

Mergoni (Banor): Italian banks are paying price of risk of a referendum “no” vote

by **Federico Simonelli** 09 November 2016



Italian banks, which today have seen a marked fall, are paying the price of the “populism” effect. Trump’s victory is raising fears in investors that the “no” vote could win in Italy’s referendum, with all the problems that that would entail for credit institutions.

That’s the opinion expressed by Giacomo Mergoni, CEO at Banor Capital.

“I believe today’s fall in banks is a reflection of the higher odds in favour of a ‘no’ vote in the Italian referendum”, explains the manager. “As I see it, populism is winning in the UK and the United States, and could win in Italy too. If it did, there would be difficulties around the capital increases that have been postponed precisely in view of the referendum. And also difficulties for the four Italian cooperative banks undergoing resolution, which are also linked to the referendum situation. The markets are seeing higher odds for a ‘no’ vote”.

Fall not dramatic

But we also need to put events into perspective, observes Mergoni. “The markets are falling but not dramatically: Italian banks are higher than in early October, when no-one suspected a Trump victory”.

Specifically, London’s FTSE 100 is the market that’s holding up best on the first post-election day. Why? “The FTSE 100 has been moving in the opposite direction to sterling since Brexit: the UK currency has again topped 0.89 against the euro and the dollar has strengthened, so I think the reason is linked to that.

“If you want to make a geo-political assessment, I think that in a post-Brexit UK Trump could be a game changer in international relations. In

football terms, a sweeper on Brexit too. Trump could establish closer ties with Putin and the United Kingdom as a springboard to oppose Brussels. For an isolated UK, that could be a cause for hope”.

System of internal balances

The outlook that could give the greatest cause for concern is a change in the “delicate system of balances in the American democratic system, Fed included”, continues Mergoni.

“Relations with the Fed won’t be good, but I think Trump will need to take a much softer approach on this subject, and in his opening speech today he already made a start. He could put on the pressure for the Dodd-Frank legislation to be cancelled and that could be good for our US banking positions. However, I don’t think there will be much influence on rates and monetary policy”.

In terms of allocation, concludes the manager, “after the latest election results we’ve learned to treat the polls with caution and we haven’t taken up any specific positions. We’ve been slightly under-exposed on the Italian side, but for other reasons. We don’t think our securities will feel much of an impact in the long term”.