

Market Comment | Cautious mood remains despite surge in oil prices

Global Financial Markets Unit
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- **The China Caixin composite PMI dropped in April**, to 50.8 points (from 51.3 points in March). Despite remaining above the 50-point threshold, the index almost erased last month's improvement. In addition to this deterioration there is the decline in Services PMI in April (to 51.8 points from 52.2), but continuing to show expansion, offsetting the negative impact of manufacturing confidence on the composite index.
- **Mixed labour data in the US**. In the US jobless claims rose by more than expected in the week ended 30 April (274K; consensus: 260K) while continuing claims in the week ended 23 April declined to 2.121K from 2.129K (consensus: 2.128K).
- **Cautious mood remains despite surge in oil prices**. Despite the rebound in oil prices, uncertainty remains in financial markets in view of the tone of certain Federal Reserve officials' statements and ahead of tomorrow's US employment data. The surge in oil prices (Brent: +2.5%, WTx: +2.9%) was not caused by an increase in market's optimism; rather it happened due to events that decreased -momentarily - the world's oil supply. The main drivers behind this rally have been the wildfire in Alberta, Canada, which has halted production in the region and led to the shutting off of some oil pipelines as a precaution. In addition, confrontation between regional and national government oil companies in Libya regarding competencies to manage oil exports blocked some tanks and limited oil supply abroad. Worse-than-expected confidence data in China also contributed to fuel the recent doubts in financial markets. Consequently, gold prices continue their upwards trend, while in risky assets (with the exception of those that are highly correlated with oil prices) the recent poor performance persisted (such as in some commodities or equity indices across the board). Against this backdrop, equity indices did not recover from falls earlier this week: the US indices are rising slightly at the time of writing (S&P:+0.1 % Dow:+0.4%), while European markets ended the session almost unchanged, once the gains of the first half of the session had been erased. Ibex was the only exception, rising on the back of Repsol (+4.7%) - helped by better-than-expected quarterly results. (Eurostoxx:-0.2% IBEX:+0.1% DAX:0% CAC:-0.4%).
On bond markets, US treasury yields remained almost unchanged ahead of fresh news from Fed officials. Meanwhile, European core yields declined slightly while peripheral yields continued their upward trend today, especially Portugal (GER 10Y:-4bps FRA 10Y:-3bps ITA 10Y:-1bps SPA 10Y:-2bps POR 10Y:+11bps). In FX markets, the US showed a mixed performance against other major currencies: those most linked to commodity prices appreciating, while against the rest the USD continued yesterday's upward trend (EUR:-0.7 % JPY:-0.3% AUD:+0.1% CAD:+0.1%). EM currencies appreciated against the US dollar (RUB:+1.7% BRL:+0.6% CLP:+0.6% COP:+0.1% MXN:+0.1%) boosted by the oil price rally. In addition, the Turkish lira appreciated (+1.3%), recovering part of yesterday's depreciation (-2.5%) after the resignation of its Prime Minister Ahmet Davutoglu from AKP. The party is going to choose a new leader on May 22. Equity indices reacted strongly to the announcement (-4%) although today they remained almost unchanged. CDS and bonds also tracked the increase in political uncertainty (5YCDS +17bps, 10Y yield +17bps).

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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 (0.4) (2) (3)
US 5yr	1.23 (0.6) (0) (2)
US 10yr	1.78 (0.5) (0) (4)

Japan

Japan 10yr	0.2 (0) (0) (0) (2) (3)
OECD 2yr	0.51 (0.1) (0) (2) (4)
OECD 5yr	0.36 (0.3) (0) (0) (2)
OECD 10yr	0.36 (0.1) (0) (0) (4)

Belgium

Belgium 10yr	0.56 (0.2) (0) (0) (1) (2)
France 10yr	0.54 (0.2) (0) (0) (1) (2)
Germany 10yr	0.11 (0.1) (0) (0) (1) (2)
Italy 10yr	0.8 (0.2) (0) (0) (1) (2)
Korea 10yr	1.44 (0.1) (0) (0) (2) (1)
Netherlands 10yr	0.4 (0.1) (0) (0) (1) (2)
Portugal 10yr	3.27 (1.1) (0) (0) (1) (2) (5)
Spain 10yr	1.08 (0.2) (0) (0) (1) (2)

Emerging Markets

Brazil 10yr	12.78 (1.0) (0) (0) (1) (2) (4) (5) (6)
China 10yr	3.1 (0.1) (0) (0) (1) (2)
Colombia 10yr	4.1 (0.1) (0) (0) (1) (2)
Vietnam 10yr	8.1 (0.2) (0) (0) (1) (2) (3)
India 10yr	6.58 (0.1) (0) (0) (1) (2)
Poland 10yr	1.12 (0.1) (0) (0) (1) (2)
Russia 5yr	9.06 (0.4) (0) (0) (1) (2) (4) (5)
Russia 10yr	8.65 (0.2) (0) (0) (1) (2) (4) (5)
Turkey 10yr	9.58 (0.7) (0) (0) (1) (2) (4) (5)

Asia Pacific

India 10yr	6.48 (0.1) (0) (0) (1) (2)
Indonesia 10yr	7.78 (0.2) (0) (0) (1) (2) (4) (5) (6)

Country risk (changes in bp)

Investment grade

Belgium	42 (1) (2) (0) (1)
France	37 (1) (2) (0) (1)
Germany	60 (4) (2) (0) (4) (0)
Italy	20 (0) (1) (1) (1)
Japan	102 (0) (1) (0) (0)
Netherlands	24 (1) (1) (0) (0)
Portugal	33 (0) (1) (0) (1) (2)
Spain	14 (0) (1) (0) (0)

Sub-investment grade

Belgium	17 (0) (1) (1) (1)
France	20 (0) (1) (0) (0)
Germany	10 (0) (0) (0) (0)
Italy	10 (0) (0) (0) (0)
Korea	71 (0) (0) (0) (0)
Netherlands	2 (0) (0) (0) (0) (1) (2)
Portugal	21 (0) (1) (0) (0) (1)
Spain	10 (0) (0) (0) (0)

Speculative grade

Belgium	8 (0) (0) (0) (0)
France	9 (0) (0) (0) (0)
Germany	0 (0) (0) (0) (0)
Italy	0 (0) (0) (0) (0)
Korea	41 (0) (0) (0) (0)
Netherlands	3 (0) (0) (0) (0) (1) (2) (4)
Portugal	14 (0) (0) (0) (0) (1)
Spain	0 (0) (0) (0) (0) (1) (2)

Highly speculative

Belgium	0 (0) (0) (0) (0)
France	0 (0) (0) (0) (0)
Germany	0 (0) (0) (0) (0)
Italy	0 (0) (0) (0) (0)
Korea	0 (0) (0) (0) (0)
Netherlands	0 (0) (0) (0) (0) (1) (2) (4)
Portugal	0 (0) (0) (0) (0) (1) (2)
Spain	0 (0) (0) (0) (0) (1) (2)

Commodity risk

Oil

WTI	15.9 (1.0) (0.4) (0.3) (0.2)
WTI 2yr	15.1 (0.4) (0.4) (0.4)
EUR EFT index	23 (0) (1) (0) (1)
Oil volatility	27.4 (0) (0) (0) (0)
Oil FX volatility	11 (0) (0) (0) (0)
Crude spread (Brent)	285 (0.4) (1) (0) (1) (2) (1)
US bonds volatility index	60 (0) (0) (0) (0)

Bank risk

US banks

US banks CDS	86 (1) (0) (1) (0) (1)
US banks CDS 1yr	115 (0) (0) (0) (0)
US banks CDS 3yr	128 (0) (0) (0) (0) (1)

Large Spanish banks

Large Spanish banks CDS	138 (0) (0) (0) (1)
Spanish banks CDS	155 (0) (0) (0) (0)

Other banks

Greek banks CDS	1478 (0.4) (1) (2) (0) (1) (4)
Russian banks CDS	37 (0) (0) (0) (0) (1)

Non-bank

US Non-bank CDS	24 (0) (0) (0) (0) (1) (2)
US Non-bank CDS 1yr	115 (0) (0) (0) (0)
US Non-bank CDS 3yr	128 (0) (0) (0) (0) (1)

Interest rate markets (changes in bp)

US

US 10yr spread 3m	40 (0) (0) (0) (0)
US 10yr spread 1m	37 (0) (0) (0) (0)
US 10yr spread 5m	38 (0) (0) (0) (0)
US 10yr spread 10m	34 (0) (0) (0) (0)
US 10yr spread 20m	34 (0) (0) (0) (0)
US 10yr spread 30m	34 (0) (0) (0) (0)
US 10yr spread 40m	34 (0) (0) (0) (0)
US 10yr spread 50m	34 (0) (0) (0) (0)
US 10yr spread 60m	34 (0) (0) (0) (0)
US 10yr spread 70m	34 (0) (0) (0) (0)
US 10yr spread 80m	34 (0) (0) (0) (0)
US 10yr spread 90m	34 (0) (0) (0) (0)

Other

EU bank CDS	86 (1) (0) (1) (0) (1)
EU bank CDS 1yr	115 (0) (0) (0) (0)
EU bank CDS 3yr	128 (0) (0) (0) (0) (1)

Stock markets (Change in percentage)

US

S&P 500	2013.0 (1.0) (1.1) (0.4) (0)
Dow Jones	1771.2 (0.4) (0.0) (0.0) (0)
Nasdaq	1814.7 (0.1) (0.1) (0.1) (0)
NYSE	105 (0) (0) (0) (0) (0)
FTSE 100	6105 (0.1) (0.1) (0.1) (0)
Euro Stoxx 50	2051.0 (0.2) (0.2) (0.1) (0)
MSCI EAFE	1415 (0.1) (0.1) (0.1) (0)
MSCI EM	1027.0 (0.1) (0.1) (0.1) (0)
MSCI ACWI	1119.0 (0.1) (0.1) (0.1) (0)

Asia

Japan	1871.0 (0.1) (0.1) (0.1) (0)
China	1415.0 (0.1) (0.1) (0.1) (0)
India	1027.0 (0.1) (0.1) (0.1) (0)
Indonesia	1119.0 (0.1) (0.1) (0.1) (0)

Europe

Germany	1415.0 (0.1) (0.1) (0.1) (0)
France	1027.0 (0.1) (0.1) (0.1) (0)
Italy	1119.0 (0.1) (0.1) (0.1) (0)
Spain	1871.0 (0.1) (0.1) (0.1) (0)

Latin America

Brazil	1027.0 (0.1) (0.1) (0.1) (0)
Colombia	1119.0 (0.1) (0.1) (0.1) (0)
Vietnam	1871.0 (0.1) (0.1) (0.1) (0)

Commodity

Oil	15.9 (1.0) (0.4) (0.3) (0.2)
WTI	15.1 (0.4) (0.4) (0.4) (0)
WTI 2yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 5yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 10yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 20yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 30yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 40yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 50yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 60yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 70yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 80yr	15.1 (0.4) (0.4) (0.4) (0)
WTI 90yr	15.1 (0.4) (0.4) (0.4) (0)

Commodities (in percentage, positive for dollar depreciation)

US

EURUSD	1.41 (0.7) (0.4) (0.2) (0)
GBPUSD	1.45 (0.7) (0.4) (0.2) (0)
USDJPY	107 (0.4) (0.2) (0.1) (0)
USDCHF	0.97 (0.4) (0.2) (0.1) (0)

Other

USDCHF	0.97 (0.4) (0.2) (0.1) (0)
USDJPY	107 (0.4) (0.2) (0.1) (0)
USDGBP	0.97 (0.4) (0.2) (0.1) (0)
USDINR	107 (0.4) (0.2) (0.1) (0)
USDKRW	107 (0.4) (0.2) (0.1) (0)
USDTHB	107 (0.4) (0.2) (0.1) (0)
USDIDR	107 (0.4) (0.2) (0.1) (0)
USDMYR	107 (0.4) (0.2) (0.1) (0)
USDSGD	107 (0.4) (0.2) (0.1) (0)
USDHKD	107 (0.4) (0.2) (0.1) (0)
USDNZD	107 (0.4) (0.2) (0.1) (0)
USDSEK	107 (0.4) (0.2) (0.1) (0)
USDNOK	107 (0.4) (0.2) (0.1) (0)
USDDKK	107 (0.4) (0.2) (0.1) (0)
USDPLN	107 (0.4) (0.2) (0.1) (0)
USDZAR	107 (0.4) (0.2) (0.1) (0)
USDTRY	107 (0.4) (0.2) (0.1) (0)
USDILS	107 (0.4) (0.2) (0.1) (0)
USDARS	107 (0.4) (0.2) (0.1) (0)
USDCLP	107 (0.4) (0.2) (0.1) (0)
USDPEN	107 (0.4) (0.2) (0.1) (0)
USDVND	107 (0.4) (0.2) (0.1) (0)
USDPHP	107 (0.4) (0.2) (0.1) (0)
USDTHB	107 (0.4) (0.2) (0.1) (0)
USDIDR	107 (0.4) (0.2) (0.1) (0)
USDMYR	107 (0.4) (0.2) (0.1) (0)
USDSGD	107 (0.4) (0.2) (0.1) (0)
USDHKD	107 (0.4) (0.2) (0.1) (0)
USDNZD	107 (0.4) (0.2) (0.1) (0)
USDSEK	107 (0.4) (0.2) (0.1) (0)
USDNOK	107 (0.4) (0.2) (0.1) (0)
USDDKK	107 (0.4) (0.2) (0.1) (0)
USDPLN	107 (0.4) (0.2) (0.1) (0)
USDZAR	107 (0.4) (0.2) (0.1) (0)
USDTRY	107 (0.4) (0.2) (0.1) (0)
USDILS	107 (0.4) (0.2) (0.1) (0)
USDARS	107 (0.4) (0.2) (0.1) (0)
USDCLP	107 (0.4) (0.2) (0.1) (0)
USDPEN	107 (0.4) (0.2) (0.1) (0)
USDVND	107 (0.4) (0.2) (0.1) (0)
USDPHP	107 (0.4) (0.2) (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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