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Market Comment | Financial markets were very anxious during the week

Global Financial Markets Unit
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- **Financial markets were very anxious during the week, with implied volatility escalating in developed equity, bond and currency markets, while top-rated bonds reached record lows.** The FOMC meeting and the UK's EU referendum were the main sources of concerns during the week. Despite the FOMC's keeping rates unchanged, in line with markets' expectations, Fed Chair Janet Yellen warned about the impact of the outcome of the UK referendum on EU membership, increasing market jitters about it (GBP/USD 1M implied volatility soared to 26%). Moreover, although the FOMC statement was not dovish - they revised downward slightly 2016-2017 GDP growth and inflation projections - US bond yields reached new lows after the FOMC statement as Ms Yellen signalled that persistent factors may be at work and are holding down the longer-run level of neutral rates.

- **In this context of uncertainties the 10Y bond yield in Germany, Japan and Switzerland went deeper into negative territory on Thursday** (Germany -0.02%, Japan -0.2%, Switzerland -0.52%), and even Swiss 30Y yields flirted with negative and zero levels. However, other factors might have accelerated the downward trend in the German 10Y yield (i) the deterioration in markets' euro zone inflation expectations (5Y5Y forward inflation swap declined sharply to 1.35% from 1.45% after May's weak US payroll figures) and ii) technical factors, such as the German sovereign yield curve standing below the ECB deposit rate (-0.4%) up to the 6Y tenor, so that the ECB purchases have to focus on the 7-31 tenors, pushing down yields of these tenors. Moreover, the 10Y US yield declined to 2012 levels (1.57%), while the market has eliminated any probability of a rate hike this year. Nonetheless, market sentiment improved at the end of the week, after the latest UK poll showed that voters supporting Leave were losing steam. At the end of the week, the 10Y yield increased in high-rated bonds, with the 10Y German yield returning to positive levels but close to zero. On the other hand, the risk-off mood that prevailed during the week weighed on peripheral risk premiums, which ended the week widening (+13 bps in Italy and Spain and +21 bps in Portugal), despite yields fell on Friday, underpinned by the improvement in market sentiment and ESM's authorisation of the first disbursement of the second tranche of €7.5 billion to Greece.

- **Despite the marked rebound on Friday, equity markets ended the week declining across the board**, especially in Europe, due to the uncertainty about Brexit and the context of negative or zero interest rates, while the yen's sharp appreciation weighed on Japanese stocks.

- **The FX market ended the week broadly flat, with the exception of the Japanese yen** which surged after attracting safe-haven flows (+2.52%). The British pound was very volatile during the week, but ended with a slight appreciation of 0.2%, while the euro was also flat in the week. Most EM currencies depreciated during the week, especially Latin American currencies with exposure to oil prices (Colombian -1.2%, Mexican peso -1.12%, Argentine peso (-0.73%), as oil prices declined (West Texas -2.9%, Brent -3.4%). Other cyclical commodities also decreased, while gold attracted fresh safe-haven flows (+1.3%).

Despite the rebound in all assets at the end of the week, this might be a lull ahead of the UK's EU referendum on 23 June. Judging by markets' risk measures, uncertainty remains high. Implied volatility is still high in developed markets (84% in the US bond Treasury, 91% in the 10Y Bund volatility, 38% in the Euro Stoxx50, 19% in the S&P500).

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Table 1

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

Debt markets *(changes in bp)*

Developed Markets

US 2-yr 0.68 (0) (-4) (-21) (-36)
US 5-yr 1.11 (2) (-5) (-27) (-65)
US 10-yr 1.61 (3) (-3) (-24) (-66)

Japan 10-yr -0.15 (4) (-1) (-6) (-42)

GER 2-yr -0.61 (0) (-6) (-10) (-26)
GER 5-yr -0.5 (0) (-7) (-14) (-45)
GER 10-yr 0.019 (4) (0) (-15) (-61)

Belgium 10-yr 0.46 (2) (3) (-10) (-51)
France 10-yr 0.43 (3) (4) (-8) (-56)
Greece 10-yr 8.16 (-19) (67) (72) (-13)
Ireland 10-yr 0.87 (-6) (13) (2)
Italy 10-yr 1.51 (-3) (13) (2) (-8)
Netherlands 10-yr 0.28 (3) (3) (-11) (-52)
Portugal 10-yr 3.31 (-11) (21) (22) (80)
Spain 10-yr 1.56 (-4) (13) (-4) (-22)

Emerging Markets

Brazil 10-yr 12.76 (-7) (10) (-10) (-376)
Chile 10-yr 4.53 (0) (-4) (1) (-12)
Colombia 10-yr 7.98 (4) (3) (-5) (-68)
Mexico 10-yr 6.08 (-2) (1) (0) (-18)
Peru 10-yr 6.14 (0) (6) (4) (-117)

Poland 10-yr 3.15 (-14) (4) (13) (21)
Russia 5-yr 8.88 (-10) (5) (-16) (-100)
Russia 10-yr 8.66 (-9) (0) (-27) (-90)
Turkey 10-yr 9.5 (-4) (5) (-54) (-97)

India 10-yr 7.5 (0) (1) (3) (-26)
Indonesia 10-yr 7.63 (2) (-2) (-7) (-112)

Country risk *(changes in bp)*

Developed Markets

10-yr sovereign spreads *(against Germany)*

Belgium 44 (-2) (3) (5) (10)
France 41 (-2) (4) (7) (5)
Greece 814 (-23) (67) (87) (48)
Ireland 85 (-11) (13) (17) (33)
Italy 149 (-7) (13) (17) (53)
Netherlands 26 (-1) (3.3) (4) (9)
Portugal 329 (-15) (21.1) (37) (141)
Spain 154 (-8) (13) (11) (40)

5-yr sovereign spreads *(against Germany)*

Belgium 25 (-2) (17) (20) (18)
France 30 (-2) (7) (10) (17)
Greece 1652 (0) (7) (14) (45)
Ireland 50 (-6) (14) (15) (25)
Italy 99 (-4) (14) (25) (44)
Netherlands 26 (0) (7.9) (27) (25)
Portugal 266 (-10) (33) (43) (155)
Spain 103 (-6) (13) (12) (32)

2-yr sovereign spreads *(against Germany)*

Belgium 11 (0) (6) (7) (7)
France 15 (-1) (3.8) (6) (12)
Ireland 25 (0) (8) (10) (11)
Italy 66 (-4) (16) (20) (34)
Netherlands 10 (0) (3) (8) (12)
Portugal 147 (2) (37) (35) (102)
Spain 62 (-4) (14) (19) (27)

5-yr sovereign CDS

5-yr CDS Belgium 52 (1) (2) (-1) (20)
5-yr CDS France 40 (1) (2) (-1) (15)
5-yr CDS Germany 21 (2) (1) (0) (8)
5-yr CDS Greece 996 (33) (94) (-117) (-63)
5-yr CDS Ireland 75 (4) (6) (-1) (35)
5-yr CDS Italy 149 (3) (11) (7) (54)
5-yr CDS Netherlands 28 (0) (2) (-1) (14)
5-yr CDS Portugal 325 (22) (26) (17) (158)
5-yr CDS Spain 108 (2) (7) (5) (20)
5-yr CDS UK 44 (4) (7) (-3) (25)
5-yr CDS US 22 (0) (1) (-1) (3)

Emerging Markets

5-yr sovereign CDS

5-yr CDS Argentina 458 (0) (13) (-10838) (-10838)
5-yr CDS Brazil 342 (-4) (16) (17) (-150)
5-yr CDS Chile 112 (1) (12) (11) (-14)
5-yr CDS Colombia 235 (3) (25) (10) (-4)
5-yr CDS Mexico 175 (-3) (14) (6) (5)
5-yr CDS Peru 156 (-2) (13) (-2) (-30)
5-yr CDS Venezuela 5348 (129) (491) (203) (-695)

5-yr CDS Poland93 (-4) (9) (8) (21)
5-yr CDS Russia 268 (9) (28) (22) (-34)
5-yr CDS Turkey 268 (8) (24) (3) (-5)

5-yr CDS China 130 (1) (6) (3) (21)
5-yr CDS India 178 (7) (11) (16) (30)
5-yr CDS Indonesia 196 (-1) (8) (11) (-31)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*

VIX 19.57 (1) (14.9) (22.7) (1)
VSTOXX 38.03 (-4.7) (25.8) (63.2) (16)
EM EFT volatility Index 27 (0) (13) (8) (19)
Dollar/euro volatility 11.8 (-3.9) (-2.1) (30.2) (22)
EM FX volatility index 11 (-1) (2) (-1) (-5)
Credit spread (BAA) 285.9 (-3.2) (-0.1) (0.5) (-37)
US bonds volatility index 84 (0) (11) (20) (23)

Bank risk *(changes in bp)*

US banks CDS 99 (4) (19) (14) (24)
EMU banks CDS 136 (4) (19) (21) (53)
UK banks CDS 132 (2) (16) (9) (54)

Large Spanish banks CDS 169 (3) (27) (25) (32)
Medium Spanish banks CDS 195 (-3) (8) (6) (37)

Greek banks CDS 1351 (44) (172) (13) (-301)
Russian banks CDS 367 (-1) (22) (12) (-14)

Corporate risk *(changes in bps)*

EMU Non-financial CDS 455 (-72) (166) (170) (283)
UK Non-financial CDS 174 (2) (6) (-1) (-18)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 9 (0) (0) (0) (-2)
UEM OIS spread 12m 39 (0) (2) (2) (5)
UEM TED spread 3m 37 (0) (1.3) (4) (-4)

US OIS spread 3m 26 (0) (0) (7) (4)
US OIS spread 12m 78 (0) (0) (11) (22)
US TED spread 3m 39 (-1) (-2) (5) (-6)

Spain Ted Spread 3m -16 (1) (-16.5) (-30) (-20)

EONIA Index -0.34 (-1) (-1.2) (0) (-21)
Euribor 3m -0.27 (0) (-0.2) (-1) (-13)
Euribor 12m -0.03 (0) (-1) (-2) (-9)

Libor 3m 0.65 (0) (-1) (1) (3)
Libor 12m 1.24 (0) (-4) (-3) (6)

Stock markets *(Changes in percentage)*

Developed Markets

Main equity indices

S&P500 2068.9 (-0.4) (-1.3) (1) (1)
DowJones 17650.1 (-0.5) (-1.2) (0.7) (1)
Nikkei 15599.7 (1.1) (-6) (-6.3) (-18)
FTSE 100 6021.1 (1.2) (-1.5) (-2.3) (-4)
EuroStoxx 50 2849.2 (1.1) (-2.1) (-3.6) (-13)
IBEX8362 (2) (-1.5) (-4.7) (-12)
DAX 9631.4 (0.8) (-2.1) (-3.1) (-10)
CAC4193.8 (1) (-2.6) (-2.9) (-10)
MIB 16923.3 (3.5) (-1.1) (-4.5) (-21)
ASE Athens 586.6 (5.4) (-5.2) (-6.6) (-7)

Bank stocks

JPM 62 (-0.4) (-2.9) (-3.2) (-6)
Citi 42.4 (0.7) (-3.4) (-7.5) (-18)
BoA 13.4 (0.4) (-3.4) (-9.1) (-21)
MS 25.2 (0.6) (-1.3) (-7.5) (-21)
GS 145.8 (-0.6) (-2.7) (-8.9) (-19)

HSBC 431.2 (1.1) (-0.6) (-1) (-20)
RBS 222.1 (3.7) (3.8) (-0.7) (-26)
Barclays 165.8 (4.6) (-2.2) (-2.7) (-24)
Lloyds 65.1 (6) (-3) (-6.4) (-11)

EMU banks 76.2 (5) (-1.6) (-6.5) (-30)
BNP 43.5 (3.8) (-1.9) (-3.4) (-17)
Crédit Agricole 8 (4.8) (-1.8) (-8.3) (-26)
Deutsche Bank 13.7 (5.2) (-2.6) (-7.3) (-39)
ING 10 (3) (-2.9) (-3.4) (-20)
Intesa 2 (4.6) (-3.1) (-9) (-34)
SG 32.9 (6.6) (0.6) (-3.4) (-23)
Unicredito 2.4 (9.4) (1.3) (-14.9) (-53)

Large Spanish banks 61.6 (4.2) (-0.1) (-6) (-18)
Santander 3.8 (4) (-1.4) (-7.8) (-16)
BBVA 5.4 (4.3) (1) (-4.5) (-20)

Medium Spanish banks 60.7 (3.3) (-2.9) (-11.5) (-26)
Caixabank 2.2 (5.1) (-1.9) (-10.3) (-33)
Popular 1.4 (1.5) (-3.7) (-26.8) (-49)
Sabadell 1.4 (3.5) (-3.3) (-10.9) (-14)
Bankinter 6.1 (3.2) (-1.5) (-5.5) (-6)
Bankia 0.7 (3) (-4.9) (-10.1) (-35)

Greek banks 3.5 (16.1) (-7.2) (-19.9) (-22)
Alpha Bank2 (16.5) (-8.3) (-17.5) (-20)
Pireus Bank0.2 (20.3) (-9.6) (-28.4) (-26)
National Central Bank0.2 (16.7) (-5.2) (-21) (-31)
Eurobank Ergasias0.8 (14.9) (-5.4) (-23.4) (-23)

Emerging Markets

Main equity indices

MSCI Latam 64897 (0.76) (-2.1) (-2.1) (9.4)
Ibovespa (Brazil) 49573 (0.3) (0.3) (-2) (14.4)
Mexbol 45174 (-0.1) (0) (-0.8) (5.1)

MSCI EM Europe 4264 (-1.87) (-5.3) (-5.4) (0.4)
Poland 1754 (1.2) (-1.5) (-4.7) (-5.6)
Micex (Russia) 1877 (0.4) (-1.4) (-2.1) (6.6)
Ise 100 (Turkey) 75431 (1) (-1.9) (-2.3) (5.2)

MSCI EM Asia 646 (-1.1) (-3.3) (1) (-2.2)
Shanghai Composite (China) 2885 (0.43) (-1.4) (2.8) (-18.5)
Jakarta Composite (Indonesia) 4835 (0.4) (-0.3) (2.1) (5)

Bank stocks

Turkish banks 79 (1.8) (0) (1.3) (6.7)
Akbank T.A.S. 8 (3.1) (1) (2.9) (18.4)
Garanti 7 (0.9) (-0.5) (0.5) (5.2)
Turkiye Is Bankasi 4 (1.2) (-0.7) (0) (-4.8)

Russian banks 169 (0.8) (-4.1) (3.1) (11.2)
Sberbank 129 (1.3) (-3.6) (4.5) (27.1)
VTB Bank 0.1 (-0.3) (-5.2) (0) (-13.4)

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

Developed Markets

EURUSD 1.127 (0.39) (0.16) (0.5) (3.7)
GBPUSD 1.43 (0.8) (0.42) (-1.9) (-2.8)
USDJPY 104.21 (0.05) (2.58) (5.4) (13.3)
DXY 94.21 (0.4) (0.4) (0.9) (4.5)

Emerging Markets

USDARS (Argentina) 13.91 (0) (-0.7) (1.6) (-7.5)
USDBRL (Brazil) 3.43 (1.1) (-0.2) (3.9) (13.5)
USDCLP (Chile) 684.2 (0.7) (-0.1) (0.9) (3.4)
USDCOP (Colombia) 3018.5 (-0.1) (-1.6) (0.3) (4.9)
USDMXN (Mexico) 18.85 (0.5) (-1.2) (-2.2) (-9.5)
USDPEN (Peru) 3.32 (0.5) (0.4) (0.3) (2.9)
LACI 63.85 (0.7) (-0.6) (0.8) (2)

USDPLN (Poland) 3.92 (0.6) (-0.7) (0.1) (0.1)
USDRUB (Russia) 64.86 (1.3) (1) (2) (10.6)
USDTRY (Turkey) 2.93 (0.1) (0) (2) (-0.4)

USDCNY (China) 6.59 (0.1) (-0.4) (-0.7) (-1.4)
USDINR (India) 67.09 (0.3) (-0.5) (-0.1) (-1.4)
USDIDR (Indonesia) 13339 (0.3) (-0.3) (0.3) (3.3)
ADXY 106.79 (0) (0) (0.3) (0.2)

Commodities *(change in percentage)*

Brent 48.81 (3.4) (-3.4) (-0.2) (30.9)
WTx 47.63 (3.1) (-2.9) (-1.2) (28.6)
Copper 205.6 (0.3) (1.2) (-1.2) (-3.3)
Gold 1290.13 (0.9) (1.3) (2.5) (21.5)
Baltic Dry Index 598 (0) (-2) (-6.9) (25.1)
S&P GSCI Spot commodity index 367.807 (-2.2) (-5.1) (-0.8) (19)
S&P GSCI Brent Spot 406.469 (-3.6) (-8.6) (-4) (29.5)
S&P GSCI Metals Spot 258.94 (-1.7) (0.3) (0.7) (1.6)
S&P GSCI Agricultural Spot 327.662 (-0.8) (-2) (6.2) (15.5)

Source: Bloomberg, Datastream and Haver

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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