no" vote in the Greek referendum. Last Monday, the announcement of the referendum by prime minister Alexis Tsipras gave rise to a strong wave of risk aversion that first hit government securities on the European "periphery" and consequently stocks in Europe. The recent performance of European shares has been closely linked to that of the Italian and Spanish spread, as can be seen in the chart.

Last Monday, Piazza Affari [the stock exchange in Milan] lost more than 5%, and Europe as a whole over 4%, a fall that was not recovered over the week. Now that the markets' worst nightmare – the clear victory for Syriza – has come to pass, the reaction of the stock markets could be even more violent, at least initially. "And, just like seven days ago, it would be stocks in the financial sector that would suffer most", warns Massimiliano Cagliero, CEO of Banor SIM.

Just how long this new wave of volatility will last, and how deep it will be, is the question just about all investors are asking right now. The crisis in Athens has certainly inflicted a high cost on the European stock markets. Since the highs of mid-April they have lost on average 10% (although part of this effect must be laid at the door of the increased expectations on European inflation and the overall increase in bond yields, Bund included). Wall Street, on the other hand, is a far more modest 2.5% from its historic record. With the predictable flight from risk triggered by the outcome of the referendum – unexpected, perhaps, at least in terms of size – the loss could be much greater.

"The success of the 'no' vote leaves the current government fully in power and makes any future negotiations in Brussels much more difficult, notwithstanding the statements made by Tsipras. The uncertainty in the markets is extremely high and I wouldn't rule out the BTp-Bund spread increasing to 200-225 points over the next few days, levels that are compatible with an average fall of as much as 15% for European share prices". The point is underscored by Andrea Cuturi, investment manager at Anthilia Capital Partners.

Andrea Delitala, head of investment advisory at Pictet, is on the same wavelength. He points out that "yesterday's vote strengthened the hand of the most vehemently disliked negotiator of Europe and probably increased the difficulty of reaching agreement, even though the distance between the two sides had seemed to be just a question of details and the Greek banks in particular are in desperate straits. In a situation like this, the stock markets could lose 10% with respect to their current levels, if we were to see a negative escalation in the talks”.

The markets are harbouring serious doubts over the pre-referendum comment by Tsipras, that if the “no” vote succeeded an agreement would be possible within 48 hours. “The Greek premier hasn’t explained why he thinks that now the creditors can back down and hand him tax payers’ money, just because a majority of the Greek people (who receive that money) thinks it’s a good idea”, underscores Erik Nielsen, chief economist at UniCredit. And if the road to agreement is getting increasingly complicated, the stock markets can only suffer from the continuing uncertainty.

For some fund managers, this period of volatility could, however, also be limited in duration in spite of the potentially explosive Greek “mine”. Because from a medium-term perspective the ultra-expansionary policy of Mario Draghi would certainly play to the advantage of the stock markets, as, naturally, would the fact that the European economy has at last entered a period of growth.

“In a situation like this”, confirms Cagliero, “opportunities for interesting share purchases could open up, and not just in the financial sector. Share prices are falling in response to the situation in Greece, but have little in common with that situation”.

THE STRATEGY

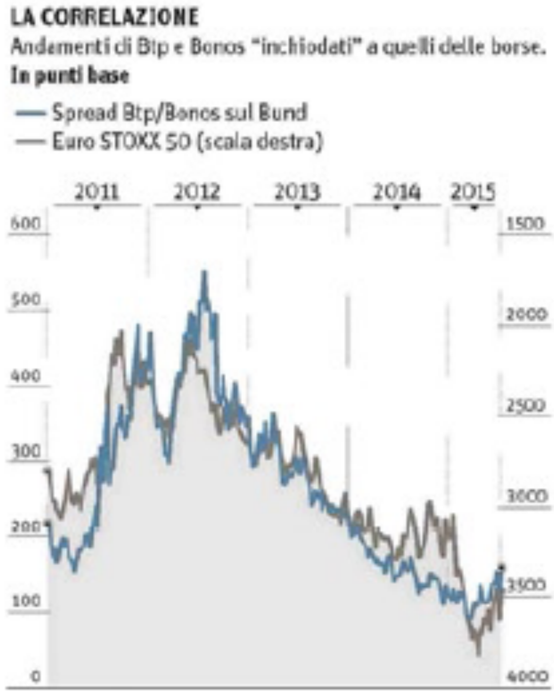
In the medium term fund managers are confident about the ECB and the strength of the recovery. And they view the reversal as a potential opportunity to buy.

Fiery weeks in the stock markets

Settimane di passione in Borsa

LE BORSE DA INIZIO ANNO Variazioni %	Atene* BS ASE	Milano FTSE MIB	Madrid IBEX 35	Francoforte DAX
	-3,47	+18,39	+4,87	+12,78
Performance migliori	Chimica +35,87	Servizi finanziari +40,68	Materiali da costruzione +77,58	Tecnologici +30,30
	Risorse di base +28,02	Retail +36,63	Aerospazio +42,84	Food & beverage +24,33
	Oil & gas +27,49	Salute +36,36	Turismo +37,21	Costruzioni +23,66
Performance peggiori	Banche -31,51	Risorse di base -4,06	Autostrade -5,42	Utility -14,29
	Media -28,32	Materiali di base -3,60	Minerali e metalli -2,15	Trasporti e logistica -0,03
* Chiusa da una settimana	Salute -17,04	Viaggi e tempo libero -1,07	Casse di risparmio -1,56	Assicurazioni +7,54

LE BORSE DA INIZIO ANNO	STOCK EXCHANGES FROM START OF YEAR
Variazioni %	% Changes
Performance migliori	**Best performances**
Chimica	Chemical
Servizi finanziari	Financial services
Materiali costruzione	Construction materials
Tecnologici	Technological
Risorse di base	Basic resources
Retail	
Aerospazio	Aerospace
Salute	Health
Turismo	Tourism
Costruzioni	Construction
Performance peggiori	**Worst performances**
Banche	Banks
Risorse di base	Basic resources
Trasporti e logistica	Transport and Logistics
Autostrade	Roads
Minerali e metalli	Minerals and metals
Salute =	Health
Viaggi e tempo libero	Travel and leisure
Casse di risparmio	Savings banks
Assicurazioni	Insurance
* Chiusa da una settimana	Closed for a week



CORRELATION
Performance of BTp/Bonos tied to those of the stock market. In basis points
— Spread Btp/Bonos on Bund
— Euro STOXX 50 (right hand scale)

CRISIS TIMELINE

October 2011

Five months after reaching agreement with Athens on the payment of a 110 billion euro bailout, the Euro area leaders agree to a 50% haircut on the Greek debt held by private investors.

In exchange, EU members ask Greece for new austerity measures.

At the time of the demand for Greece to again tighten its public spending purse strings (based on Eurostat data), the country's public debt already exceeds 171% of GDP. The increase is dramatic: even in 2008 the debt/GDP ratio in Athens was 112%.

50% – The cut in Greek public debt

The EU's offer to Athens in exchange for new austerity measures

October 2011

The socialist premier George Papandreou, leader of Pasok, wants a referendum on the rescue package proposed by the Euro area member states and the IMF. But, under pressure from said euro area countries, Papandreou gives up the attempt and resigns.

November 2011
After Papandreou’s resignation, a government of national unity supported by New Democracy and Pasok is installed. The new executive is led by a former member of the Greek central bank, Lucas Papademos