

Market Comment | Volatility continued to ease despite ongoing uncertainties

Global Financial Markets Unit
04 Jul 2016

- **Volatility continued to moderate during the first trading session this week despite increased uncertainty regarding the Italian banking sector.** Market risk metrics continued on last week's downward trend in a session marked by the celebration of Independence Day in the US (both equity and bond markets remained closed today). In the rest of the world, prices of the main risk assets continued to recover from the turmoil caused by the result of the Brexit referendum. However there were some exceptions, such as the GBP, which together with the UK sovereign curve is suffering the impact of the BoE hints at further easing in the short term (the odds increased as the economic indicators, such as today's construction confidence data, started to lose steam). In this context the GBP depreciated again against the USD, to US\$1.33 while UK 10Y yield broke its historical lowest level (0.83%). The political uncertainty - UKIP's leader resigned today - may also have weighed on the performance of UK assets.
- **Against this backdrop, European equity indices remained steady despite the negative effect of the Italian banking sector's instability** (UniCredit -4%, Intensa -3%). The speculation regarding the possibility of a bail-out of the Italian banking system (defended by Italian PM Matteo Renzi) diminished as Merkel declared that she is not in favour of easing her opposition to breaking EU banking rescue rules, in line with previous statements by ECB officials. The pressure across the sector increased after the ECB urged has urged the Monte dei Paschi de Siena (MPS) to reduce its holdings of non performing loans to guarantee the stability, according to the MPS. On another front, Asian indices increased, reflecting the expectation of an additional round of central bank stimulus measures.
- **The fixed-income markets in Europe were quite steady** in both core (GER 10Y: -1 bp) and peripheral curves (ITA 10Y: 2 bps, SPA 10Y 0 bp). The increasing pressure on the Italian banking sector may have been offset by last week's hint from the ECB regarding the maintenance of Capital Key rules in the current ECB sovereign bonds purchase programme. The USD remained almost unchanged against its main peers (EUR +0.1%, JPY 0%, GBP +0.4%) while registering a mixed performance against emerging currencies (MXN -0.2%, CLP +0.5%, TRY -0.1%, COP 0%) despite oil prices still hovering around US\$50 per barrel (Brent: -0.3%, Wtx: -0.2%).

Update 17.45 CET 4 July, 2016

Table 1

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

Libor markets (changes in bps)

Overnight

US 3m 5.59 (0.13) (146)
 US 3m 5.59 (0.13) (146)
 US 15m 5.44 (0.11) (139) (132)

3-month

Japan 3m 2.14 (0.16) (16) (15)
 GR 3m 4.67 (0.12) (12) (10) (10)
 GR 3m 4.59 (0.11) (10) (10)
 GR 3m 4.59 (0.11) (10) (10)

6-month

Belgium 6m 2.11 (0.13) (13) (17)
 France 6m 1.71 (0.12) (12) (16)
 Greece 6m 7.82 (0.14) (14) (18) (18)
 Korea 6m 4.15 (0.12) (12) (16)
 Mexico 6m 1.25 (0.12) (12) (16)
 Netherlands 6m 1.66 (0.14) (14) (18)
 Portugal 6m 2.36 (0.12) (12) (16) (17)
 Spain 6m 1.61 (0.12) (12) (16)

12-month

France 12m 1.54 (0.12) (12) (16) (17) (17)
 China 12m 4.44 (0.12) (12) (16) (17)
 Canada 12m 1.72 (0.12) (12) (16) (17)
 Mexico 12m 1.50 (0.11) (11) (15) (15)
 Peru 12m 5.81 (0.12) (12) (16)

Forward

France 15m 2.8 (0.14) (14) (18) (18)
 Russia 15m 5.23 (0.12) (12) (16) (17)
 Turkey 15m 6.14 (0.14) (14) (18) (18)

India

India 15m 7.43 (0.13) (13) (17)

Indonesia

Indonesia 15m 7.38 (0.12) (12) (16) (17)

Commodity risk (changes in bps)

1-yr overnight forward (against Germany)

Belgium 3d (2) (1) (1) (1)
 France 3d (2) (1) (1) (1)
 Greece 30d (0) (0) (0) (0) (0)
 Ireland 3d (0) (0) (0) (0)
 Italy 12m (0) (0) (0) (0) (0)
 Netherlands 3d (0) (0) (0) (0)
 Portugal 3d (2) (1) (1) (1)
 Spain 12m (1) (0) (0) (0)

1-yr overnight forward (against Germany)

Belgium 1d (0) (0) (0) (0)
 France 1d (0) (0) (0) (0)
 Greece 30d (0) (0) (0) (0)
 Ireland 3d (0) (0) (0) (0)
 Italy 12m (0) (0) (0) (0)
 Netherlands 3d (0) (0) (0) (0)
 Portugal 3d (2) (1) (1) (1)
 Spain 12m (1) (0) (0) (0)

2-yr overnight forward (against Germany)

Belgium 12m (1) (0) (0) (0)
 France 12m (1) (0) (0) (0)
 Ireland 24m (1) (0) (0) (0)
 Italy 24m (1) (0) (0) (0)
 Netherlands 12m (0) (0) (0) (0)
 Portugal 12m (1) (0) (0) (0)
 Spain 12m (1) (0) (0) (0)

1-yr overnight OIS

Spr OIS Belgium 6m 1.78 (0.17) (17)
 Spr OIS France 4d 1.21 (0.17) (17)
 Spr OIS Germany 3m 1.14 (0.17) (17)
 Spr OIS Ireland 3m 1.14 (0.17) (17)
 Spr OIS Mexico 3m 1.14 (0.17) (17)
 Spr OIS Spain 12m 1.14 (0.17) (17)
 Spr OIS Italy 12m 1.14 (0.17) (17)
 Spr OIS Netherlands 3m 1.14 (0.17) (17)
 Spr OIS Portugal 3m 1.14 (0.17) (17)
 Spr OIS Sweden 12m 1.14 (0.17) (17)
 Spr OIS Switzerland 3m 1.14 (0.17) (17)

Emerging Markets

Spr OIS Argentina 12m 7.14 (2) (2) (2) (2) (2)
 Spr OIS Brazil 30d 5.14 (1) (1) (1) (1) (1)
 Spr OIS China 3m 1.14 (0.17) (17)
 Spr OIS Colombia 12m 1.14 (0.17) (17)
 Spr OIS Mexico 12m 1.14 (0.17) (17)
 Spr OIS Peru 12m 1.14 (0.17) (17)
 Spr OIS Venezuela 12m 1.14 (0.17) (17)

Spr OIS Russia 12m 1.14 (0.17) (17)
 Spr OIS Turkey 12m 1.14 (0.17) (17)

Spr OIS India 12m 1.14 (0.17) (17)
 Spr OIS Korea 12m 1.14 (0.17) (17)

Commodity risk (changes in percentage except for dollar spread, bp)

WTI 14 77 (0.1) (0.1) (0.1) (0.1)
 VIX 14 14 (0.1) (0.1) (0.1) (0.1)
 DAX 14 14 (0.1) (0.1) (0.1) (0.1)
 EFX weekly index 23 (0.1) (0.1) (0.1) (0.1)
 DAX weekly index 23 (0.1) (0.1) (0.1) (0.1)
 CME wheat index 23 (0.1) (0.1) (0.1) (0.1)
 CME corn index 23 (0.1) (0.1) (0.1) (0.1)
 CME soybean index 23 (0.1) (0.1) (0.1) (0.1)

Bank risk (changes in bps)

US banks CDS 10 (0.1) (0.1) (0.1)
 EUR banks CDS 10 (0.1) (0.1) (0.1)
 UK banks CDS 10 (0.1) (0.1) (0.1)

Large Spanish banks CDS 10 (0.1) (0.1) (0.1)
Medium Spanish banks CDS 10 (0.1) (0.1) (0.1)

Other banks CDS 10 (0.1) (0.1) (0.1)
Other banks CDS 10 (0.1) (0.1) (0.1)

Commodity risk (changes in bps)

US 10-year Tm 1.02 (0.14) (14)
 US 10-year Tm 20 (0.1) (0.1) (0.1)
 US 10-year Tm 40 (0.1) (0.1) (0.1)

US 10-year Tm 20 (0.1) (0.1) (0.1)
 US 10-year Tm 40 (0.1) (0.1) (0.1)

US 10-year Tm 20 (0.1) (0.1) (0.1)
 US 10-year Tm 40 (0.1) (0.1) (0.1)

Spain 10-year Tm 3 (0.1) (0.1) (0.1)

EUR 10-year Tm 2 (0.1) (0.1) (0.1)
 EUR 10-year Tm 4 (0.1) (0.1) (0.1)
 EUR 10-year Tm 6 (0.1) (0.1) (0.1)

Libor 3m 0.05 (0.01) (0.01)
 Libor 6m 0.1 (0.01) (0.01)

Stock markets (changes in percentage)

Spain

IBEX 35 100 (0.1) (0.1) (0.1)
 IBSX 100 (0.1) (0.1) (0.1)
 IBSX 100 (0.1) (0.1) (0.1)
 IBSX 100 (0.1) (0.1) (0.1)

France

CAC 40 100 (0.1) (0.1) (0.1)
 CAC 40 100 (0.1) (0.1) (0.1)
 CAC 40 100 (0.1) (0.1) (0.1)

Germany

DAX 100 100 (0.1) (0.1) (0.1)
 DAX 100 100 (0.1) (0.1) (0.1)

Italy

FTSE MIB 100 100 (0.1) (0.1) (0.1)
 FTSE MIB 100 100 (0.1) (0.1) (0.1)

UK

FTSE 100 100 (0.1) (0.1) (0.1)
 FTSE 100 100 (0.1) (0.1) (0.1)

Other

Nikkei 225 100 (0.1) (0.1) (0.1)
 Nikkei 225 100 (0.1) (0.1) (0.1)

China

SSE 100 100 (0.1) (0.1) (0.1)
 SSE 100 100 (0.1) (0.1) (0.1)

India

Nifty 50 100 (0.1) (0.1) (0.1)
 Nifty 50 100 (0.1) (0.1) (0.1)

Other

BSE 100 100 (0.1) (0.1) (0.1)
 BSE 100 100 (0.1) (0.1) (0.1)

Commodity risk (percentage points for dollar depreciation)

EURUSD 1.14 (0.01) (0.01) (0.01)
 GBPUSD 1.35 (0.01) (0.01) (0.01)
 USDJPY 100 (0.01) (0.01) (0.01)
 DXY 95 (0.01) (0.01) (0.01)

Commodity risk (change in percentage)

WTI 14 77 (0.1) (0.1) (0.1) (0.1)
 VIX 14 14 (0.1) (0.1) (0.1) (0.1)
 DAX 14 14 (0.1) (0.1) (0.1) (0.1)
 EFX weekly index 23 (0.1) (0.1) (0.1) (0.1)
 DAX weekly index 23 (0.1) (0.1) (0.1) (0.1)
 CME wheat index 23 (0.1) (0.1) (0.1) (0.1)
 CME corn index 23 (0.1) (0.1) (0.1) (0.1)
 CME soybean index 23 (0.1) (0.1) (0.1) (0.1)

CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for

Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.