

5 Ways You Could Have Day Traded Brexit

Geo-political risks especially in the developed economies aren't that many. But in the year 2016, that changed as the western world was engulfed in a series of events that brought out some major shifts in the new world. Most notably, the year 2016 will no doubt be remembered for the UK's referendum vote, also known as Brexit. The referendum which was held on June 23, 2016 eventually led to 52% of votes in favor leaving the EU. The result put an end to the UK's relationship with the EU which ironically began in 1975 after a referendum vote with 67% voting in favor to join the EU (*formerly called EEC*) back then.

From a political perspective, the referendum in the UK on its membership to the EU has often been the center of the debate among the various political parties. The 2016 referendum shot to prominence after ex-Prime Minister David Cameron promised to hold a referendum as one of his election promises prior to 2015 general elections.

Brexit, was one of the most widely publicized, campaigned and well documented event since the beginning of the year. And even before that, the events leading to the Brexit referendum was widely covered in the media, starting with the pre-poll promises of David Cameron to the various theatrics of the UKIP a staunch anti-EU political party in the UK. From a trader's perspective, the Brexit vote on June 23rd offered one of the few opportunities to capitalize on the markets in the very short term, across different instruments/assets in the futures markets. Of course, in terms of the timing, day traders based in the UK and Europe were at a better advantage compared to traders in other parts of the world. Still, a well documented event, especially one where the outcome was largely a binary

event was a potential gold mine for many day traders.

Readers should note that although such events are a lot easier to discuss in hindsight, the outcome of the events and the decisions that eventually translates to trader behavior can vary from one event to another. In this article, we take a look at the different approaches that could have been used in order to trade the Brexit event profitably.

The referendum was held on June 23rd with polling stations open for the entire day and closing at 22:00 UK time. After the polls closed, the votes started to be counted across 382 polling stations with each of the local polling stations announcing the results individually which was then passed on to the UK's eleven government regions.

Ahead of the Brexit vote, the general consensus was for the UK to vote to remain in the EU while analysts and experts argued that a British exit from the EU would spell doom and gloom for the British pound and the FTSE 100, the UK's leading benchmark stock index. However, what came next was something which traders definitely did not expect to happen.

#1. Trading Brexit with the British pound futures

The British pound futures contract (6B) is of course the obvious place to start with, in the context of day trading the Brexit event. As the national currency of the United Kingdom, the impact of the Brexit vote was to be felt the most on the British pound futures. The currency had already exhibited some tendencies on how it would react to the Brexit outcome. Few months before the June referendum, the then London mayor, Boris Johnson announced his support for 'Out' which sent the British pound tumbling, losing over 1.74% from the previous day's close on February 22nd 2016. It was clear early on that a

Brexit vote would be disastrous for the British pound futures.

Looking at the technical chart for the British pound futures it is not hard to see how the technical and the fundamentals validated the price action that came later. In the early hours of June 24th it was quite clear that the Brexit's 'Out' campaign managed to post a steady lead. This led to the first hour's trading posting a strong bearish decline by the early hours of June 24th. Traders could have made a fortune on the day, by going short within the first three hours on the day. By 0200 GMT, as more regional polling stations began to publish the results, it was becoming increasingly clear that the 'Out' campaign had gained a significant lead which sent the British pound tumbling further, losing 5.70% in just one hour.



British Pound Futures, June 24th 2016

The above chart also shows how timing of the trade can play an import part. For example, after price fell for the first 6-hours of the day, we can see a strong reversal taking place as the British pound futures managed to reverse from 1.3350, retracing nearly 38.2% of the previous 6-hour's declines. A short position at or around 1.3350 would have been disastrous as the British pound futures regained 550 pips off 1.3350

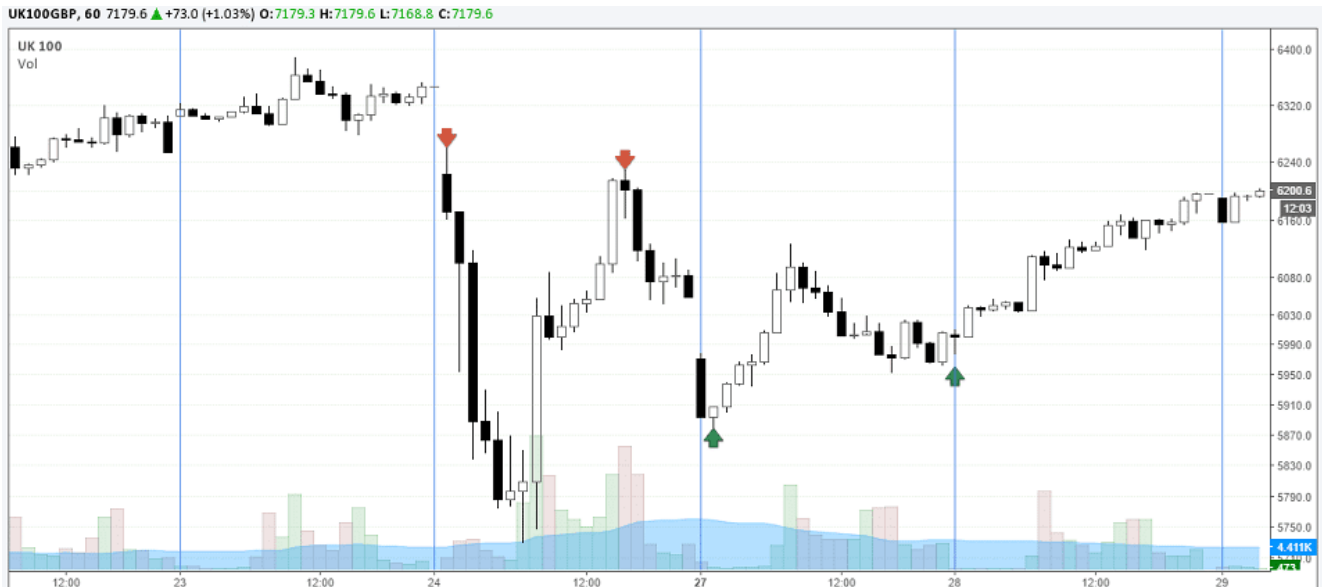
intraday low.

#2. Trading Brexit with the FTSE100 futures

While the British pound was more of a straight bet on how the currency would react, it was a different story for the leading stock index in the UK. Although the FTSE100 also fell on the day, the stock index recovered strongly by 0900 GMT on June 24 and within a few days, the FTSE100 index managed to rise above the June 23, 24 highs as the index regained its bullish momentum. If one were to have simply shorted the FTSE100 GBP futures, the timing on exiting the short trade would have been crucial.

Looking back at the FTSE100 futures, there were basically two scenarios that presented short trading opportunities for futures day-traders. The first being the initial gap down on the day at the first hour of trading. This led to a consecutive decline over the next 5-hours before the FTSE100 index started to show signs of bottoming.

After hitting the day's lows near 5750, the FTSE100 futures posted a strong intraday rally, recovering almost all the losses on the day only to slip back by the day's close. This was a second short trading opportunity on the FTSE100 futures. By the 27th June open, the FTSE100 had posted a higher low and price soon started to breakout from the previous day's range and pushed on higher.



FTSE100 Futures, June 24 – 27th, 2016

#3. Trading Brexit with Gold futures

Gold futures have also been one of the assets that futures day traders could have taken advantage of based on the uncertainty from the Brexit event. As a safe haven, gold was expected to appreciate on an 'Out' verdict from the UK's referendum. In fact on June 24, 2016 gold futures rallied 5.75% on the day or about \$72.5. This presented one of the many trading opportunities for day traders on the Brexit day.

Gold prices were already in a strong uptrend since the beginning of the year and the bullish momentum was expected to prevail into the Brexit event. Even a 'No' vote was expected to have limited impact on gold futures prices which was deemed to be strong at that point in time. From a technical perspective, the intraday technical outlook was also quite evident as price action on June 22 and 23 showed a rather flat movement in gold futures prices. This sideways range was however broken to the upside in the early hours of June 24th which eventually led the way for gold prices to rally over \$72 on the day.

Given the conditions, trading gold futures was the most ideal asset on the day which would have offered both intraday and swing trading opportunities to make money on the bullish rally in gold prices.



Gold futures, intraday chart

#4. Trading Brexit with VIX futures

Although Brexit was an event that was primarily contained within the Eurozone and the UK, the financial markets were not insulated from the geo-political risks. Indeed, it was for the first time that such a referendum was being held and contrary to what experts said, the truth was that no one knew at the point in time as to how the markets would react or for that matter, how the exit negotiations between the EU and the UK would progress. On a broader scale, factors such as how trade agreements would be re-written, the UK's relationship with the US and the rest of the world were just some of the questions for which there were no convincing answers.

Adding to the uncertainty was also the fact that political careers were tied in to the referendum result, which also meant a political void. The combination of various factors made it ripe for traders to focus on the CBOE VIX futures.

Futures traders would know that VIX, short for *Volatility Index* is also known as the fear index. When investors expect the S&P500 index to drop, the VIX index rises. With an event having so much of uncertainty it was but obvious for the VIX futures to rise into the Brexit event. As the chart below shows, the VIX futures price was seen trading within 21.00 and 16.80 a few days ahead of the Brexit event on June 24th. The VIX futures initially fell on the day, on June 23rd as voting began but by early hours of 24th June, VIX futures rallied posting strong gains on the day. The VIX futures gapped higher on the open, but gave day traders another opportunity to buy into the dip as VIX futures made an intraday low back to 20.00 before closing higher on the day.



VIX Futures, Intraday set up, June 23 – 24 Brexit event

The VIX futures presented one of the best intraday short term trading opportunities for futures traders.

#5. Trading Brexit with Euro futures

The list wouldn't be complete without mentioning the Euro futures, which basically forms the other side of the story.

Contrary to the prevailing opinion that Brexit would only hurt the British pound, the common currency euro was also at significant risk, albeit at a smaller scale of impact compared to the GBP.

The euro futures also presented traders a great opportunity to day trade and position themselves into the Brexit event. The euro futures closed the day with 2.99% losses but on an intraday range, euro futures were volatile, establishing a range of 503 pips in total.

An 'Out' verdict would be detrimental to the common currency as well as this was well exhibited in the price action on Euro futures. The chart below shows how the Euro futures fell sharply from the open, but presented two pull backs within the intraday offering futures day traders good levels to short the euro futures.



Euro futures shows a rather limited price action on Brexit event

Plotting the Fibonacci tool, traders can see how the rally stalled near the 50% mark of the initial down leg that was established earlier in the day. Although the declines in the euro futures were not as pronounced compared to the British pound, the short futures trade would have yielded positive

results for at least another day.

The warning signs were already evident after euro futures failed to post any fresh lows but price action remained range bound a few days after the Brexit event.

While the above examples show the various opportunities that are there for the taking, traders need to approach trading such high impact events with care. Without having a good trading plan, the winning opportunities could have easily flipped into a losing trade within a matter of minutes. Later in the year, traders were also presented with other opportunities including the November U.S. presidential elections which also saw similar reaction from the markets.

While opportunities such as Brexit are rare to come by (well documented and scheduled) they offer tremendous day trading opportunities for day traders who are patient enough to build a proper trading plan and execute the trades accordingly. There is no doubt that trading these uncertain events such as elections or referendums can see price react irrationally, with due homework and focus, day traders can set themselves up for just a few hours of hard work from which they can reap the benefits for a considerable period of time.