

Market Comment | Plummeting oil prices rattle financial markets

Global Financial Markets Unit
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- **Mixed data in the US.** US retail sales increased in November below estimates (by 0.2% MoM; consensus: 0.3%), whereas ex-auto and gas they rose more than was estimated (by 0.4% MoM; consensus: 0.3%). Meanwhile, PPI final demand increased unexpectedly (by 0.3% MoM; consensus: 0.0%). On another front, the December University of Michigan sentiment index rose less than expected (by 0.5 points to 91.8; consensus: 92.0).
- **Germany's CPI harmonised data confirmed the increase in November** (by 0.3% YoY; BBVAe and consensus: 0.3%). The improvement was due to the slight decrease in services prices, which were offset by the lower decline in oil and goods prices. The inflation rate excluding energy moderated in November (1.3% YoY, from 1.4% YoY). On another front, Italian industrial production rose more than expected in October (by 0.5% MoM; BBVAe: 0.2%, consensus: 0.3%).
- **Low take-up at the sixth ECB TLTRO, in line with expectations.** The ECB announced that eurozone banks had borrowed only EUR18.3bn in its sixth TLTRO (targeted long-term refinancing operations), in line with market expectations. Only 55 banks tapped the facility for funds, compared with 88 banks that tapped for EUR15.6bn in the previous round in September. The reason for the low demand at this auction would be the abundant liquidity surplus in the markets. The total take-up at the six operations amounts to EUR418bn.
- **High volatility in financial markets, waiting for the Fed.** Oil prices plunged, hitting a seven-year low this week (West Texas Intermediate: -10.1% to USD35.93/bbl, and Brent -10.3% to USD38.55/bbl), after the OPEC meeting decided to maintain their production quotas unchanged. Moreover, IEA December oil market report foresees a slowdown in oil demand in 2016 to 1.2 million b/d from the current 1.8 million b/d in 2015, increasing concern not only about the trend for oil prices but also about the economic cycle, as oil demand is taken as a bellwether of the global economy. Furthermore, the fall in China's international currency reserves also adds concerns about the economic cycle. The fall in oil prices has determined the pace of the financial markets in the week before the (expected) Fed lift-off, encouraging a risk-off mood, especially at the end of the week. The emerging markets were the most sensitive to the falls in commodity prices, as both EM currency and bond markets were under pressure in the week. However, the developed markets also tracked the effects of the lower oil price, especially through the energy and utilities equity sectors. On the other hand, the effect of last week's statement by the ECB, which fell short of market expectations, has still remained as a market driver during the week. The EURUSD cross reached the threshold of 1.10. The risk-off mood at the end of the week helped European bonds to rebound, with sovereign yields dropping during the week (GER 10Y: -14bp, FRA 10Y: -14bp, ITA 10Y: -12bp, SPA 10Y: -11bp, POR 10Y: -4bp) but standing above pre-ECB meeting levels. In the same vein as European yields, US treasury yields decreased in all tenors (2Y: -3bp, 10Y: -10bp). Equity markets dropped across the board (S&P 500: -3.1%, Euro Stoxx: -3.7%, IBEX: -4.3%, CAC: -3.4%, DAX: -3.6%), dragged mainly by the energy and basic resources sectors, but also cyclical sectors such as

Autos and Chemicals. On the FX markets, the USD depreciated against major currencies (EUR: +0.97%, GBP: +0.67%, JPY: +1.62%). However, G10 commodity-linked currencies have depreciated strongly against the USD. Similarly, EM currencies depreciated against the US dollar, especially those linked to oil prices (MXN: -4.3%, BRL: -3.3%, COP: -3.1%, RUB: -2.5%). Meanwhile, bond yields in emerging markets surged during the week (Brazil 10Y: +28bp, Russia 10Y: +16bp, Colombia 10Y: +18bp, Mexico 10Y: +13bp). In Turkey, investors' concern increased about the impact of the new measures on the budget balance is on the rise: Turkey's equity index fell (-5.4%), and the 10Y yield increased (41bp) while the lira depreciated (2.7%).

FOMC meeting Preview

- The FOMC is heading into the December meeting with a rate hike announcement in its back pocket. All signs are pointing to a 25 basis point increase in the target range for the federal funds rate, with markets pricing in near 80% probability of liftoff. Labor markets have shown real improvement, with the latest data offsetting the small blip in job growth that caused some concerns of a slowdown in August and September. Inflation remains low, but significant downward pressures seem to have stabilized for the most part. Despite the fact that some economic reports have failed to gain momentum in the fourth quarter (especially those related to manufacturing and the strength of the USD), most FOMC members seem comfortable finally raising rates at this time. This holds in line with our expectations for a hike by the end of 2015 yet does not change our view for a very gradual pace of increases in 2016. It is important to remember that the Fed has heavily emphasized the future path of interest rates rather than just the jump itself, as this is just one hike of many more to come on the road to normalization.

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Table1

Current level and changes at daily, weekly, monthly and annual frequencies

Global markets (changes in Bp)

US 2yr 4.91 (2) (3) (4) (20)
 US 5yr 5.81 (2) (3) (4) (14)
 US 10yr 7.48 (3) (4) (8) (6)

Japan 10yr 5.20 (1) (2) (3) (1)
 C&A 2yr 6.26 (2) (3) (4) (2)
 G&S 2yr 6.11 (2) (3) (4) (1)
 DE 10yr 5.56 (3) (4) (8) (6)

Belgium 10yr 5.34 (2) (3) (4) (8) (1)
 France 10yr 5.58 (2) (3) (4) (7) (8)
 Greece 10yr 10.42 (2) (3) (4) (13)

Ireland 10yr 5.16 (3) (4) (8) (1)
 Italy 10yr 6.13 (2) (3) (4) (8)
 Netherlands 10yr 5.12 (3) (4) (8) (1)
 Portugal 10yr 7.44 (1) (2) (3) (4) (24)
 Spain 10yr 5.82 (1) (2) (3) (4) (1)

Emerging Markets
 Brazil 10yr 15.56 (1) (2) (3) (4) (24)
 China 10yr 4.82 (1) (2) (3) (4)
 Colombia 10yr 6.82 (1) (2) (3) (4) (15)
 Mexico 10yr 6.38 (1) (2) (3) (4) (7) (8)
 Peru 10yr 7.58 (2) (3) (4) (8) (1)

Poland 10yr 5.12 (3) (4) (8) (1)
 Russia 5yr 9.87 (1) (2) (3) (4) (14)
 Russia 10yr 9.53 (1) (2) (3) (4) (14)
 Turkey 10yr 18.44 (2) (3) (4) (8) (1)

India 10yr 7.78 (2) (3) (4) (8)
 Indonesia 10yr 7.12 (1) (2) (3) (4) (8)

Country risk (changes in Bp)

10yr sovereign spreads (against Germany)
 Belgium 21 (1) (2) (3)
 France 32 (1) (2) (3)
 Greece 104 (2) (3) (4) (13)

Ireland 21 (1) (2) (3)
 Italy 102 (2) (3) (4)
 Netherlands 15 (1) (2) (3)
 Portugal 101 (1) (2) (3) (4)

Spain 108 (2) (3) (4) (1)

5yr sovereign spreads (against Germany)
 Belgium 7 (1) (2) (3)
 France 9 (1) (2) (3)
 Greece 10 (1) (2) (3) (4)
 Ireland 21 (1) (2) (3)

Italy 61 (2) (3) (4)
 Netherlands 3 (1) (2) (3)
 Portugal 12 (1) (2) (3) (4)
 Spain 74 (1) (2) (3) (4)

3yr sovereign spreads (against Germany)
 Belgium 8 (1) (2) (3)
 France 9 (1) (2) (3)
 Greece 10 (1) (2) (3) (4)
 Ireland 21 (1) (2) (3)

Italy 43 (1) (2) (3)
 Netherlands 2 (1) (2) (3)
 Portugal 14 (1) (2) (3) (4)
 Spain 42 (1) (2) (3) (4)

Sovereign CDS
 S&P CDS Belgium 31.4 (1) (2) (3) (4)
 S&P CDS France 26 (1) (2) (3) (4)
 S&P CDS Germany 15 (1) (2) (3) (4)

S&P CDS Greece 128 (1) (2) (3) (4)
 S&P CDS Ireland 41 (1) (2) (3) (4)
 S&P CDS Italy 61 (1) (2) (3) (4)
 S&P CDS Netherlands 10 (1) (2) (3) (4)

S&P CDS Portugal 11 (1) (2) (3) (4)
 S&P CDS Spain 61 (1) (2) (3) (4)
 S&P CDS UK 11 (1) (2) (3) (4)
 S&P CDS US 28 (1) (2) (3) (4)

Emerging Markets
 S&P CDS Brazil 472 (2) (3) (4) (13)
 S&P CDS China 142 (1) (2) (3) (4)
 S&P CDS Colombia 25 (1) (2) (3) (4) (11)
 S&P CDS Mexico 177 (1) (2) (3) (4) (7)

S&P CDS Peru 211 (1) (2) (3) (4) (11)
 S&P CDS Venezuela 431 (1) (2) (3) (4) (14)

S&P CDS Poland 21 (1) (2) (3)
 S&P CDS Russia 202 (1) (2) (3) (4) (13)
 S&P CDS Turkey 200 (1) (2) (3) (4)

S&P CDS India 186 (1) (2) (3) (4)
 S&P CDS Indonesia 112 (1) (2) (3) (4)
 S&P CDS Mexico 242 (1) (2) (3) (4) (7)

Comd risk

10yr CDS 10yr (changes in percentage points for C&A spread, bp)
 VIX 21.41 (1) (2) (3) (4) (14)
 VIX 30 21.47 (1) (2) (3) (4) (14)
 EIA EFT energy index 21 (1) (2) (3) (4) (14)

Diamond weekly 5.1 (1) (2) (3) (4) (17) (2)
 EIA Crude oil 100 (1) (2) (3) (4) (17) (2)
 Crude oil spot 100 102.8 (1) (2) (3) (4) (17) (2)
 US bank weekly year 72 (1) (2) (3) (4) (17) (2)

Bank risk (changes in Bp)

US banks CDS 10 (1) (2) (3) (4)
 EU banks CDS 11 (1) (2) (3) (4)
 UK banks CDS 17 (1) (2) (3) (4)

Large Spanish banks CDS 131 (1) (2) (3) (4) (14)
 Medium Spanish banks CDS 158 (1) (2) (3) (4) (14)

Greek banks CDS 155 (1) (2) (3) (4) (14)
 Russian banks CDS 371 (1) (2) (3) (4) (14)

Corporate risk (changes in Bp)

US Non-financial CDS 9 (1) (2) (3) (4)
 EU Non-financial CDS 9 (1) (2) (3) (4)
 UK Non-financial CDS 9 (1) (2) (3) (4)

Interbank markets (changes in Bp)

LIBOR US 3m 11 (1) (2) (3) (4)
 LIBOR US 6m 11 (1) (2) (3) (4)
 LIBOR US 12m 11 (1) (2) (3) (4)

LIBOR EU 3m 11 (1) (2) (3) (4)
 LIBOR EU 6m 11 (1) (2) (3) (4)
 LIBOR EU 12m 11 (1) (2) (3) (4)

LIBOR UK 3m 11 (1) (2) (3) (4)
 LIBOR UK 6m 11 (1) (2) (3) (4)
 LIBOR UK 12m 11 (1) (2) (3) (4)

LIBOR JPY 3m 11 (1) (2) (3) (4)
 LIBOR JPY 6m 11 (1) (2) (3) (4)
 LIBOR JPY 12m 11 (1) (2) (3) (4)

LIBOR INR 3m 11 (1) (2) (3) (4)
 LIBOR INR 6m 11 (1) (2) (3) (4)
 LIBOR INR 12m 11 (1) (2) (3) (4)

LIBOR AUD 3m 11 (1) (2) (3) (4)
 LIBOR AUD 6m 11 (1) (2) (3) (4)
 LIBOR AUD 12m 11 (1) (2) (3) (4)

LIBOR HKD 3m 11 (1) (2) (3) (4)
 LIBOR HKD 6m 11 (1) (2) (3) (4)
 LIBOR HKD 12m 11 (1) (2) (3) (4)

LIBOR SGD 3m 11 (1) (2) (3) (4)
 LIBOR SGD 6m 11 (1) (2) (3) (4)
 LIBOR SGD 12m 11 (1) (2) (3) (4)

LIBOR NZD 3m 11 (1) (2) (3) (4)
 LIBOR NZD 6m 11 (1) (2) (3) (4)
 LIBOR NZD 12m 11 (1) (2) (3) (4)

LIBOR BRL 3m 11 (1) (2) (3) (4)
 LIBOR BRL 6m 11 (1) (2) (3) (4)
 LIBOR BRL 12m 11 (1) (2) (3) (4)

LIBOR RUB 3m 11 (1) (2) (3) (4)
 LIBOR RUB 6m 11 (1) (2) (3) (4)
 LIBOR RUB 12m 11 (1) (2) (3) (4)

LIBOR TRY 3m 11 (1) (2) (3) (4)
 LIBOR TRY 6m 11 (1) (2) (3) (4)
 LIBOR TRY 12m 11 (1) (2) (3) (4)

LIBOR ZAR 3m 11 (1) (2) (3) (4)
 LIBOR ZAR 6m 11 (1) (2) (3) (4)
 LIBOR ZAR 12m 11 (1) (2) (3) (4)

LIBOR KRW 3m 11 (1) (2) (3) (4)
 LIBOR KRW 6m 11 (1) (2) (3) (4)
 LIBOR KRW 12m 11 (1) (2) (3) (4)

LIBOR THB 3m 11 (1) (2) (3) (4)
 LIBOR THB 6m 11 (1) (2) (3) (4)
 LIBOR THB 12m 11 (1) (2) (3) (4)

LIBOR PHP 3m 11 (1) (2) (3) (4)
 LIBOR PHP 6m 11 (1) (2) (3) (4)
 LIBOR PHP 12m 11 (1) (2) (3) (4)

LIBOR MYR 3m 11 (1) (2) (3) (4)
 LIBOR MYR 6m 11 (1) (2) (3) (4)
 LIBOR MYR 12m 11 (1) (2) (3) (4)

LIBOR VND 3m 11 (1) (2) (3) (4)
 LIBOR VND 6m 11 (1) (2) (3) (4)
 LIBOR VND 12m 11 (1) (2) (3) (4)

LIBOR IDR 3m 11 (1) (2) (3) (4)
 LIBOR IDR 6m 11 (1) (2) (3) (4)
 LIBOR IDR 12m 11 (1) (2) (3) (4)

LIBOR CNY 3m 11 (1) (2) (3) (4)
 LIBOR CNY 6m 11 (1) (2) (3) (4)
 LIBOR CNY 12m 11 (1) (2) (3) (4)

LIBOR HKD 3m 11 (1) (2) (3) (4)
 LIBOR HKD 6m 11 (1) (2) (3) (4)
 LIBOR HKD 12m 11 (1) (2) (3) (4)

LIBOR SGD 3m 11 (1) (2) (3) (4)
 LIBOR SGD 6m 11 (1) (2) (3) (4)
 LIBOR SGD 12m 11 (1) (2) (3) (4)

LIBOR NZD 3m 11 (1) (2) (3) (4)
 LIBOR NZD 6m 11 (1) (2) (3) (4)
 LIBOR NZD 12m 11 (1) (2) (3) (4)

LIBOR BRL 3m 11 (1) (2) (3) (4)
 LIBOR BRL 6m 11 (1) (2) (3) (4)
 LIBOR BRL 12m 11 (1) (2) (3) (4)

LIBOR RUB 3m 11 (1) (2) (3) (4)
 LIBOR RUB 6m 11 (1) (2) (3) (4)
 LIBOR RUB 12m 11 (1) (2) (3) (4)

LIBOR TRY 3m 11 (1) (2) (3) (4)
 LIBOR TRY 6m 11 (1) (2) (3) (4)
 LIBOR TRY 12m 11 (1) (2) (3) (4)

LIBOR ZAR 3m 11 (1) (2) (3) (4)
 LIBOR ZAR 6m 11 (1) (2) (3) (4)
 LIBOR ZAR 12m 11 (1) (2) (3) (4)

LIBOR KRW 3m 11 (1) (2) (3) (4)
 LIBOR KRW 6m 11 (1) (2) (3) (4)
 LIBOR KRW 12m 11 (1) (2) (3) (4)

LIBOR THB 3m 11 (1) (2) (3) (4)
 LIBOR THB 6m 11 (1) (2) (3) (4)
 LIBOR THB 12m 11 (1) (2) (3) (4)

LIBOR PHP 3m 11 (1) (2) (3) (4)
 LIBOR PHP 6m 11 (1) (2) (3) (4)
 LIBOR PHP 12m 11 (1) (2) (3) (4)

LIBOR MYR 3m 11 (1) (2) (3) (4)
 LIBOR MYR 6m 11 (1) (2) (3) (4)
 LIBOR MYR 12m 11 (1) (2) (3) (4)

LIBOR VND 3m 11 (1) (2) (3) (4)
 LIBOR VND 6m 11 (1) (2) (3) (4)
 LIBOR VND 12m 11 (1) (2) (3) (4)

LIBOR IDR 3m 11 (1) (2) (3) (4)
 LIBOR IDR 6m 11 (1) (2) (3) (4)
 LIBOR IDR 12m 11 (1) (2) (3) (4)

LIBOR CNY 3m 11 (1) (2) (3) (4)
 LIBOR CNY 6m 11 (1) (2) (3) (4)
 LIBOR CNY 12m 11 (1) (2) (3) (4)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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