# Weekly Market Summary

**6th of July 2015**

## The Greek Saga Continues .. What is Next??

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The following observations are key headlines relating to Greece's latest developments (over the past 12 hours) in order to gauge what happens next:

- Greeks vote "no" by a whopping majority (61% versus 39% for the Yes vote) at yesterday's referendum (which again was a vote of confidence on the European bailout proposals), reject demands for more austerity.
- JP Morgan and Barclays say Greek Exit from Euro is now their base Case Scenario. Citigroup and Goldman Sachs say Greece will remain with the bloc
- Merkel CDU budget Spokesman says the Greek vote is a "*catastrophe*". German Vice Chancellor Gabriel says Greek PM has "*torn down last bridges*".
- Euro drops at the opening of Asian trading, trades down to a low of 1.0950 against the USD. The Japanese Yen strengthens to 121.70 versus the US greenback. US S&P equity futures fall 1.50% at market's open, bond prices rally a full point from Friday's close.
- Greek Finance Minister Varoufakis says Greeks have said no to 5-years of hypocrisy, have returned ultimatum to creditors. He adds that Greece's place in Europe is not under negotiation.
- Greek Prime Minister Tsipras hold a call with France President Hollande, confirms that he has no mandate for rupture with Europe, but one to strike an agreement with creditors at the earliest. Tsipras adds that Greece will seek to negotiate debt restructuring as part of a viable and lasting solution.
- EU officials confirm that the Euro Working Group will meet **Monday 6th July** on Greece
- German Merkel and France Hollande agree on Euro Area summit on **Tuesday 7th July**
- Greek opposition leader Antonis Samaras announces resignation after "yes" side loses referendum, steps down from New Democracy leadership and says the Greek government should strike agreement with creditors as soon as possible.
- EU calls for respecting Greek vote, says the Euro summit on Tuesday will consider situation and solutions for Greece
- European Commission President Jean-Claude Juncker to hold call with EU Council Chief Tusk, Eurogroup head Dijsselbloem and ECB President Mario Draghi this morning.
- Greek President calls meeting of political party leaders on a request from PM Tsipras
- Japanese government and Bank of Japan (BOJ) officials meet on Greece, say Japan's direct connection to Greece economy is limited.
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- Austrian Finance Minister Schelling says Greece referendum result is "*disappointing*", says the **Eurogroup is now waiting for clear proposals from the Greek government**. Also confirms that **there will be no unconditional aid for Greece going forward**.
- Greek Finance Minister Varoufakis announces he is resigning (shocker news at 8:30 am this morning!), most likely a result of his previous clashes with EU officials.
- Greek bonds plunge with 2-year note yields climbing to 55.51%. German Bunds outperform, periphery spreads (Italy, Spain, Portugal, Ireland) widen.

The strength of the 'No' vote in the Greek referendum came surely as a shock to all market participants (including Greek government officials!), and as a result all safe haven trades ("risk-off" trading) have benefited this morning.

A compromise with the EU now seems the most likely scenario (time is of the essence), though a "Grexit" cannot be ruled out going forward. **One key aspect will be whether there is any discussion of re-profiling Greece's debt after an IMF report last week said the fund was reluctant to dispense new cash without plans to bring debt under control.**

However, any bridging loan, a much-discussed option, would probably have to be granted within the framework of a new aid package. For now and without new immediate loans, Greece will probably not be able to redeem its bonds held by the ECB to the tune of €3.5bn on July 20th. Due to a possible sovereign default the ECB is unlikely to raise the ceiling for ELA emergency loans (€88.6bn). (**That remains for now the trillion dollar question: Will the European Central Bank increase, maintain, reduce or freeze its emergency funding to Greece's banks in the form of ELA, whilst politicians meet to discuss the next course of action**).

If this ceiling is not raised, the Greek banks will soon run out of cash. Even if only one in three of the almost 9 million Greeks over the age of 18 were to withdraw the maximum amount of €60 a day, the banks would be losing just short of €200m a day. And according to the media, the banks ELA funding is now not far off the ECB's upper limit. It is also highly likely that the Greek banks will not be able to open again this week.

Under these circumstances, the Greek government might have little choice in the next few weeks but to introduce a new currency as legal tender (issue IOUs). Still, it would now seem extremely difficult to pay civil servants, suppliers and pensions in IOUs and establish them as a parallel currency, since with the government on course for bankruptcy, the people would hardly trust any such 'currency'.

In summary, it is believed that both side's (Greece and its creditors) willingness to restart negotiations and under what conditions remain the most important next step. Whilst a deal could still be possible in coming days as officials on both sides resume efforts to reach a quick compromise, it remains a difficult and risky process. For now, the existence of the ESM (European Stability Mechanism) and OMT (Outright Monetary Transactions) facilities, as well as the ECB's Quantitative Easing (QE) means there are significant European firewalls and financial mechanisms in place, which would in turn explain the limited market reaction / panic so far witnessed in financial markets.

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