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Authorities decide fate of Banco Popular

Financials: Banco Popular abruptly comes to end, as investors face huge losses - A long awaited solution to the issue of Banco Popular came to an abrupt end today, when authorities took the driving seat. The ECB announced that the bank was 'failing or likely to fail' and that 'supervisory action would prevent the failure of the Institution'. It was announced that the beleaguered Spanish leader would be sold to Banco Santander for one euro, while the existing Banco Popular subordinated debt holders would contribute fully to the sale. Crucially, no state money will be used in the transaction, a benefit for the Spanish taxpayer. To complete the purchase, Banco Santander will perform a EUR 7bn equity raise, which will lead Banco Popular to become a fully owned subsidiary of Banco Santander. Banco Santander, the largest Spanish bank, will in return take the valuable SME (small and medium enterprises) loan portfolio, increase its exposure to Portugal and inherit a non-performing asset portfolio of roughly EUR 37bn. The deal hopes to take advantage of the improving economies in both Portugal and Spain. As a result, Banco Santander will now jump to a 17.5% share of the total loan market in Portugal, placing it second against peers.

However, the subordinated debt holders of Banco Popular paid a hefty price. These investors saw the value of their holdings fall like a stone to almost zero, a drop of 96% in one day, in what could be the strongest resolution event ever conducted by European authorities. We remain positive on selective subordinated and senior debt of Santander and see the event as a positive for the banking sector in Spain. Please see more: Banco Popular wiped out in Santander sale – for professional investors only, see disclaimers in the document. (Tom Kinmonth)

Global FX: GBP remains resilient - For more than a week, uncertainty about the outcome of the UK snap elections has increased as the Conservative's lead over Labour continues to wane in the polls. Despite this increase in political uncertainty, sterling has done relatively well. It has outperformed the US dollar and the euro. Our base case scenario remains that the Conservative party, led by Prime Minister Theresa May, will win by a comfortable margin. This is also expected by financial markets. Therefore, such an outcome should not result in large swings in sterling. If Prime Minister May would be able to win by a comfortable margin, we judge that investors will continue to expect tough Brexit negotiations. In the case of a less comfortable win by the Conservative party or even a hung parliament, we expect sterling to strengthen. In such a scenario, it is likely that expectations of a soft Brexit will increase and this will give support to sterling. In addition, there could even be hopes of no Brexit at all (not our base scenario). Over the recent weeks, the substantial speculative net-short positions in sterling have been cut back aggressively. Speculators are still net-short sterling but the picture

is now more balanced. Any increased expectations of a soft Brexit or hopes of no Brexit at all could prompt speculators to close their remaining net-short sterling positions. This could push GBP/USD up to the 1.33-1.35 area. Finally, sterling's potential gains versus euro highly depend on the outcome of the upcoming ECB meeting. If the ECB were to be more dovish than expected – not changing the forward guidance to neutral (not our base case) – investors could start taking profit on their euro longs across the board, which could trigger temporary euro weakness. However, our base case scenario is that the ECB will drop references to lower interest rates or an extension or expansion of the QE programme. Our forecasts for the end of Q2 are in EUR/GBP 0.86 and in EUR/USD 1.12. (Georgette Boele)

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