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Group Economics
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First post-Brexit Eurozone survey drops

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Global Macro - The first eurozone survey that was conducted after the Brexit-vote showed a deterioration in confidence. The Sentix Indicator of Economic Sentiment fell from +10 in June to -2 in July. The survey was conducted over the weekend. Sentix sentiment is measured amongst financial analysts and institutional investors and, therefore, tends to reflect sentiment in financial markets rather than sentiment amongst companies and households. That said, the historical pattern in the series shows that changes in this sentiment indicator tend to predict turning points in the eurozone business cycle reasonably well. The decline in July, to a level just below zero, indicates a mild deterioration in economic conditions. Although the uncertainties surrounding Brexit remain very high, a mild deterioration in the eurozone economy as signaled by the Sentix survey would be in line with our post-Brexit base case scenario. Indeed, we see modest eurozone GDP growth in the coming quarters, which will be somewhat below the trend growth rate. Following the UK referendum, we reduced our 2017 eurozone GDP forecast to 1% from 1.6% previously. (Aline Schuiling)

European Credit - On Monday, the ECB provided an update of its corporate sector purchase programme. The ECB bought EUR 1.9bn of corporate bonds last week. That brings the total holdings to EUR 6.8bn. This is in line with our estimate so far. The ECB also published the breakdown between the primary and secondary purchases. Due to the volatility caused by the Brexit referendum, the primary market was closed for two weeks. This limited the contribution of the primary market to a meagre 4%. We expect the share of the primary market in the total purchases to increase once the pipeline in the primary market returns to healthy volumes. Meanwhile, conditions in the secondary market are mixed. Though trading activity is subdued, credit spreads are more or less back where they were before the referendum following an 8bp widening in the immediate aftermath. Having said that, we expect more volatility in the months ahead. The Brexit/European political risk chapter is far for closed. (Hyung-Ja de Zeeuw)

Commodities - Since the UK's vote to leave the EU, precious metal prices have rallied sharply. This is especially the case for silver prices, which are up close to 14%. There are several reasons for the rally in precious metal prices. First, uncertainty surrounding the impact of Brexit on economic growth and financial market sentiment has resulted in safe haven demand for gold and to a lesser extent silver. In addition, financial markets have sharply reduced the odds of a Fed rate hike this year. Investors have even dramatically reduced expectations for next year. The downward adjustment in Fed rate hike expectations has weighed on the US dollar and supported precious metal prices. On Monday gold prices reached our end of September target of USD 1,350 per ounce. Silver prices even surpassed our aggressive year-end target of US 20 per ounce, reaching a high of just above USD 21 per ounce. We do think precious metal prices will continue to rise going forward. However, net-long speculative positioning is extreme. Therefore, the risk of a sizeable intermediate price correction has increased. This could occur for instance if financial markets were to start pricing in Fed rate hikes again on the back of a strong job report on Friday, but that is not our base case. (Georgette Boele).