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# Markit Recap – 9/22/2014

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pro-Union campaign

Credit markets were

never crying out in anguish over the prospect of an independent Scotland, but there was still a sense of mild relief after the result. The Markit iTraxx Europe tightened by 1bp to 56bps, the FTSE was moderately higher and sterling recovered some ground.

But the relief that the UK was to stay intact was most evident in the CDS for Scottish banks. Spreads for RBS tightened 14bps to 65bps, a massive daily move by recent standards. Lloyds rallied by 8bps to 51bps, meaning that both credits were at their tightest levels since the pre-Lehman days of May 2008.

The banks had widened in tandem with the polls showing the “Yes” campaign gaining ground and, briefly, going into the lead. The uncertainty over the currency arrangement was worrying for all Scottish businesses but was a particular concern for the financial sector. As we know from recent history, a credible lender of last resort in the form of a national central bank is crucially important to the viability – and funding costs – of banks. None of the currency arrangements available to an independent Scotland promised a solid monetary framework.

If a “Yes” vote had transpired, RBS and Lloyds would probably have redomiciled to the remainder of the UK. But the preservation of the status quo – notwithstanding the constitutional changes that may follow in the coming years – is clearly a positive development for the Scottish banks and the UK in general.

The UK’s sovereign CDS also reflected the favourable outcome. The sovereign’s spreads rallied by 6bps to 19bps, bringing the CDS back to the level it was trading before the momentum for independence started to build.

**Contact: Gavan Nolan**

Gavan.Nolan@markit.com