

Market Comment | Risk off mood persists due to concerns over Brexit

Global Financial Markets Unit
27 Jun 2016

- **Risk off mood remains in markets as investors still mulling over the impact of the Brexit.** The hangover of UK's referendum hit the financial markets again driven by European indices and especially by UK assets (GBP hit 30-year low against USD and Gilt 10Y yields broke the 1% threshold). Moreover S&P cut the U.K.'s credit grade by two notches (rating to AA from AAA) and left the negative outlook, citing the risk of a less predictable, stable, and effective policy framework in the U.K. On the other hand Moody's changed the outlook of UK sovereign rating to Negative from Stable while affirming the Aa1 rating.
- Although **risk assets** opened the European session almost unchanged, they finally **ended the session registering again a sharp sell-off**, with investors jumping into bonds, especially safe-haven bonds and gold. The core yields fell sharply again with the German yields deepening into the negative territory -up to the 15Y tenor. (Germany 10Y -7bp, US 10Y -10bp). Nonetheless, peripheral bond prices also increased today, after Spain's general elections dispelled risks of disruptive scenarios (ITA: -5 bps SPA:-18bps). The pressure on the banking sector increased once again due to extra low interest rates and the increasing uncertainty regarding the global growth outlook. This uncertainty weighed on market expectations regarding future inflation in both the Eurozone (5Y5Y inflation swap from 1.25%) and the US (5Y5Y inflation swap from 1.85%).
- **Moreover, the Eurozone Banks' credit default swap widened strongly**, reaching levels close to February 2016 (iTraxx senior +10.8bp to 137 bp, and Itraxx subordinated +30bp to 276.44). Equity markets suffered a sell-off across the board (FTSE 100 -2.8%, Eurostoxx -2.5%, DAX -3%) led by cyclical sectors such as the material (7.2%), travel and leisure, especially airlines, (8.7%) and the banking and the insurance sector. In the banking sector, some English and Italian companies were among the worst performers. Moreover, according to the press, the Italian government is considering injecting around €40bn into the banking system, but it is unclear whether it will happen via own capital or guarantees. On the other hand, the Spanish banking sector outperformed their European peers.
- **In currency markets, the trend continued unchanged:** USD appreciated against its main peers with the only exception of JPY, also considered as a safe-haven asset (GBP:-3.7% EUR:-0.85% JPY +0.49%). The GBP sell-off accumulated a fall of around 11% due to Brexit vote against USD and standing at multi year low levels. The Negative trend in commodity prices continued today driven by the current downward trend in oil prices that stand clearly below the 50 USD level (Brent at 47.1 USD after 2.6% drop). Consequently, and in a risk aversion context, the EM currencies depreciated against the USD (COL -1.9%, CLP -0.3%, BRL -0.9%, MXN:-1.3% TRY:-0.3%

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Table 1

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

Debt markets (changes in bp)

US 2yr 0.54 (0.17) (29) (47)
 US 5yr 1.09 (0.28) (26) (77)
 US 10yr 1.46 (0.20) (37) (87)

Japan 10yr 2.19 (0.21) (31) (46)
 OER 3yr 2.05 (1.16) (17) (51)
 OER 5yr 2.35 (1.21) (17) (54)
 OER 10yr 4.18 (1.17) (17) (38) (53)

Belgium 10yr 0.33 (0.48) (12) (149) (54)
 France 10yr 0.29 (0.15) (13) (99) (52)
 Germany 5yr 0.11 (0.01) (0) (1) (52)
 Russia 5yr 0.18 (0.14) (4)
 Italy 10yr 1.51 (0.15) (13) (8)
 Netherlands 10yr 0.71 (0.12) (10) (64)
 Portugal 10yr 3.14 (0.84) (2) (79)
 Spain 10yr 1.61 (0.15) (13) (126)

Emerging Markets
 Brazil 10yr 13.14 (1.43) (38) (127) (42)
 China 10yr 4.24 (0.21) (2) (2)
 Colombia 10yr 6.61 (0.81) (6)
 Mexico 10yr 5.86 (1.45) (14) (28)
 Peru 10yr 6.05 (0.91) (12) (53)

Poland 10yr 3.06 (1.21) (11) (11)
 Russia 5yr 0.89 (1.31) (11) (42) (179)
 Russia 10yr 0.52 (0.41) (6) (1) (58)
 Turkey 10yr 9.21 (1.91) (11) (28) (178)

India 10yr 7.46 (1.42) (14) (1) (58)
 Indonesia 10yr 7.07 (1.11) (5) (122) (107)

Country risk (changes in bp)

EUR sovereign spreads (against Germany)
 Belgium 49 (2) (0) (1)
 France 41 (2) (0) (1)
 Greece 402 (13) (103) (177) (117)
 Ireland 121 (0) (22) (0)
 Italy 102 (24) (66) (89)
 Netherlands 21 (3) (1) (0) (0)
 Portugal 242 (11) (11) (54) (153)
 Spain 107 (11) (14) (11) (11)

EUR sovereign spreads (against Germany)
 Belgium 24 (1) (0) (1) (16)
 France 24 (0) (0) (1)
 Greece 102 (0) (0) (17) (0)
 Ireland 10 (0) (0) (2) (0)
 Italy 101 (21) (124) (48)
 Netherlands 20 (1) (1) (2) (2) (2)
 Portugal 107 (10) (16) (54) (94)
 Spain 97 (15) (0) (1) (2)

3yr sovereign spreads (against Germany)
 Belgium 11 (0) (0) (1) (7)
 France 11 (0) (0) (1) (7)
 Greece 11 (0) (0) (1) (7)
 Ireland 11 (0) (0) (1) (7)
 Italy 10 (0) (0) (1) (7)
 Netherlands 7 (1) (0) (1) (7)
 Portugal 104 (0) (20) (52) (99)
 Spain 97 (15) (0) (1) (2)

EUR sovereign CDS
 EUR CDS France 60 (8) (13) (11) (24)
 EUR CDS Germany 20 (6) (0) (1) (5)
 EUR CDS Greece 100 (10) (10) (14) (27)
 EUR CDS Ireland 96 (20) (14) (6) (8)
 EUR CDS Italy 178 (61) (14) (52) (83)
 EUR CDS Netherlands 37 (10) (2) (2) (2)
 EUR CDS Portugal 204 (48) (127) (11) (108)
 EUR CDS Spain 136 (34) (6) (15) (14)
 EUR CDS UK 41 (14) (4) (6) (29)
 EUR CDS US 23 (8) (1) (1) (5)

EUR sovereign CDS
 EUR CDS Argentina 425 (14) (14) (17) (108)
 EUR CDS Brazil 127 (20) (0) (1) (14)
 EUR CDS China 110 (0) (2) (0) (4)
 EUR CDS Colombia 10 (0) (1) (1) (1)
 EUR CDS Mexico 10 (0) (1) (1) (1)
 EUR CDS Peru 109 (2) (0) (1) (2)
 EUR CDS Russia 220 (17) (17) (148) (117)
 EUR CDS Taiwan 166 (15) (0) (3) (3)
 EUR CDS Turkey 254 (22) (4) (1) (4)
 EUR CDS Ukraine 204 (63) (17) (1) (8)

EUR CDS China 120 (7) (0) (7) (7)
 EUR CDS India 177 (1) (1) (26)
 EUR CDS Indonesia 180 (17) (4) (17) (126)

Comd risk

US 24 (2) (4) (1) (1) (7) (8)
 VIX2000 4.1 (0.2) (4) (1) (3)
 EIT volatility index 31 (0) (1) (4) (0)
 Volatility index 15.8 (0.15) (18) (1) (20)
 EIT FX volatility index 11 (1) (1) (1) (1)
 Credit spread (basis) 308.2 (2) (0.4) (1) (2) (8) (14)
 US bond volatility index 79 (0) (1) (1) (1) (5)

US bank CDS 91 (9) (1) (1) (2)
 EUR bank CDS 106 (20) (4) (1) (4)
 UK bank CDS 129 (24) (1) (2) (2) (2)

Large Spanish bank CDS 120 (16) (0) (1) (4)
 Italian bank CDS 211 (29) (1) (1) (1)
 Greek bank CDS 1472 (105) (105) (200) (100)
 Russian bank CDS 100 (11) (1) (1) (1) (1)

Commodity risk (changes in bp)

EUR Non-Eurozone CDS 328 (5) (1) (1) (1) (1)
 UK Non-Eurozone CDS 118 (15) (1) (1) (1) (1)

Interbank markets (changes in bp)

EUR O/S spread 3m 1 (1) (1) (1) (1)
 EUR O/S spread 6m 2 (1) (1) (1) (1)
 EUR O/S spread 12m 3 (1) (1) (1) (1)
 EUR O/S spread 24m 4 (1) (1) (1) (1)
 US O/S spread 3m 2 (1) (1) (1) (1)
 US O/S spread 6m 3 (1) (1) (1) (1)
 US O/S spread 12m 4 (1) (1) (1) (1)
 US O/S spread 24m 5 (1) (1) (1) (1)

Spain Fed Spread 3m -14 (4) (1) (1) (2) (1) (8)
 EONIA index 0.22 (0) (1) (1) (1) (2)
 London 3m 4.20 (0) (1) (1) (1) (1)
 Euribor 12m 4.05 (0) (1) (1) (1) (1)
 Libor 3m 4.02 (0) (1) (1) (1) (1)
 Libor 12m 3.70 (0) (1) (1) (1) (1)

Stock markets (Changes in percentage)

Mean equity returns
 Jap 1990 10.8 (4) (1) (1) (1)
 Dow Jones 1995 4.14 (1) (1) (1) (1)
 Nikkei 1990 10.8 (4) (1) (1) (1)
 FTSE 100 1982 2.12 (1) (1) (1) (1)
 Eurostoxx 19 2887.4 (2) (0) (1) (1) (1)
 BEI/OMX 6 (1) (1) (1) (1) (1)
 Dow Jones 7 (1) (1) (1) (1) (1)
 CalPERS 6 (1) (1) (1) (1) (1)
 S&P 500 1995 10.8 (4) (1) (1) (1)
 AEX 1995 10.8 (4) (1) (1) (1)

Mean stocks
 JPM 57 (1) (1) (1) (1) (1)
 Cit 38 (1) (1) (1) (1) (1)
 Bank 12 (1) (1) (1) (1) (1)
 W 21 (1) (1) (1) (1) (1)
 GS 140 (1) (1) (1) (1) (1)

HSBC 48 (2) (1) (1) (1) (1)
 HSBC 194 (1) (1) (1) (1) (1)
 Barclays 137 (2) (1) (1) (1) (1)
 Lloyds 11 (2) (1) (1) (1) (1)

EUR bank 63 (1) (1) (1) (1) (1)
 BNP 30 (1) (1) (1) (1) (1)
 Citigroup 7 (1) (1) (1) (1) (1)
 Deutsche 1 (1) (1) (1) (1) (1)
 ING 8 (1) (1) (1) (1) (1)
 Intesa 1 (1) (1) (1) (1) (1)
 SG 24 (1) (1) (1) (1) (1)
 Unicredit 1 (1) (1) (1) (1) (1)

Large Spanish banks 53 (2) (1) (1) (1) (1)
 Bankia 3 (1) (1) (1) (1) (1)
 BBVA 4 (1) (1) (1) (1) (1)
 Madrid Spanish banks 35 (1) (1) (1) (1) (1)
 Catalunya 1 (1) (1) (1) (1) (1)
 Pinar 1 (1) (1) (1) (1) (1)
 Banco 1 (1) (1) (1) (1) (1)
 Bankia 1 (1) (1) (1) (1) (1)

Greek banks 2 (1) (1) (1) (1) (1)
 Alpha Bank 1 (1) (1) (1) (1) (1)
 Piraeus Bank 1 (1) (1) (1) (1) (1)
 Agorion Group Bank 1 (1) (1) (1) (1) (1)
 Eurobank Ergasias 1 (1) (1) (1) (1) (1)

Emerging Markets

Mean equity returns
 BR Latin 10.8 (4) (1) (1) (1)
 Mexican Stock 4078 (1) (1) (1) (1) (1)
 Mexican 10.8 (4) (1) (1) (1) (1)

US O/S Europe 428 (4) (1) (1) (1) (1)
 Poland 172 (1) (1) (1) (1) (1)
 Woori Finance 1142 (1) (1) (1) (1) (1)
 ICI 100 (Taiwan) 79 (1) (1) (1) (1) (1)

US O/S India 10.8 (4) (1) (1) (1)
 Shanghai Composite 2096 (1) (1) (1) (1) (1)
 Jauch Composite 4030 (1) (1) (1) (1) (1)

Commodity

Turkish banks 10 (1) (1) (1) (1) (1)
 A.S. 1 (1) (1) (1) (1) (1)
 Genim 1 (1) (1) (1) (1) (1)
 Turkey 1 (1) (1) (1) (1) (1)

Russian banks 10 (1) (1) (1) (1) (1)
 Gazprom 1 (1) (1) (1) (1) (1)
 VTB Bank 1 (1) (1) (1) (1) (1)

Commodity risk (percentage possible for dollar depreciation)

EURUSD 1.02 (0.85) (1.28) (1) (1) (1)
 GBPUSD 1.32 (1.71) (1.91) (0.1) (1) (1)
 USDJPY 140.72 (0.48) (1.10) (7) (1) (1)
 DXY 98.41 (1) (1) (1) (1) (1)

US O/S Europe

US O/S Europe 428 (4) (1) (1) (1) (1)
 US O/S Poland 172 (1) (1) (1) (1) (1)
 US O/S Woori Finance 1142 (1) (1) (1) (1) (1)
 US O/S ICI 100 (Taiwan) 79 (1) (1) (1) (1) (1)

US O/S India

US O/S India 10.8 (4) (1) (1) (1)
 Shanghai Composite 2096 (1) (1) (1) (1) (1)
 Jauch Composite 4030 (1) (1) (1) (1) (1)

Commodity Risk (change in percentage)

WTI 41 (1) (1) (1) (1) (1)
 Crude 41 (1) (1) (1) (1) (1)
 Gold 102 (0) (1) (1) (1) (1)
 Brent 102 (0) (1) (1) (1) (1)
 S&P 500 10.8 (4) (1) (1) (1)
 S&P 500 10.8 (4) (1) (1) (1) (1)
 S&P 500 10.8 (4) (1) (1) (1) (1)
 S&P 500 10.8 (4) (1) (1) (1) (1)

Source: Bloomberg, Datastream and IHS

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

Index markets (change in %)

US 2yr 6.58 (4.27) (2.9) (4.7)
 US 5yr 5.89 (4.26) (2.6) (4.7)
 US 10yr 5.46 (3.22) (2.0) (4.1)
 Japan 10yr 0.19 (0.02) (0.01) (0.46)

OECD 2yr -0.05 (1.46) (1.74) (3.1)
 OE 2yr -0.55 (2.42) (1.7) (4.0)
 OECD 5yr -0.16 (1.71) (2.01) (2.5)

Belgium 10yr 0.33 (0.12) (0.19) (0.44)
 France 10yr 0.59 (0.11) (0.19) (0.39)
 Greece 10yr 0.71 (0.01) (0.51) (0.42)
 Iceland 10yr 0.71 (0.01) (0.51) (0.42)

Italy 10yr 1.51 (0.81) (1.14) (1.6)
 Netherlands 10yr 1.57 (0.72) (0.23) (0.64)
 Portugal 10yr 3.1 (1.4) (2.0) (2.7)
 Spain 10yr 1.45 (0.16) (0.14) (0.32)

Emerging Markets
 Brazil 10yr 12.24 (1.14) (1.38) (0.7) (4.2)
 Chile 10yr 4.54 (0.19) (0.21) (0.2)
 Colombia 10yr 0.09 (0.09) (0.04) (0.4)
 Mexico 10yr 5.88 (4.51) (4.72) (4.28)
 Peru 10yr 0.08 (0.04) (0.21) (0.23)

Poland 10yr 3.06 (1.2) (1.1) (1.1)
 Russia 5yr 0.05 (0.01) (0.11) (0.2)
 Russia 10yr 0.02 (0.01) (0.01) (0.04)
 Turkey 10yr 3.1 (0.01) (0.01) (0.16)

India 10yr 7.46 (2.1) (4.1) (1.3)
 Indonesia 10yr 7.07 (1.1) (0.5) (0.2) (0.17)

Country risk (change in %)

10yr sovereign spreads (against Germany)

Belgium 41 (2) (7) (1)
 France 42 (2) (7) (1)
 Greece 82 (1) (0.2) (0.7) (1.7)
 Italy 81 (2) (0.2) (0.3)

Italy 10 (2) (24) (41) (64)
 Netherlands 27 (0) (16) (6) (0)
 Portugal 34 (1) (31) (1) (34) (153)
 Spain 101 (1) (14) (1) (14)

5yr sovereign spreads (against Germany)

Belgium 24 (1) (2) (0) (1)
 France 25 (1) (2) (0) (1)
 Greece 58 (1) (0) (1) (1)
 Ireland 21 (0) (2) (0)

Italy 101 (2) (1) (4) (4)
 Netherlands 29 (1) (1) (2) (2) (2)
 Portugal 28 (1) (0) (0) (0) (0)
 Spain 97 (1) (0) (1) (0)

3yr sovereign spreads (against Germany)

Belgium 11 (0) (1) (1) (1)
 France 12 (0) (1) (1) (1)
 Ireland 4 (0) (2) (2) (2)
 Italy 85 (2) (1) (0) (2) (2)
 Netherlands 7 (1) (0) (1) (0)
 Portugal 14 (2) (2) (2) (2) (0)

Spain 63 (4) (0) (1) (2) (2)
 Eurozone 100 (1) (1) (1) (1)
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Emerging Markets

5yr sovereign CDS

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Country risk

US 10yr sovereign CDS

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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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