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Brexit 'isn't the GFC': Australian banks remain sound as British banks sink

National Australia Bank spin-off CYBG has been one of the hardest hit banking stocks following the Brexit vote.
Chris Ratcliffe

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by Vanessa Desloires

Banking stocks in Europe and Britain plunged again overnight amid concern about the effect the Brexit vote will have on the already under-pressure sector, but the threat to Australian banks is "tiny", Aurora Funds Management says.

Shares in some of Europe's biggest banks have shed more than a third of their value in just two days of trading. The heaviest losses overnight were felt in British and Irish banks. The Bank of Ireland fell 20.9 per cent, down 38 per cent over two days, while Barclays dropped 17.4 per cent, capping off a two-day slide of 32 per cent.

The steep falls led to Barclays and Royal Bank of Scotland shares being halted as the banks plummeted to their lowest levels since the global financial crisis. It comes amid a difficult year for the European banking sector, with many of the region's biggest banks struggling with earnings and ultra-low interest rates set by the European Central Bank. Reports have also emerged that Moody's would downgrade the credit rating outlook of major British banks to negative.

But Hugh Dive, portfolio manager at Aurora Funds Management, said the direct impact on Australia's big four banks would be minimal, apart from some selling on negative sentiment in the sector.

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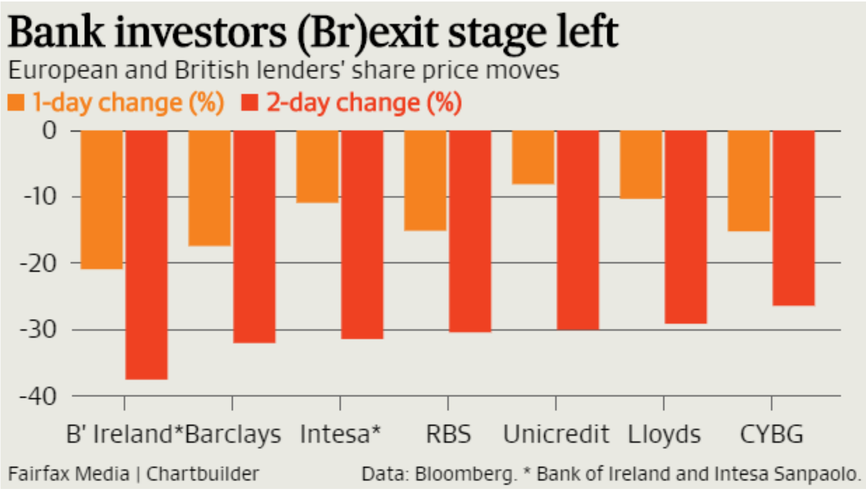

European and British lenders' share price moves.

"Is [Brexit] impacting credit markets in the short term and their ability to access finance? No, this is not the GFC," he said.

"The banks are in a better funding position than in 2007, they are less reliant on wholesale funding from Europe," he said.

Among the worst performing stocks on the Australian sharemarket once it became clear Britain had voted to leave the EU were UK-exposed stocks, including fund managers Henderson Group and BT Investment Management, and banks Macquarie Group and NAB-spinoff CYBG.

The big four banks fell up to 4 per cent on Friday, but both Commonwealth Bank of Australia and Westpac Banking Corporation posted small gains on Monday.

Mr Dive said investors were pricing in an expected hit to UK-exposed stocks' earnings, but there was uncertainty about the extent of the "Brexit effect".

Bank of America analysts said CYBG would probably be among lenders most hurt by Brexit if the Bank of England cut interest rates.

Analysis by JPMorgan found CYBG had the largest concentration of Scottish loans among British firms, at 17 per cent.

Goldman Sachs and Credit Suisse are among those forecasting a recession for Britain in the coming months.

While the sentiment towards the banking sector was "not great", Australian banks had low levels of bad and doubtful debts, and represented a good buying opportunity, Mr Dive said.

"The European banks are in a much weaker situation than the Australian banks. For example, Deutsche Bank haven't paid a dividend in several years, and their loan losses are 10 times CBA's," Mr Dive said.

He said the direct impact on the Australian sharemarket would be minimal, with just a "tiny" amount of earnings derived from Britain.

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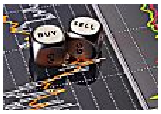
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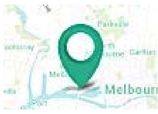
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