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The stock markets are holding up - in spite of Brexit. The pound believes in an extension

(Reuters)

Investors waiting for the London-EU divorce to be settled. Milan up 0.6% with super-Juve. Tokyo down 1%. The British currency holds up against the second defeat of May's plan

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MILANO - Uncertainties over Brexit haven't beat the markets, although they're driving up gold - the shelter asset par excellence. Yesterday evening the British Parliament gave the thumbs down to Theresa May's second attempt at an agreement. And today they'll decide whether or not to proceed to leap-in-the-dark divorce on 29 March. If they vote against that, tomorrow in Westminster they'll express their view on the possibility of asking for an extension of the deadline to leave the European Union. After a positive start to the week, this additional London-related tension led to falls in Asian trading, while share prices in Europe and futures in the US are weak. For the time being, the pound is strengthening, implicitly lending credit to the possibility of obtaining an extension to the looming deadline or at any rate an 11th hour agreement. At the same time, it is the English [sic] finance minister, Philip Hammond, who stated today that in 2019 the United Kingdom is expected to grow by 1.2%, instead of the projected 1.6%. So the country is paying the bill for the uncertainty.

The stock exchanges in Europe had been watching at the window for developments, but closed with some advances. Milan, which started off in the red, changed direction and closed trading at +0.6%. The leap in Juve stocks is worthy of note, up 17% after its feat in the match against Atletico Madrid, which gained it access to the quarter-finals of the Champions League. Ferragamo, which published its accounts yesterday evening, is doing well too. The other bourses are also improving. In the end, London saw a rise of 0.11%, Frankfurt of 0.42% and Paris 0,69%. And it was a good day for Wall Street too, with the Dow Jones up 0.59%, the NASDAQ by 0.69% and the S&P 500 by 0.70%. Boeing stocks have reacted after an extremely difficult start to the week after the plane crash in Ethiopia, and closed with a rise of 0.52%.

Giacomo Mergoni, of Banor Capital, summarises investors' thinking. "At this point the government (ed's note: British) has no more cards up its sleeve and no credibility whatsoever on either the domestic or international level. Responsibility now lies entirely with Parliament". The question is, if the UK avoids a "no-deal" outcome, by how much they'll manage to extend the deadline for the new negotiations. "The length of the extension holds the key to future events. A short extension of just a few months, to avoid the European elections in May, wouldn't give them enough time to make substantial progress and the Parliament would end up discussing May's agreement again, with its hands tied. A longer extension, of a year or more, however, would re-open all of the possible scenarios: early elections and/or Norway-type agreement, and maybe a second referendum to choose between the agreement and staying in the EU. The one certain fact is that anyone who analyses the various ways out in a rational manner can't fail to see the enormous difficulties. The British people don't like these long arguments and the impression is that they might abandon their Utopian hope of a country that is isolated but free to decide its own future without taking its main trading partners into account. We'll need more time to understand the outcome of this delicate game, and time is the remainers' friend".

This morning the news from Europe focused on Asian trading. Tokyo's stock market lost 0.99%, falling 213 points to 21,290.24. In currency terms, the yen remained stable at 111.20 against the dollar and 125.5 against the euro. Tokyo also saw the third consecutive dip in industrial machinery orders in Japan, a signal that suggests that companies are struggling to plan their investments while the slowdown in the Chinese economy seems to be becoming more established. According to government figures, investments fell by 5.4% in January: the biggest drop since September. Things were looking bad for the Chinese bourses too, with Shanghai down 1.09% and Shenzhen 2.3%.

The euro closed up against the dollar, above 1.13. The single currency is changing hands at 1.1304 dollars and 125.82 yen. Dollar/yen at 111.22. The pound gained against the dollar, at 1.32, and at 1.17 euro. The BTP-German Bund spread was just under 250 basis points at the close, with the yield of the 10-year bond at 2.55%. The Treasury placed 7.75 billion BTPs over several maturities. For 3-year BTPs with maturity date 15 July 2022, 4 billion were placed: demand was very strong and the auction closed with a coverage ratio of 1.49. The rate of return, at 1.06%, showed a positive variation of 7 basis points. 7-year BTPs (maturity date 15 November 2025) saw 2.5 billion placed, again with very strong demand. In this case, however, the rate of return, at 2.05%, is down 20 basis points. The coverage ratio was 1.40. Lastly, the Treasury placed 1.25 in 20-year BTPs, with maturity date 1 September 2038. The coverage ratio this time was 1.36 and the rate of return 3.35%.

In Europe, industrial production rose in January, by 1.4% on a monthly basis, but lost 1.1% over the year. In Italy, Istat published its labour market report for the fourth quarter. The US saw a rise of 0.4% in durable goods orders in January, although a fall was forecast.

Turning to commodities, oil lengthened its stride in response to US reserves, which fell unexpectedly during the week to 9 March (-3.862 million barrels). At the close of the European stock markets, WTI was up 1.7% to 57.9 dollars a barrel, while Brent rose 0.8% to 67.2 dollars. Uncertainty over the road ahead for Great Britain after Westminster rejected the agreement with Brussels brought a rise in the price of gold and is dampening investors' appetite for risk. Spot trading for the metal half-way through the day saw a rise of 0.5% to 1.308 dollars an ounce.