

Market Comment | Failed negotiations to freeze oil output impact volatility, not prices

Global Financial Markets Unit
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- **Fed's Dudley: US interest rate normalisation has to be undertaken, but in a progressive way.** The New York Fed president underlined the improvement in US macroeconomic data, and particularly highlighted the "significant improvement" in the labour market as well as in the housing sector and in the health of the banking system. He also showed his confidence in reaching the 2% inflation target in the next few years. In his own words, "After years at the effective lower bound for short-term interest rates, economic conditions have finally warranted the start of U.S. monetary policy normalisation," "But these monetary policy adjustments are likely to be gradual and cautious, as we continue to face significant uncertainties and the headwinds to growth from the financial crisis have not fully abated."
- **Early abrupt falls in risk asset prices - on the back of a disappointing outcome of the oil producers' meeting - curved as the session went by.** The main oil producers' meeting last weekend in Doha ended without agreement to freeze oil production at January's levels. Saudi Arabia's opposition to signing an agreement without the participation of Iran was the main obstacle to freezing oil production in order to stabilise oil prices. The lack of agreement had a strong impact on oil prices, which fell sharply early this morning (Brent -6.4% to 41 \$/b and West Texas -7% to 37.55%) but losses were trimmed during the day. (Brent finished at 42.81 USD/pb, -0.7% against the previous day). The disruptive movement in oil prices had a strong impact on the performance of the main financial variables today, although the effect faded during the session. Highly oil-related assets such as certain currencies and equity sectors (such as energy) were punished across the board on the back of high volatility in oil prices. It is expected that volatility in oil prices will remain high ahead of the next OPEC meeting, which will take place on June 2, weighing on oil prices, which are still 60% above January's bottom levels (25 USD/pb). Doubts about oil prices could test the persistence of the recovery in emerging markets, which by now seems to be resilient to recent developments.
- **After a very negative opening - dragged down mostly by the energy sector - European equity markets were able to recover early losses.** At the end of the session, major indices registered increases (Eurostoxx: +0.5% IBEX: +0.4% DAX: +0.9% CAC: +0.4%). The US equity indices also started slightly negatively in view of the outcome of the Doha meeting but recovered and are currently registering mild gains - S&P: +0.4% DJ: +0.4%). The Nikkei (-3.2%) was the worst performer among developed market equity indices, suffering the biggest fall on the back of the economic consequences of the recent earthquake in Kumamoto - one of the main industrial areas in Japan, especially in the semiconductors industry - and weighed down by the strong JPY. The main changes in FX markets took place in commodity-linked currencies, which more than offset the early strong depreciation (Canadian dollar: 0%, Australian dollar +0.3% and Norwegian krone +0.46% appreciated against USD). For their part, Latin American currencies performed relatively better than other sensitive EM currencies (RUB: +0.3% CLP: +0.3% COP: -0.2% MXN: +0.5%). The worst performer was the BRL, which depreciated by around 2% against the USD on the back of the Rousseff impeachment process: after gaining the support of more than two thirds of Lower House members, the impeachment will now be debated by the Upper House. In

any case, political tensions are likely to remain well alive ([see](#)). Among developed market currencies, the USD depreciated against its main peers (EUR: +0.29% GBP: +0.47%). In bond markets, developed country yields remained almost unchanged (US 10Y: +3 bps GER 10Y: +3 bps) with a mild compression of peripheral risk premiums (ITA 10Y: -2 bps SPA 10Y: -4 bps POR 10Y: -7 bps).

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Table 1

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

Debt markets (changes in bp)

Government bonds

US 2yr 0.74 (0.41) (2) (30)
 US 5yr 1.22 (0.51) (4) (65)
 US 10yr 1.78 (0.51) (5) (12) (49)

Japan 10yr 0.11 (0.11) (2) (2) (36)

GER 2yr -0.51 (0.2) (1) (6)
 GER 5yr -0.36 (0.1) (8) (22)
 GER 10yr -0.18 (0.2) (1) (14) (7)

Belgium 10yr 0.55 (0.4) (7) (42)
 France 10yr 0.53 (0.4) (7) (42)
 Greece 10yr 0.88 (0.4) (7) (42)
 Russia 10yr 0.88 (0.4) (7) (42)
 Spain 10yr 0.55 (0.4) (7) (42)

Italy 10yr 0.55 (0.4) (7) (42)
 Netherlands 10yr 0.55 (0.4) (7) (42)
 Portugal 10yr 0.55 (0.4) (7) (42)
 Sweden 10yr 0.55 (0.4) (7) (42)

Switzerland 10yr 0.55 (0.4) (7) (42)
 UK 10yr 0.55 (0.4) (7) (42)

China 10yr 4.26 (0.4) (7) (42)
 India 10yr 6.51 (0.4) (7) (42)
 Korea 10yr 5.81 (0.4) (7) (42)
 Mexico 10yr 5.81 (0.4) (7) (42)
 New Zealand 10yr 5.81 (0.4) (7) (42)

Poland 10yr 2.87 (0.7) (1) (3)
 Russia 10yr 3.25 (0.7) (1) (3)
 Turkey 10yr 9.13 (1.7) (4) (2) (8) (1) (3) (6)

India 10yr 7.42 (0.4) (7) (42)
 Indonesia 10yr 7.44 (0.4) (7) (42)

US 10yr 0.55 (0.4) (7) (42)

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

Index markets (change in bp)

Emerging Markets

US 2yr	1.74 (0.04) (2.38)
US 5yr	1.23 (0.04) (4.68)
US 10yr	1.78 (0.01) (7.24) (4.9)
Japan 10yr	4.1 (0.01) (2.07) (1.38)
CD 2yr	4.1 (0.02) (2.16)
US 2yr	4.36 (2.1) (1.4)
CD 5yr	4.36 (2.1) (1.4)
CD 10yr	4.36 (2.1) (1.4)
Belgium 10yr	5.55 (0.01) (1.21) (4.2)
France 10yr	5.5 (0.01) (1.21) (4.2)
Germany 10yr	5.59 (0.01) (1.21) (4.2)
Spain 10yr	5.5 (0.01) (1.21) (4.2)
Italy 10yr	5.34 (0.01) (1.21) (4.2)
Netherlands 10yr	5.35 (0.01) (1.21) (4.2)
Portugal 10yr	5.3 (0.01) (1.21) (4.2)
Spain 10yr	5.45 (0.01) (1.21) (4.2)

Developed Markets

Brazil 10yr	13.78 (0.28) (4.88) (1.24) (4.73)
China 10yr	3.9 (0.01) (1.21) (4.2)
Colombia 10yr	9.0 (0.01) (1.21) (4.2)
Mexico 10yr	5.8 (0.01) (1.21) (4.2)
Peru 10yr	6.2 (0.01) (1.21) (4.2)
Poland 10yr	2.87 (0.01) (1.21) (4.2)
Russia 10yr	5.2 (0.01) (1.21) (4.2)
Taiwan 10yr	5.2 (0.01) (1.21) (4.2)
India 10yr	7.42 (0.01) (1.21) (4.2)
Indonesia 10yr	7.44 (0.01) (1.21) (4.2)

Country risk (change in bp)

10yr sovereign spreads (against Germany)

Belgium	18 (1.1) (0.8)
France	14 (1.1) (0.8)
Germany	0 (0.1) (0.1)
Italy	7 (1.2) (0.9)
Netherlands	12 (1.1) (0.8)
Portugal	23 (2.1) (1.2)
Spain	13 (1.1) (0.8)

5yr sovereign spreads (against Germany)

Belgium	12 (1.1) (0.8)
France	14 (1.1) (0.8)
Germany	0 (0.1) (0.1)
Italy	7 (1.2) (0.9)
Netherlands	2 (2) (2) (1.5)
Portugal	27 (4.1) (2.1) (1.2)
Spain	7 (4) (0.8) (0.2)

3yr sovereign spreads (against Germany)

Belgium	4 (0.1) (0.2)
France	4 (0.1) (0.2)
Germany	0 (0.1) (0.1)
Italy	4 (0.1) (0.2)
Netherlands	7 (0.1) (0.2)
Portugal	23 (4.1) (2.1) (1.2)
Spain	4 (0.1) (0.2)

Country risk (change in bp)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Commodity prices (change in bp)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Costs risk

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Bank risk (change in bp)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Commodity risk (change in bp)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Interbank markets (change in bp)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Stock markets (Change in percentage)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Major equities (change in percentage)

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Emerging Markets

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Developed Markets

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Commodity

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Banking

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
Italy	100 (1.0) (1.0)
Spain	100 (1.0) (1.0)
Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Commodity

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
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Italy	100 (1.0) (1.0)
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Japan	100 (1.0) (1.0)
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India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Emerging Markets

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
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India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Developed Markets

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
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Commodity

US	100 (1.0) (1.0)
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Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

Banking

US	100 (1.0) (1.0)
UK	100 (1.0) (1.0)
France	100 (1.0) (1.0)
Germany	100 (1.0) (1.0)
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Commodity

US	100 (1.0) (1.0)
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Emerging Markets

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Developed Markets

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Commodity

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Japan	100 (1.0) (1.0)
China	100 (1.0) (1.0)
India	100 (1.0) (1.0)
Indonesia	100 (1.0) (1.0)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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