Markit Recap – 9/15/2014

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The United Kingdom may be on the verge of breaking up, but the credit markets are either sanguine about Scotland gaining independence or discounting the possibility altogether.

Spreads have widened since a poll earlier this month indicated the 'Yes' camp had a slender lead in the polls. But the movements were modest, with the Markit iTraxx Europe 55bps to 61bps – still 9bps tighter than where it was trading in early August.



Of course, it might be that a pan-European index doesn't reflect sentiment on Scotland. But there is little doubt that a fracturing of the UK – a member of the G7 – would have negative repercussions across Europe and beyond.

So it is likely that the market views a 'No' vote as the most probable scenario, and this is supported by the most recent polls. The consensus seems to be a narrow victory for the pro-union camp, though many of the polls leads are within the margin of error.

One credit that clearly felt the impact of the uncertainty was Royal Bank of Scotland. The bank's spreads widened from 69bps in early September to 85bps just two weeks later, a significant move given that European bank credit was steady over this period.

An independent Scotland could lack a central bank and a lender of last resort, a deficiency that can be uncomfortable for banks, as we have seen in recent history. Many expect Scotland's financial institutions to redomicile to the rump of the UK if independence is declared.

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