Market Comment | 2015 has been a very challenging year for financial and commodity markets

Global Financial Markets Unit
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- Divergent monetary policies reflected in bond markets. The US short-term bond prices, which are more closely linked to monetary policy, fell and the 2Y yield increased by 42bp over the year. However, the expected gradual tightening limited the increase in the 10Y US treasury (+14bp) over the year. In Europe, 2015 has been a year characterised by high volatility in European sovereign bond markets. The main market drivers have been the ECB and the liquidity concerns partially due to its QE programme. Additionally, political noise has been key in explaining peripheral bond markets, although we should highlight how the QE has kept spreads relatively compressed. The ECB's policies have affected the front end of the curves, as they remain pretty much anchored by the ECB's purchasing power and the depo facility rate limit for QE purchases (2Y benchmark yields are -25bp in Germany and France and -30-50bp in peripherals). The longer end, despite a very volatile year, has seen yields ending up the year at roughly the same levels at which they started. Bunds (currently at 0.63%) approached yields of 0% just after the ECB's QE programme was implemented, and bounced above 100bp a few weeks later. This movement virtually mimics the V-shaped reactions to QE announcements experienced in Japan and the US, that could be explained by buy-the-rumour/sell-the-news trades, the consequence of a previous herd behaviour and the liquidity and scarcity concerns that a QE programme naturally produces. The second half of the year was characterised by concerns about the global macro outlook and particularly by the slowdown in China and its implications for the emerging world. On the other hand, EM bond markets have suffered from the Fed's lift-off and continuing concerns about a slowdown in China and the slump in oil prices, widening the spread of the Global Emerging Market bond index (EMBIG) by 40bp in the year to 440bp, with the Latam EMBIG surging by 88bp to 596bp.

- Oil prices plunged dramatically during the year, reaching multi-year low levels (-34.3% YtD, trading below USD37/bbl). This was fuelled by worries about the Chinese slowdown, the USD appreciation and OPEC's decision to keep its production targets unchanged despite the oversupply and the doubts about demand. Meanwhile, metals prices also slumped, although more moderately (-22.6%YtD).

- On FX markets, the USD has appreciated across the board. The tightening in the Fed's monetary policy has underpinned the USD's appreciation against its major peers (DXY Index -8.9% YtD). Moreover, the divergence in monetary policy between US and the eurozone highlighted the depreciation of the euro (1.091, -9.8%YtD). The USD has also appreciated against EM currencies, which have been dragged by the domestic and global cyclical concerns and the plunge in commodity prices. Latam currencies were the most punished (LACI Index -24.2% YtD) as they were more exposed to commodity prices, while Depreciation of Asian currencies was less dramatic (ADXY Index -5.6% YtD). Furthermore, various idiosyncratic factors also dragged some Latam currencies, such as the Argentine peso which depreciated

-53.4% YtD after the new president lifted capital controls, and the Brazilian real which was -50.1% YtD on political and economic concerns).

- Equity markets showed a mixed performance. Equity markets in the US remained broadly unchanged in 2015 despite the first rate hike in years, which was due mainly to the improvement in the US economy (S&P 500: +1.0% YtD). In the euro area, the equity indices have increased across the board with the exception of the Ibex-35 (Euro Stoxx +5% YtD). In EM markets, the concerns about China, the sharp falls in commodity prices and the Fed's lift-off contributed to the declines in most regional indices. The falls in Latam indices were the most extreme (MSCI Latam -10.5%YtD), while Eastern Europe fell slightly (MSCI EM Europe -3.3%YtD). Asian equity markets declined (MSCI EM Asia -7.7% YtD) although China's indexes eventually improved over the year.

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Table1

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 1,09 (0) (11) (16) (42)
US 5-yr 1,81 (3) (9) (17) (16)
US 10-yr 2,31 (0) (5) (10) (14)

Japan 10-yr 0,27 (0) (-1) (-4) (-6)

GER 2-yr -0,34 (-1) (-1) (7) (-25)
GER 5-yr -0,04 (-1) (0) (14) (-6)
GER 10-yr 0,63 (1) (1) (16) (9)

Belgium 10-yr 0,97 (0) (2) (19) (14)
France 10-yr 0,99 (0) (1) (20) (17)
Greece 10-yr 8,16 (-11) (-16) (65) (-159)
Ireland 10-yr 1,16 (1) (1) (16)
Italy 10-yr 1,6 (-3) (-6) (18) (-29)
Netherlands 10-yr 0,8 (0) (0) (17) (11)
Portugal 10-yr 2,52 (2) (-2) (20) (-17)
Spain 10-yr 1,77 (-4) (-6) (25) (16)

Emerging Markets
Brazil 10-yr 16,48 (9) (23) (62) (412)
Chile 10-yr 4,66 (1) (1) (5) (67)
Colombia 10-yr 8,67 (-4) (-4) (20) (157)
Mexico 10-yr 6,31 (2) (8) (10) (48)
Peru 10-yr 7,31 (0) (4) (27) (186)

Poland 10-yr 2,94 (3) (-1) (27) (43)
Russia 5-yr 9,88 (1) (-17) (-2) (-432)
Russia 10-yr 9,55 (3) (-6) (-1) (-345)
Turkey 10-yr 10,45 (0) (-7) (54) (258)

India 10-yr 7,75 (-1) (0) (-4) (-13)
Indonesia 10-yr 8,76 (-3) (3) (15) (94)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 34 (-1) (1) (3) (5)
France 36 (-1) (0) (4) (7)
Greece 752 (-11) (-17) (49) (-168)
Ireland 52 (1) (0) (0) (-19)
Italy 96 (-4) (-7) (2) (-39)
Netherlands 16 (0) (-0,2) (1) (2)
Portugal 189 (1) (-3) (4) (-26)
Spain 114 (-4) (-7) (9) (7)

5-yr sovereign spreads *(against Germany)*
Belgium 7 (0) (-0,2) (-5) (-7)
France 13 (-1) (-1) (-5) (-4)
Greece 1606 (1) (0) (-14) (473)
Ireland 25 (-1) (-2) (-4) (-15)
Italy 55 (1) (-4) (-1) (-39)
Netherlands 1 (0) (-0,7) (-4) (-8)
Portugal 111 (2) (-6) (-9) (-33)
Spain 72 (-1) (-5) (4) (-15)

2-yr sovereign spreads *(against Germany)*
Belgium 5 (0) (-2) (-4) (-1)
France 4 (-1) (-1,3) (-5) (-3)
Ireland 15 (0) (-1) (-7) (4)
Italy 32 (1) (-4) (-7) (-32)
Netherlands -3 (0) (-2) (-5) (-9)
Portugal 45 (5) (-1) (-11) (-7)
Spain 36 (0) (-7) (-3) (-14)

5-yr sovereign CDS
5-yr CDS Belgium 32 (0) (-1) (-1) (-17)
5-yr CDS France 26 (0) (0) (-1) (-21)
5-yr CDS Germany 13 (0) (0) (0) (-5)
5-yr CDS Greece 1056 (2) (33) (121) (-225)
5-yr CDS Ireland 42 (2) (-2) (0) (-9)
5-yr CDS Italy 96 (-2) (-2) (5) (-39)
5-yr CDS Netherlands 16 (0) (0) (0) (-5)
5-yr CDS Portugal 169 (4) (-8) (-13) (-31)
5-yr CDS Spain 90 (1) (-4) (9) (-6)
5-yr CDS UK 20 (0) (0) (3) (-2)
5-yr CDS US 19 (0) (0) (-2) (3)

Emerging Markets
5-yr sovereign CDS
5-yr CDS Brazil 480 (-1) (-27) (62) (281)
5-yr CDS Chile 126 (-2) (-8) (0) (31)
5-yr CDS Colombia 236 (-3) (-9) (13) (97)
5-yr CDS Mexico 168 (-1) (-7) (13) (64)
5-yr CDS Peru 184 (-2) (-8) (3) (69)
5-yr CDS Venezuela 5777 (-272) (-544) (1631) (1272)

5-yr CDS Poland73 (1) (0) (0) (3)
5-yr CDS Russia 301 (6) (-11) (30) (-175)
5-yr CDS Turkey 273 (5) (4) (8) (91)

5-yr CDS China 109 (0) (-3) (8) (23)
5-yr CDS India 148 (-1) (-8) (-3) (-24)
5-yr CDS Indonesia 229 (1) (-8) (10) (73)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 17 (5,7) (9,2) (5,4) (-4)
VSTOXX22,17 (2,6) (9,5) (-6,2) (-6)
EM EFT volatility Index 23 (3) (4) (-3) (6)
Dollar/euro volatility 9,8 (0,6) (4,3) (-23,2) (2)
EM FX volatility index 11 (0) (0) (5) (5)
Credit spread (BAA) 323,3 (-0,2) (-4,3) (3,1) (77)
US bonds volatility index 67 (0) (2) (-4) (-2)

Bank risk *(changes in bp)*
US banks CDS 74 (-1) (-3) (-3) (4)
EMU banks CDS 81 (1) (-1) (2) (-2)
UK banks CDS 76 (0) (-2) (2) (16)

Large Spanish banks CDS 133 (6) (2) (13) (55)
Medium Spanish banks CDS 157 (6) (0) (3) (43)

Greek banks CDS 1657 (-8) (17) (282) (773)
Russian banks CDS 379 (-5) (-7) (-2) (-208)

Corporate risk *(changes in bps)*
US Non-financial CDS 0 (0) (0) (0) (-157)
EMU Non-financial CDS 0 (0) (0) (0) (-107)
UK Non-financial CDS 0 (0) (0) (0) (-113)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 11 (0) (0) (-6) (0)
UEM OIS spread 12m 33 (0) (0) (-4) (-6)
UEM TED spread 3m 39 (0) (-0,3) (7) (15)

US OIS spread 3m 22 (-1) (-1) (9) (9)
US OIS spread 12m 53 (-1) (-3) (6) (19)
US TED spread 3m 44 (3) (3) (20) (22)

Spain Ted Spread 3m 5 (2) (5,8) (-7) (0)

EONIA Index -0,22 (0) (1,1) (-10) (-37)
Euribor 3m -0,13 (0) (-0,1) (-2) (-21)
Euribor 12m 0,06 (0) (0) (1) (-27)

Libor 3m 0,61 (0) (0) (19) (35)
Libor 12m 1,16 (0) (2) (18) (53)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2072,6 (-0,3) (0,4) (-0,4) (1)
DowJones 17672,6 (-0,3) (0,4) (-0,3) (-1)
Nikkei 19033,7 (0,3) (0,8) (-3,6) (9)
FTSE 100 6281,7 (-0,5) (0,7) (-1,2) (-4)
EuroStoxx 50 3294,4 (-0,6) (0,2) (-6) (5)
IBEX9663 (-0,1) (0,2) (-7) (-6)
DAX 10743 (-1,1) (0,1) (-5,6) (10)
CAC4687,9 (-0,3) (0,3) (-5,4) (10)
MIB 21522,3 (-0,6) (0,3) (-5,3) (13)
ASE Athens 611 (-1,1) (-1,5) (-3,8) (-26)

Bank stocks
US banks 95,6 (-0,5) (-0,3) (-2,5) (-4)
JPM 66,8 (-0,5) (0) (0,1) (7)
Citi 52,5 (-0,8) (-0,2) (-2,9) (-3)
BoA 17,1 (-0,8) (-1,2) (-1,7) (-4)
MS 32,5 (-0,1) (-0,2) (-5,2) (-16)
GS 183,3 (-0,1) (0,2) (-3,5) (-5)

UK banks 88,3 (-1,1) (-0,4) (0,5) (-12)
HSBC 538,2 (-1,2) (-0,5) (1,6) (-12)
RBS 303,5 (-2,1) (-0,3) (0,4) (-23)
Barclays 220,8 (-0,8) (-0,7) (-1,1) (-9)
Lloyds 73,7 (-0,5) (0) (1) (-3)

EMU banks 109,1 (-0,5) (0) (-5,1) (9)
BNP 52,8 (-0,6) (-1,7) (-5,9) (7)
Crédit Agricole 10,9 (0,6) (0,7) (-4,4) (1)
Deutsche Bank 22,5 (-0,9) (0,9) (-7,3) (-10)
ING 12,7 (-0,1) (0,9) (-2,6) (17)
Intesa 3,1 (-0,8) (0,5) (-4,4) (28)
SG 42,9 (-1) (-0,9) (-5) (23)
Unicredito 5,2 (-0,7) (0,1) (-7) (-3)

Large Spanish banks 76,7 (0) (-0,8) (-11,8) (-23)
Santander 4,6 (0,2) (-0,3) (-10,4) (-34)
BBVA 6,9 (-0,2) (-1,1) (-12,8) (-13)

Medium Spanish banks 83 (-0,2) (-1) (-6,5) (-17)
Caixabank 3,3 (-0,5) (-1,6) (-6,2) (-25)
Popular 3,1 (0,4) (0,7) (-7,5) (-26)
Sabadell 1,6 (-0,2) (-0,8) (-5,7) (-19)
Bankinter 6,6 (-0,3) (0,2) (-3,1) (-1)
Bankia 1,1 (-0,3) (-3,3) (-10,5) (-14)

Greek banks 4,4 (-2,2) (-4,1) (-27) (-96)
Alpha Bank2,4 (-2,4) (-4,3) (3,8) (-90)
Pireus Bank0,3 (-7,9) (-9,5) (-73,3) (-100)
National Central Bank0,3 (3,7) (4,9) (-72) (-98)
Eurobank Ergasias1 (-2,9) (-5,7) (-28,6) (-95)

Emerging Markets
Main equity indices
MSCI Latam 59781 (-0,1) (0,6) (-3,5) (-10,5)
Ibovespa (Brazil) 43428 (-0,5) (-1,3) (-3,8) (-13,2)
Mexbol 43447 (0,1) (-0,3) (0,1) (0,7)

MSCI EM Europe 4287 (0,92) (1,7) (-3,7) (-3,3)
Poland 1859 (-1,8) (-1,1) (-3,5) (-19,7)
Micex (Russia) 1761 (-0,1) (0,8) (-0,5) (26,1)
Ise 100 (Turkey) 73201 (-1) (-1,1) (-2,7) (-14,6)

MSCI EM Asia 664 (-0,07) (0,2) (-1,5) (-7,7)
Shanghai Composite (China) 3573 (0,26) (-1,7) (3,7) (10,5)
Jakarta Composite (Indonesia) 4593 (0,5) (1,6) (3,3) (-12)

Bank stocks
Turkish banks 75 (-1,4) (-1,2) (-0,6) (-24,5)
Akbank T.A.S. 7 (-2,1) (-1,7) (0) (-20)
Garanti 7 (-1,1) (-1,8) (-1,1) (-23,1)
Turkiye Is Bankasi 5 (-0,8) (0) (-0,8) (-30,4)

Russian banks 152 (0,4) (-0,5) (3,4) (51,7)
Sberbank 101 (-0,5) (-1,7) (-1,6) (84,4)
VTB Bank 0,1 (1,9) (1,3) (12,3) (19)

Currencies *(in percentage, positive for dollar depreciation)*

Developed Markets
EURUSD 1,091 (-0,06) (0,01) (3,3) (-9,8)
GBPUSD 1,48 (0,18) (-0,19) (-1,4) (-4,8)
USDJPY 120,56 (-0,08) (0,3) (2,1) (-0,7)
DXY 98,33 (-0,2) (0) (1,8) (-8,9)

Emerging Markets
USDARS (Argentina) 12,98 (-0,2) (0,1) (-34) (-53,4)
USDBRL (Brazil) 3,99 (-3,2) (-1,2) (-3,1) (-50,1)
USDCLP (Chile) 708,24 (0,1) (-1,2) (0,4) (-16,8)
USDCOP (Colombia) 3177,23 (-0,3) (1,1) (-1) (-33,7)
USDMXN (Mexico) 17,34 (-0,5) (-0,7) (-4,6) (-17,6)
USDPEN (Peru) 3,41 (-0,1) (-0,4) (-1) (-14,4)
LACI 62,29 (-1,3) (-0,5) (-5,4) (-24,2)

USDPLN (Poland) 3,9 (-0,7) (-0,3) (3,5) (-10,1)
USDRUB (Russia) 73,22 (-1,3) (-5) (-10,2) (-26,7)
USDTRY (Turkey) 2,93 (-0,7) (-0,3) (-0,4) (-25,5)

USDCNY (China) 6,49 (-0,1) (-0,2) (-1,4) (-4,5)
USDINR (India) 66,39 (0) (-0,3) (0,4) (-4,8)
USDIDR (Indonesia) 13788 (-0,7) (-1) (0,4) (-11,3)
ADXY 106,42 (-0,4) (-0,3) (-1) (-5,6)

Commodities *(change in percentage)*

Brent 1st fut. 36,59 (-3,2) (-2,1) (-18) (-36,2)
WTx 1st fut. 36,7 (-3,1) (-2,1) (-11,9) (-31,1)
Copper 1st fut. 212,6 (0) (0,7) (4) (-25,1)
Gold 1061,24 (-0,7) (-0,9) (-0,3) (-10,2)
Baltic Dry Index 478 (0) (0,6) (-18,2) (-38,9)
S&P GSCI Spot commodity index 315,229 (0) (1,1) (-6,2) (-24,6)
S&P GSCI Brent Spot 325,277 (0) (0,9) (-15,5) (-34,3)
S&P GSCI Metals Spot 254,62 (0) (0,6) (4) (-22,6)
S&P GSCI Agricultural Spot 283,907 (0) (-0,4) (-1) (-12)

Source: Bloomberg, Datastream and Haver

*CDS, EMBI & MSCI indices with one day delay
**Credit spread (BAA) with two days delay

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