

Market Comment | Rise in oil price supports the rebound in risk assets, waiting for the FOMC

Global Financial Markets Unit
27 Jan 2016

- **US new home sales rose in December** more than expected (by 53K to 544K; consensus: 500K).
- **Positive consumer confidence data in Europe.** Germany's GfK consumer confidence for February remained unchanged in line with our estimates (at 9.4 points), while French consumer confidence rose slightly in January against expectations that it would remain unchanged (by 1 point to 97). In addition, Italian consumer confidence increased unexpectedly (by 1.2 points to 118.9; BBVAe: 117.6 consensus: 117.0), however business confidence declined against estimates of an increase (by 0.8 points to 103.2; BBVAe: 104.3 consensus: 103.8).
- **Agreement between the Italian government and European Commission to reinforce the financial system.** The Italian government and the European commission have reached an agreement for try to ease the pressure on the Italian financial sector. The Italian government will implement a guarantee scheme to help Italian banks to clean their balance sheets of their bad assets: large portfolios of non-performing loans to private investors. These guarantees will not be considered to be a state aid since the prices will be imposed by the markets, based on the CDS prices of the Italian issuers.
- **Rise in oil price supports the rebound in risk assets, waiting for the FOMC.** Volatility in oil prices remained today. Prices fell early this morning, due to oversupply concerns, but the release of better-than-expected US weekly inventories turned them around and fuelled this week's rebound in risk assets. Today's Fed meeting - at which no measures are expected, after the tightening at the previous FOMC - has been the focus of investors' attention. The tone of the statement could be an important key to predict the Fed's future path. Currently, the markets expect a dovish mode in light of recent worse-than-expected industrial data, judging by how Fed fund futures are priced. These implicit rate futures are discounting only one additional rate hike during 2016, a remarkably slower pace than suggested in the Fed's forecast. Against this backdrop, European equity markets rose slightly, with the exception of Italian indices which were dragged by the financial sector (Euro Stoxx: +0.1%, DAX: +0.4%, IBEX: +0.4%, CAC: +0.3%, MIB: -0.7%). Meanwhile, US equity indices remained almost unchanged (S&P: -0.1%, Dow: +0.2%), dragged down by the release of worse-than-expected 4Q corporate results by Apple and Boeing. In Asia, Chinese markets fell slightly (Shanghai: -0.52%, Shenzhen: -0.83%), while the Nikkei rebounded today (+2.72%). On bond markets, US treasury yields increased slightly (2Y: +3bp, 10Y: +4bp) waiting for today's FOMC, while European safe-haven yields remained almost unchanged, although peripheral yields inched down (ITA 10Y: -1bp, SPA 10Y: -2bp, POR 10Y: -4bp). On FX markets, the USD appreciated against other major currencies (JPY: -0.42%, GBP: -0.52%). EM currencies appreciated against the US dollar (RUB: +1.6%, MXN: +0.4%, COP: +0.2%, CLP: +0.4%), helped by the improvement in commodity prices (Brent: +2.6%, WTI: +2.2% and copper: +0.9%).

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Table1

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

Index markets (changes in bp)

US 2-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)
Emerging Markets
 China 10-yr 6.71 (2) (1) (2) (1)
 Columbia 10-yr 5.81 (1) (1) (1)
 Colombia 10-yr 5.08 (1) (1) (1) (1)
 Mexico 10-yr 4.22 (0) (1) (1) (1)
 Peru 10-yr 4.14 (1) (1) (1) (1)
 Poland 10-yr 3.21 (1) (1) (1) (1)
 Russia 10-yr 11.36 (1) (1) (1) (1)
 Russia 10-yr 10.28 (1) (1) (1) (1)
 Turkey 10-yr 10.75 (4) (1) (2) (2)
 India 10-yr 7.74 (1) (1) (1)
 Indonesia 10-yr 6.45 (1) (1) (1) (1)

C. Country risk (changes in bp)

US 10-yr sovereign spreads (against Germany)
 Belgium 44 (3) (4) (1) (1)
 France 31 (1) (2) (1) (4)
 Greece 303 (42) (44) (33) (37)
 Ireland 40 (2) (0) (0)
 Italy 43 (1) (1) (1)
 Netherlands 11 (2) (0) (1)
 Portugal 251 (4) (1) (2) (2)
 Spain 117 (2) (1) (1) (1)
US 10-yr sovereign spreads (against Germany)
 Belgium 12 (1) (1) (1) (1)
 France 10 (1) (1) (1) (1)
 Greece 102 (1) (1) (1) (1)
 Ireland 20 (2) (0) (0)
 Italy 11 (1) (1) (1)
 Netherlands 4 (0) (1) (1) (1)
 Portugal 165 (1) (1) (1) (1)
 Spain 77 (2) (1) (1) (1)
US 10-yr sovereign spreads (against Germany)
 Belgium 5 (1) (0) (1)
 France 5 (1) (1) (1) (1)
 Ireland 4 (1) (1) (1)
 Italy 4 (1) (1) (1)
 Netherlands 2 (1) (1) (1)
 Portugal 90 (1) (1) (1) (1)
 Spain 48 (1) (1) (1) (1)
US 10-yr sovereign CDS
 US CDS Belgium 36 (0) (1) (1)
 US CDS France 29 (0) (1) (1)
 US CDS Germany 16 (0) (0) (1)
 US CDS Greece 141 (16) (15) (14) (12)
 US CDS Ireland 40 (0) (0) (0) (0)
 US CDS Italy 111 (4) (1) (1) (1)
 US CDS Netherlands 77 (1) (1) (1) (1)
 US CDS Portugal 206 (2) (1) (1) (1)
 US CDS Spain 84 (0) (1) (1) (1)
 US CDS Turkey 201 (0) (1) (1) (1)
 US CDS US 21 (0) (1) (1) (1)
US 10-yr sovereign CDS
 US CDS China 404 (17) (17) (16) (15)
 US CDS China 146 (16) (17) (17) (17)
 US CDS Colombia 286 (11) (11) (11) (11)
 US CDS Mexico 174 (11) (11) (11) (11)
 US CDS Peru 174 (11) (11) (11) (11)
 US CDS Venezuela 807 (15) (15) (15) (15) (15)

US CDS sovereign CDS
 US CDS Belgium 36 (0) (1) (1)
 US CDS France 29 (0) (1) (1)
 US CDS Germany 16 (0) (0) (1)
 US CDS Greece 141 (16) (15) (14) (12)
 US CDS Ireland 40 (0) (0) (0) (0)
 US CDS Italy 111 (4) (1) (1) (1)
 US CDS Netherlands 77 (1) (1) (1) (1)
 US CDS Portugal 206 (2) (1) (1) (1)
 US CDS Spain 84 (0) (1) (1) (1)
 US CDS Turkey 201 (0) (1) (1) (1)
 US CDS US 21 (0) (1) (1) (1)
US 10-yr sovereign CDS
 US CDS China 404 (17) (17) (16) (15)
 US CDS China 146 (16) (17) (17) (17)
 US CDS Colombia 286 (11) (11) (11) (11)
 US CDS Mexico 174 (11) (11) (11) (11)
 US CDS Peru 174 (11) (11) (11) (11)
 US CDS Venezuela 807 (15) (15) (15) (15) (15)
 US CDS sovereign CDS
 US CDS Belgium 36 (0) (1) (1)
 US CDS France 29 (0) (1) (1)
 US CDS Germany 16 (0) (0) (1)
 US CDS Greece 141 (16) (15) (14) (12)
 US CDS Ireland 40 (0) (0) (0) (0)
 US CDS Italy 111 (4) (1) (1) (1)
 US CDS Netherlands 77 (1) (1) (1) (1)
 US CDS Portugal 206 (2) (1) (1) (1)
 US CDS Spain 84 (0) (1) (1) (1)
 US CDS Turkey 201 (0) (1) (1) (1)
 US CDS US 21 (0) (1) (1) (1)
US 10-yr sovereign CDS
 US CDS China 404 (17) (17) (16) (15)
 US CDS China 146 (16) (17) (17) (17)
 US CDS Colombia 286 (11) (11) (11) (11)
 US CDS Mexico 174 (11) (11) (11) (11)
 US CDS Peru 174 (11) (11) (11) (11)
 US CDS Venezuela 807 (15) (15) (15) (15) (15)

C. CDS risk

US 10-yr sovereign spreads (against Germany) except for A.A. spreads, bp
 VIX 22.21 (1) (1) (1) (1) (1)
 VIX 30-yr 18.15 (1) (1) (1) (1) (1)
 US 10-yr volatility index 12 (1) (1) (1) (1) (1)
 US 30-yr volatility index 12 (1) (1) (1) (1) (1)
 US 60-yr volatility index 12 (1) (1) (1) (1) (1)
 US 10-yr volatility index 12 (1) (1) (1) (1) (1)

US 10-yr sovereign CDS
 US banks CDS 92 (1) (1) (1) (1)
 US banks CDS 92 (1) (1) (1) (1) (1)
 US banks CDS 92 (1) (1) (1) (1) (1)
Large European banks CDS 104 (4) (4) (2) (1)
Medium European banks CDS 151 (2) (2) (2) (2)
Small European banks CDS 154 (4) (4) (2) (1)
Asian banks CDS 154 (4) (4) (2) (1)
Russian banks CDS 456 (10) (10) (10) (10)
US banks CDS 92 (1) (1) (1) (1)
Other banks CDS 92 (1) (1) (1) (1)

US 10-yr sovereign CDS

US 10-yr sovereign CDS 92 (1) (1) (1) (1)
 US 10-yr sovereign CDS 92 (1) (1) (1) (1) (1)
 US 10-yr sovereign CDS 92 (1) (1) (1) (1) (1)
US 10-yr sovereign CDS 92 (1) (1) (1) (1)
US 10-yr sovereign CDS 92 (1) (1) (1) (1) (1)
US 10-yr sovereign CDS 92 (1) (1) (1) (1) (1)

Index markets (changes in percentage)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
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 Spain 10-yr 0.52 (1) (1) (1) (1)

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 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
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 Belgium 10-yr 0.88 (0) (4) (1) (4)
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 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

C. Commodity (in percentage, positive for dollar depreciation)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

Commodity (change in percentage)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

US 10-yr 0.47 (2) (1) (4) (3)
 US 5-yr 1.41 (4) (1) (1) (2)
 US 10-yr 2.00 (4) (0) (2) (1)
 Japan 10-yr 0.21 (1) (0) (0) (0)
 GER 5-yr -0.42 (1) (1) (1) (1)
 GER 10-yr -0.24 (1) (1) (1) (1)
 GER 30-yr -0.48 (1) (1) (1) (1)
 Belgium 10-yr 0.88 (0) (4) (1) (4)
 France 10-yr 0.78 (1) (1) (1) (1)
 Greece 10-yr 0.71 (1) (1) (1) (1)
 Health 10-yr 1.02 (0) (0) (0) (0)
 Key 10-yr 1.11 (1) (1) (1) (1)
 Netherlands 10-yr 0.91 (1) (1) (1) (1)
 Portugal 10-yr 3.92 (4) (2) (4) (4)
 Spain 10-yr 0.52 (1) (1) (1) (1)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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