

Market Comment | Markets sceptical about a bold oil output agreement

Global Financial Markets Unit
16 Feb 2016

- **Main oil producers agree to freeze production, but markets remain sceptical about any bolder agreement.** Saudi Arabia and Russian, together with Venezuela and Qatar, took the first coordinated action to prevent further price deterioration due to an extraordinary glut, in a closed-door meeting in Doha. The agreement did not contemplate a cut in production but a freeze at January's production levels. The deal was contingent on other producers joining the agreement. This leaves markets sceptical due to the particular situation of some countries such as Iran (Iran said it would not agree to freezing its output at January's levels, but Venezuela's oil minister said there might be special conditions for Iran). Thus, the market will be focused on tomorrow's meeting in Tehran with Iran and Iraq on Wednesday.
- **Negative ZEW expectations data;** global uncertainties seems to be starting to affect German confidence. Germany's ZEW survey expectations dropped in February by more than our estimates (by 9.2 points to 10.2; BBVAe: 8.0 consensus: 0.0). Meanwhile, the ZEW current situation declined more than estimated (by 7.4 points to 52.3; BBVAe: 59.0, consensus: 55.0).
- **The US Empire State Manufacturing Survey improved by less than estimated, remaining in contracting territory** (to -16.64 points from -19.37; consensus: -10.00). Most of the sub-indices in the survey improved from the previous reading, but they are still contracting.
- **Measures to contain the slump in oil prices were not enough to reinforce yesterday's rebound.** Early gains in risky assets led by oil prices (Brent: +5.4%, WTx: +5.1%), underpinned by expectations of an agreement on a cut in oil output and yesterday's reinforcement of Draghi's dovish tone, were trimmed once the terms of the oil production agreement became known. Oil prices dropped (Brent: -3.2% Wtx: -1.5% at the end of European session), dragging down other risky assets. The release of worse-than-expected macroeconomic data in Europe and the US also contributed to halting the equity market recovery after yesterday's big rebound. Furthermore, several surveys released today have shown analysts' expectations about US economy declining (delaying the interest rate normalisation process), while doubts remain about China's soft landing and especially, fears about erratic management of the currency policy. Against this backdrop, European equity indices dropped (Eurostoxx: -0.7% IBEX: -0.7% DAX: -1.0% CAC: -0.3% MIB: -0.6%) while US indices registered timid gains, not having benefited from yesterday's rally as they were closed for Presidents' Day (S&P: +0.8%). In bond markets, developed country yields inched up (US 10Y +3bp GER 10Y: +3bp FRA 10Y: +4bp ITA: +3bp SPA: +6bp POR: +1bp). On FX markets, mixed performance of USD against other major currencies (EUR: -0.13% GBP: -1.03% JPY: +0.67%) after last week's depreciation. EM currencies depreciated against the US dollar (RUB: -0.9% BRL: -1.6% CLP: -1.1%) affected by the downturn in oil prices.

Update 17.30 CET 16 February, 2015
Table1

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

Libor markets (changes in bp)

US 3m 8.7 (1.0) (1.0) (0.0)
 US 6m 12.1 (0.6) (2.4) (1.4)
 US 12m 15.3 (0.5) (3.0) (1.6)
 Japan 3m 0.1 (0.1) (0.1) (0.0)
 GB 3m 4.5 (0.0) (0.1) (0.1)
 GB 6m 5.3 (0.1) (0.1) (0.1)
 GB 12m 6.2 (0.1) (0.1) (0.1)
 Belgium 3m 0.7 (0.3) (0.1) (0.1)
 France 3m 0.6 (0.4) (0.1) (0.1)
 Greece 3m 10.9 (0.3) (0.1) (0.1)
 Korea 3m 0.1 (0.1) (0.1) (0.1)
 Mexico 3m 1.6 (0.3) (0.1) (0.1)
 Netherlands 3m 0.1 (0.1) (0.1) (0.1)
 Portugal 3m 0.1 (0.1) (0.1) (0.1)
 Spain 3m 0.1 (0.1) (0.1) (0.1)

Country risk (change in %)

France 15.9 (1.0) (1.4) (0.1)
 China 4.4 (0.2) (0.1) (0.1)
 Canada 3.2 (0.2) (0.1) (0.1)
 Mexico 3.0 (0.5) (0.1) (0.1)
 Peru 1.5 (0.1) (0.1) (0.1)
 Poland 1.0 (0.1) (0.1) (0.1)
 Russia 1.0 (0.1) (0.1) (0.1)
 Turkey 1.1 (0.1) (0.1) (0.1)
 India 1.0 (0.1) (0.1) (0.1)
 Indonesia 1.0 (0.1) (0.1) (0.1)

Country risk (change in %)

Spain 12 (0.1) (0.1) (0.1)
 France 11 (0.1) (0.1) (0.1)
 Greece 10.7 (0.1) (0.1) (0.1)
 Korea 7.7 (0.1) (0.1) (0.1)
 Mexico 7.0 (0.1) (0.1) (0.1)
 Netherlands 6.9 (0.1) (0.1) (0.1)
 Portugal 2.8 (0.1) (0.1) (0.1)
 Spain 1.0 (0.1) (0.1) (0.1)

Country risk (change in %)

Spain 7.8 (0.1) (0.1) (0.1)
 France 11 (0.1) (0.1) (0.1)
 Korea 7.7 (0.1) (0.1) (0.1)
 Mexico 7.0 (0.1) (0.1) (0.1)
 Netherlands 6.9 (0.1) (0.1) (0.1)
 Portugal 2.8 (0.1) (0.1) (0.1)
 Spain 1.0 (0.1) (0.1) (0.1)

Country risk (change in %)

Spain 1.0 (0.1) (0.1) (0.1)
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 Greece 1.0 (0.1) (0.1) (0.1)
 Korea 1.0 (0.1) (0.1) (0.1)
 Mexico 1.0 (0.1) (0.1) (0.1)
 Netherlands 1.0 (0.1) (0.1) (0.1)
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Country risk (change in %)

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 Korea 1.0 (0.1) (0.1) (0.1)
 Mexico 1.0 (0.1) (0.1) (0.1)
 Netherlands 1.0 (0.1) (0.1) (0.1)
 Portugal 1.0 (0.1) (0.1) (0.1)
 Spain 1.0 (0.1) (0.1) (0.1)

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

Index markets (change in bp)

US 2yr 4.7 (1.1) (1.0) (0.9)
 US 5yr 3.2 (0.8) (0.8) (0.8)
 US 10yr 1.9 (0.5) (0.5) (0.4)

Japan 10yr 0.1 (0.0) (0.0) (0.0)
 US 2yr -0.3 (1.1) (1.1) (1.1)
 US 5yr -0.8 (1.1) (1.1) (1.1)

Belgium 10yr 0.7 (0.1) (0.1) (0.1)
 France 10yr 0.6 (0.1) (0.1) (0.1)
 Greece 10yr 10.9 (0.1) (0.1) (0.1)

Italy 10yr 1.4 (0.1) (0.1) (0.1)
 Netherlands 10yr 0.4 (0.1) (0.1) (0.1)
 Portugal 10yr 0.5 (0.1) (0.1) (0.1)

Spain 10yr 1.8 (0.1) (0.1) (0.1)
 Emerging Markets
 Brazil 10yr 10.2 (0.1) (0.1) (0.1)

China 10yr 4.4 (0.1) (0.1) (0.1)
 Colombia 10yr 5.2 (0.1) (0.1) (0.1)
 Mexico 10yr 6.8 (0.1) (0.1) (0.1)

Peru 10yr 7.0 (0.1) (0.1) (0.1)
 Poland 10yr 3.0 (0.1) (0.1) (0.1)
 Russia 10yr 10.2 (0.1) (0.1) (0.1)

Turkey 10yr 11.7 (0.1) (0.1) (0.1)
 India 10yr 7.7 (0.1) (0.1) (0.1)
 Indonesia 10yr 7.8 (0.1) (0.1) (0.1)

Country risk (change in bp)

US sovereign spreads (against Germany)
 Belgium 32 (0.1) (0.1) (0.1)
 France 30 (0.1) (0.1) (0.1)

Germany 37 (0.1) (0.1) (0.1)
 Greece 107 (0.1) (0.1) (0.1)
 Italy 137 (0.1) (0.1) (0.1)

Netherlands 16 (0.1) (0.1) (0.1)
 Portugal 23 (0.1) (0.1) (0.1)
 Spain 104 (0.1) (0.1) (0.1)

US sovereign spreads (against Germany)
 Belgium 18 (0.1) (0.1) (0.1)
 France 17 (0.1) (0.1) (0.1)

Germany 18 (0.1) (0.1) (0.1)
 Italy 20 (0.1) (0.1) (0.1)
 Netherlands 2 (0.1) (0.1) (0.1)

Portugal 23 (0.1) (0.1) (0.1)
 Spain 97 (0.1) (0.1) (0.1)
 US sovereign spreads (against Germany)
 Belgium 7 (0.1) (0.1) (0.1)

France 7 (0.1) (0.1) (0.1)
 Germany 7 (0.1) (0.1) (0.1)
 Italy 8 (0.1) (0.1) (0.1)

Netherlands 4 (0.1) (0.1) (0.1)
 Portugal 17 (0.1) (0.1) (0.1)
 Spain 57 (0.1) (0.1) (0.1)

US sovereign spreads
 Eur CDS Belgium 50 (0.1) (0.1) (0.1)
 Eur CDS France 30 (0.1) (0.1) (0.1)

Eur CDS Germany 20 (0.1) (0.1) (0.1)
 Eur CDS Greece 124 (0.1) (0.1) (0.1)
 Eur CDS Ireland 80 (0.1) (0.1) (0.1)

Eur CDS Italy 140 (0.1) (0.1) (0.1)
 Eur CDS Netherlands 21 (0.1) (0.1) (0.1)
 Eur CDS Portugal 33 (0.1) (0.1) (0.1)

Eur CDS Spain 90 (0.1) (0.1) (0.1)
 Eur CDS UK 14 (0.1) (0.1) (0.1)
 Eur CDS US 15 (0.1) (0.1) (0.1)

US sovereign spreads
 Eur CDS Brazil 120 (0.1) (0.1) (0.1)
 Eur CDS China 130 (0.1) (0.1) (0.1)

Eur CDS India 170 (0.1) (0.1) (0.1)
 Eur CDS Indonesia 230 (0.1) (0.1) (0.1)
 CDS risk

US 2yr 4.7 (1.1) (1.0) (0.9)
 US 5yr 3.2 (0.8) (0.8) (0.8)
 US 10yr 1.9 (0.5) (0.5) (0.4)

Japan 10yr 0.1 (0.0) (0.0) (0.0)
 US 2yr -0.3 (1.1) (1.1) (1.1)
 US 5yr -0.8 (1.1) (1.1) (1.1)

Belgium 10yr 0.7 (0.1) (0.1) (0.1)
 France 10yr 0.6 (0.1) (0.1) (0.1)
 Greece 10yr 10.9 (0.1) (0.1) (0.1)

Italy 10yr 1.4 (0.1) (0.1) (0.1)
 Netherlands 10yr 0.4 (0.1) (0.1) (0.1)
 Portugal 10yr 0.5 (0.1) (0.1) (0.1)

Spain 10yr 1.8 (0.1) (0.1) (0.1)
 Emerging Markets
 Brazil 10yr 10.2 (0.1) (0.1) (0.1)

China 10yr 4.4 (0.1) (0.1) (0.1)
 Colombia 10yr 5.2 (0.1) (0.1) (0.1)
 Mexico 10yr 6.8 (0.1) (0.1) (0.1)

Peru 10yr 7.0 (0.1) (0.1) (0.1)
 Poland 10yr 3.0 (0.1) (0.1) (0.1)
 Russia 10yr 10.2 (0.1) (0.1) (0.1)

Turkey 10yr 11.7 (0.1) (0.1) (0.1)
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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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