



23 June 2016  
A new perspective  
on the Brexit

Thursday's Topic of the Day for

23 June 2016

The Brexit referendum:

A new perspective

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### *A value of stock market trends*

1. One traditional value of trends in national stock markets is that these trends in the equity markets reveal the trend in the collective mood of the nation.
2. An up trend in non-manipulated equity indices reveals a trend of rising hope and optimism in the national mood, while falling equity prices reveal a trend of rising fears and pessimism.
3. However this was before goosing equity prices higher through quantitative easing ( QE ) became the central goal of central banks.
4. Deflation is the great fear of central banks. The primal fear of central banks is that falling equity prices risks deflation, and deflation risks a depression.
5. Central banks believe that if they can manipulate equity prices higher, then investors and consumers will both feel richer. And if consumers feel richer they will feel impelled to borrow and spend more.
6. And if consumers borrow and spend more then economic activity will rise, and if economic activity increases, then deflation is averted.
7. With all the major central banks committed to repeated QE programs, the value of stock market trends as barometers of the national mood is compromised and utterly corrupted.
8. In QE investors are no longer buying equities because of rising optimism. They are buying because of the fear of falling interest rates from central bank orchestrated manipulation.
9. The goal of QE is to place the mask of a bull on a bear market in equities. The goal is to mask rising fears with the illusion of rising hopes.
10. Even those who are completely aware that the central banks are hoodwinking investors, even they feel compelled to jump on the trend and buy equities.



***This disguise fools no one***

Central bankers have no shame. They are too afraid of deflation. No interest rate is too low. And negative rates are great as long as they keep equity markets inflated.

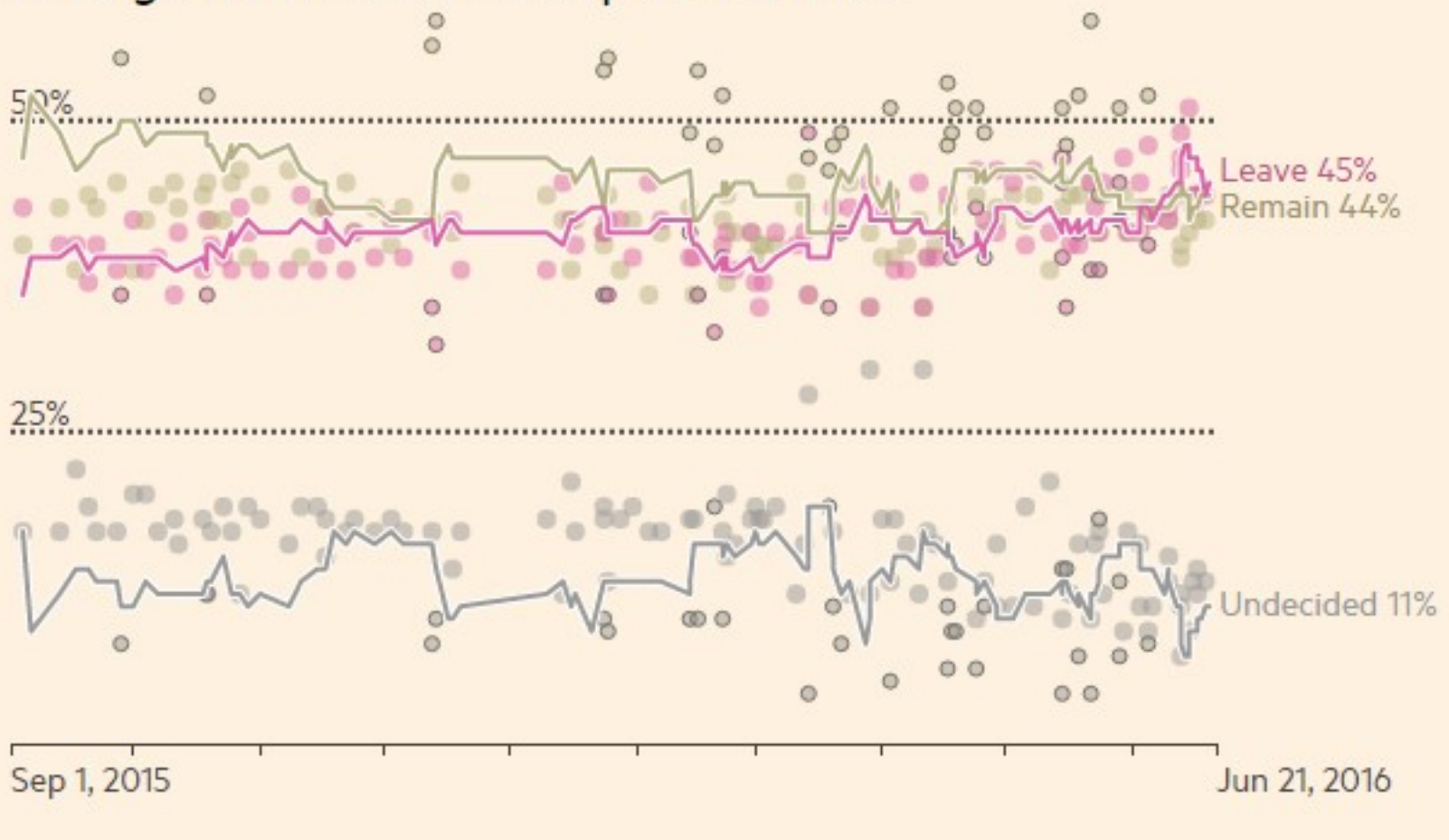
*The value of the Brexit referendum*

1. So how can one gauge the collective mood of a nation if its stock markets have been compromised by the central bank. A referendum on issues that relate to bull - bear divides will work fine.
2. The problem with a referendum is that it is a one time snap shot, while trends in a non-manipulated stock market are an on-going real-time indicator of the collective mood.
3. How can one determine whether the subject matter of a referendum is compelling enough to reveal the collective mood of a nation?
4. There are a few hot-button emotional issues that are certain to activate an underlying collective mood that might otherwise be largely invisible.
5. Does the referendum issue activate the hope versus fear divide? Does the issue trigger emotional issues of inclusion versus exclusion? Would the referendum widen freedoms or restrict them?
6. In terms of revealing the collective mood of a nation many referendums and most ballot propositions are completely useless. However other referendums can be very enlightening.
7. The campaign for the Brexit referendum was rich with hope versus fear issues, with inclusion versus exclusion themes, with appeals to optimism versus pessimism.
8. The Brexit referendum is in fact a nearly perfect vehicle for gauging the collective mood of the Brits. Or should we say gauging the depth of the national divide in Great Britain. See next page.
9. And I think it is already very clear that the national divide that is the Brexit issue will not be resolved by a vote. This referendum will solve nothing.
10. As technical analysts we have no illusions that a referendum can solve anything. However a good referendum can reveal much. Hence our interest in both the campaign and in the vote.



## Polling movement since September 2015

from the Financial Times



● Online poll   ○ Telephone poll   — Rolling average

an acute and chronic divide

*Some preliminary conclusions*

1. The FTSE 100 was hitting new all time highs as recently as April 2015. Yet as the history on the prior page makes clear, just a few months later Britain was already in the death grip of the Brexit divide.
2. This fact reveals the bull market in the FTSE to have been a fraud, a manipulated outcome, not a genuine upsurge in hope and optimism.
3. Now I am not saying that Brexit is without any redeeming virtues, or that Brexit is bad and remain is good. Who knows, maybe Brexit is a step in the right direction.
4. What I am suggesting is that such a bitter and deeply rooted divide could not have followed so quickly from new all time highs in equities that were produced by a real bull market.
5. However such a divide it could follow very quickly from the illusion of a bull market. By their very nature illusions very quickly evaporate.
6. So rather than a vote on Brexit resolving anything, the nature of the Brexit campaign has revealed a deep and chronic divide in Britain's collective consciousness.
7. Britain has some serious issues to work through. And it will take time to work through those issues. Evoking a fear of change will not help. And insisting that the status quo is just fine will not help.