

Market Comment | Risky assets' punishment halted despite ongoing background risks

Global Financial Markets Unit
07 Jul 2016

- **Encouraging signs in US employment data.** According to the June ADP National Employment Report private sector employment increased by 172,000 jobs from May to June (consensus: 160K). Moreover US jobless claims dropped unexpectedly in the week ended 2 July (254K; consensus: 270K, previous: 270K) while continuing jobless claims rose in the week ended 25 June against estimates of a decrease (to 2,124K; consensus: 2,120K; previous: 2,120K).
- **No significant news on the ECB's minutes of its June meeting.** As was anticipated by some media, the ECB board showed in its June minutes a discussion regarding the **challenges of complying with the current limits** at a time when there is a sufficient volume of public bonds for some countries, under the current assets purchases programme. This acknowledgement may open the door to future potential changes in the technicalities (fine tuning in purchase limits or perhaps changes in the capital key rule). Furthermore, the ECB defined as "significant" the impact of Brexit on the EZ economy. "There was general agreement that this was an important source of uncertainty as regards the economic outlook, and in the event that the United Kingdom voted to leave, i.e. a "**Brexit**", **there could be significant**, although difficult to anticipate, negative spillovers to the euro area via a number of channels, including trade and the financial markets".
- **Chinese foreign reserves unexpectedly rose** by \$13.5 bn., breaking the downward trend and returning to slight growth. Data for June showed the biggest rise in 14 months. Valuations effects weighed on the increase as the JPY appreciated strongly against the USD during last month (+6.2%).
- **Risky assets' punishment halted despite ongoing background risks.** The risk-off sentiment seems to be fading in financial markets, as global risk asset prices rise at a moderate pace after yesterday's volatile session. Positive fresh news on the US employment front and the unexpected rise in Chinese reserves provide at least momentary relief to financial markets as global risk perception decreases marginally. Supportive US employment data from the ADP report could anticipate better-than-expected US payrolls for June (due tomorrow). Additionally, as expected, Fed minutes showed the Fed's determination to postpone additional rises in interests rates, as Fed's members agreed that it is "prudent to wait" before raising interest rates again. On another front, markets' uncertainty regarding the management of FX policy in China decreased as China's official reserves increased unexpectedly in June. Nonetheless the markets are still showing great caution due to background long-term latent risk: i) Brexit spillovers: ECB minutes said Brexit effects could be "significant" for EZ's growth dynamic and ii) Trump effect as the IMF warned about the negative effect of Trump's protectionist style. The positive mood in markets during the session was curbed slightly after the disappointing US oil inventories which triggered a fall in oil prices (Brent -2.5%, Wtx -2.4%).
- In this context, **bond yields started to rise across the board from the record lows registered yesterday**, with no differentiation between safe-haven and peripheral yields. Even so, UK Gilts

continued breaking more records, given that the UK government has issued £2.25bn of 10 year debt at a historic low yield of 0.91%, with the strongest demand in 6 years.

- The easing of risk-off sentiment has been reflected in **the rising of the main stock indices** (Euro Stoxx50 +0.7%; Dax +0.6; Ibex35 +1.1%; S&P500 +0%) with the sole exception of the Nikkei (-0.7%), hampered by the JPY's ongoing appreciation (+0.62% against the USD). Meanwhile EM currencies showed a negative performance against the USD given the downturn in oil prices after US oil inventories (+0.1% COP; -0.5% CLP; +0.1% TRY; MXN -1%).

Update 17.45 CET 7 July, 2016

Table 1

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

Debt markets (changes in bp)

US 2 yr 3.58 (11) (11) (11) (46)
US 5 yr 3.98 (11) (11) (12) (48)
US 10 yr 3.36 (11) (11) (13) (48)

Japan 10 yr 2.37 (11) (11) (11) (13)
CZ 2 yr 4.56 (11) (11) (11) (14)
CZ 5 yr 4.81 (11) (11) (11) (14)
CZ 10 yr 4.17 (11) (11) (11) (14)

Belgium 10 yr 0.97 (11) (11) (11) (14)
France 10 yr 1.19 (11) (11) (11) (14)
Germany 10 yr 0.79 (11) (11) (11) (14)
Italy 10 yr 4.01 (11) (11) (11) (14)
UK 10 yr 1.25 (11) (11) (11) (14)
Netherlands 10 yr 1.01 (11) (11) (11) (14)
Poland 10 yr 3.08 (11) (11) (11) (14)
Spain 10 yr 1.89 (11) (11) (11) (14)

Emerging Markets

Brazil 10 yr 12.21 (11) (11) (11) (42)
China 10 yr 4.38 (11) (11) (11) (14)
Columbia 10 yr 7.11 (11) (11) (11) (14)
Mexico 10 yr 5.94 (11) (11) (11) (14)
Peru 10 yr 7.11 (11) (11) (11) (14)

Russia 10 yr 2.90 (11) (11) (11) (14)
South Africa 10 yr 1.01 (11) (11) (11) (14)
Turkey 10 yr 8.89 (11) (11) (11) (14)
India 10 yr 8.01 (11) (11) (11) (14)
Indonesia 10 yr 7.38 (11) (11) (11) (14)

Country risk (changes in bp)

Spain 24 (1) (2) (1) (5)
France 30 (1) (1) (1) (1)
Greece 116 (2) (2) (2) (2)
Ireland 44 (1) (1) (1) (1)
Italy 42 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 32 (1) (1) (1) (1)
Spain 10 (1) (1) (1) (1)

Spain 10 (1) (1) (1) (1)
France 10 (1) (1) (1) (1)
Greece 10 (1) (1) (1) (1)
Ireland 4 (1) (1) (1) (1)
Italy 4 (1) (1) (1) (1)
Netherlands 14 (1) (1) (1) (1)
Poland 14 (1) (1) (1) (1)
Spain 10 (1) (1) (1) (1)

Spain 11 (1) (1) (1) (1)
France 11 (1) (1) (1) (1)
Greece 11 (1) (1) (1) (1)
Ireland 11 (1) (1) (1) (1)
Italy 11 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 11 (1) (1) (1) (1)
Spain 11 (1) (1) (1) (1)

Spain 11 (1) (1) (1) (1)
France 11 (1) (1) (1) (1)
Greece 11 (1) (1) (1) (1)
Ireland 11 (1) (1) (1) (1)
Italy 11 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 11 (1) (1) (1) (1)
Spain 11 (1) (1) (1) (1)

Spain 11 (1) (1) (1) (1)
France 11 (1) (1) (1) (1)
Greece 11 (1) (1) (1) (1)
Ireland 11 (1) (1) (1) (1)
Italy 11 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 11 (1) (1) (1) (1)
Spain 11 (1) (1) (1) (1)

Spain 11 (1) (1) (1) (1)
France 11 (1) (1) (1) (1)
Greece 11 (1) (1) (1) (1)
Ireland 11 (1) (1) (1) (1)
Italy 11 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 11 (1) (1) (1) (1)
Spain 11 (1) (1) (1) (1)

Spain 11 (1) (1) (1) (1)
France 11 (1) (1) (1) (1)
Greece 11 (1) (1) (1) (1)
Ireland 11 (1) (1) (1) (1)
Italy 11 (1) (1) (1) (1)
Netherlands 11 (1) (1) (1) (1)
Poland 11 (1) (1) (1) (1)
Spain 11 (1) (1) (1) (1)

Credit risk

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)
US 10 0.34 (4) (4) (4) (4)

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.