

Market Comment | Global concerns lead to all-time low sovereign yields

Global Financial Markets Unit
08 Jul 2016

- **Encouraging US payrolls data.** Nonfarm payrolls data surprised positively in June (by 287K; consensus: 175K; previous: 11K) and manufacturing payrolls also rose by more than expected (by 14K; consensus: -3K; previous: -10K), showing that the US economy is gaining momentum. However, the unemployment rate rose slightly more than expected (to 4.9%MoM; consensus: 4.8%). Additionally, average hourly earnings data disappointed slightly, both monthly (0.1% MoM; 0.2% consensus; 0.2% previous) and yearly (2.6% YoY; 2.7% consensus; 2.5% previous).
- **Global concerns lead to all-time low sovereign yields.** Early this week a relative calm began to be felt in the markets after recent high volatility on the back of the Brexit vote outcome. However, later in the week fears re-appeared due to the ongoing background risk - long-term inflation expectations (5Y5Y inflation swap) both in the US (1.91%) and in the EU (1.26%) were significantly low. Brexit could even add to worries about the global economic outlook in the medium term. This sentiment was exacerbated by additional specific concerns such as the vulnerability of the European banking sector, with Italian banks especially harmed due to concerns about their non-performing loans. In the UK, even though the BoE decided to cut the countercyclical buffer to free up lending capacity, British banks' share prices continued to suffer (RBS -1.9%, HSBS 0%, BAR -0.2%).
- This risk-off sentiment in financial markets (especially in the last part of the week) was reflected in the **increasing demand for safe-haven assets** (JYP +1.75%, Gold +1.1%). In the same line, sovereign bond yields broke historical low levels, leaving bond yields of the main countries at historical record lows (10YUS 1.318%, 10YUK 0.729%). Peripheral countries' premiums inched up despite the ECB's hints (in the last ECB minutes) of technical changes in the implementation of public purchase programmes which could be favourable for peripheral countries' bonds. **Consequently, risky assets such as equity indices (Euro Stoxx50 -1.9%, Dax -1.8%, Ibex35 -1.1%), and oil prices (Wtx -6.8%; Brent -6.8%) went down** during the week, the latter influenced by bigger than expected US oil inventories. The downward trend in oil prices and global concerns hit EM currencies (COP -0.9%; CLP -0.1%; TRY -0.5%; MXN -1.9%).
- **Regarding central banks, in a context in which some central banks signalled a dovish stance** (Sweden and Poland), markets continued to price in the likely movement of the BoE in its next meeting, and the GBP depreciated against the USD (-2.37%), while gilts renewed their historical lowest yields UK10Y (0.729%). Moreover, the ECB's and Fed's minutes brought - as expected - the reinforcement of low interest rates scenario for longer after the Brexit outcome.

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Table 1

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

Debt markets (changes in %)

Emerging Markets

US 2 yr 5.43 (4.14) (4.14) (4.14)
 US 5 yr 4.16 (3.21) (3.21) (3.21)
 US 10 yr 4.11 (4.14) (3.98) (3.98)
 Japan 10 yr 2.35 (3.15) (3.15) (3.15)
 HK 2 yr 2.86 (3.14) (4.17) (3.25)
 HK 5 yr 2.82 (3.15) (4.21) (3.79)
 HK 10 yr 4.17 (3.81) (4.21) (4.85)
 Belgium 10 yr 5.16 (4.11) (4.21) (4.21)
 France 10 yr 5.11 (4.11) (4.21) (4.21)
 Greece 10 yr 5.11 (4.11) (4.21) (4.21)
 Iceland 10 yr 5.11 (4.11) (4.21) (4.21)
 Italy 10 yr 5.11 (4.11) (4.21) (4.21)
 Netherlands 10 yr 5.11 (4.11) (4.21) (4.21)
 Portugal 10 yr 5.11 (4.11) (4.21) (4.21)
 Spain 10 yr 5.11 (4.11) (4.21) (4.21)

Developed Markets

Brazil 10 yr 11.34 (11.34) (12.02) (14.71)
 Chile 10 yr 4.11 (4.11) (4.11) (4.11)
 Colombia 10 yr 5.11 (4.11) (4.11) (4.11)
 Mexico 10 yr 5.11 (4.11) (4.11) (4.11)
 Peru 10 yr 5.11 (4.11) (4.11) (4.11)
 Poland 10 yr 2.88 (4.11) (4.11) (4.11)
 Russia 10 yr 5.11 (4.11) (4.11) (4.11)
 Turkey 10 yr 5.11 (4.11) (4.11) (4.11)
 India 10 yr 7.38 (6.11) (6.11) (6.11)
 Indonesia 10 yr 7.38 (6.11) (6.11) (6.11)

Country risk (changes in %)

10 yr average default spread (against Germany)

Belgium 24 (21) (21) (21)
 France 24 (21) (21) (21)
 Greece 24 (21) (21) (21)
 Iceland 24 (21) (21) (21)
 Italy 137 (44) (44) (44)
 Netherlands 13 (11) (11) (11)
 Portugal 22 (21) (21) (21)
 Spain 133 (21) (21) (21)
 Turkey 24 (21) (21) (21)
 Chile 24 (21) (21) (21)
 Colombia 24 (21) (21) (21)
 Mexico 24 (21) (21) (21)
 Peru 24 (21) (21) (21)
 Poland 24 (21) (21) (21)
 Russia 24 (21) (21) (21)
 Turkey 24 (21) (21) (21)
 India 24 (21) (21) (21)
 Indonesia 24 (21) (21) (21)

30 yr average default spread (against Germany)

Belgium 11 (9) (9) (9)
 France 11 (9) (9) (9)
 Greece 28 (9) (9) (9)
 Iceland 11 (9) (9) (9)
 Italy 44 (9) (9) (9)
 Netherlands 7 (9) (9) (9)
 Portugal 13 (9) (9) (9)
 Spain 58 (9) (9) (9)
 Turkey 11 (9) (9) (9)
 Chile 11 (9) (9) (9)
 Colombia 11 (9) (9) (9)
 Mexico 11 (9) (9) (9)
 Peru 11 (9) (9) (9)
 Poland 11 (9) (9) (9)
 Russia 11 (9) (9) (9)
 Turkey 11 (9) (9) (9)
 India 11 (9) (9) (9)
 Indonesia 11 (9) (9) (9)

Country risk (changes in %)

Syria 100 (100) (100) (100)
 Sudan 100 (100) (100) (100)
 Zimbabwe 100 (100) (100) (100)
 South Africa 100 (100) (100) (100)
 Argentina 100 (100) (100) (100)
 Brazil 100 (100) (100) (100)
 Chile 100 (100) (100) (100)
 Colombia 100 (100) (100) (100)
 Mexico 100 (100) (100) (100)
 Peru 100 (100) (100) (100)
 Poland 100 (100) (100) (100)
 Russia 100 (100) (100) (100)
 Turkey 100 (100) (100) (100)
 India 100 (100) (100) (100)
 Indonesia 100 (100) (100) (100)

Commodity prices (changes in %)

WTI 100 (100) (100) (100)
 Brent 100 (100) (100) (100)
 Natural Gas 100 (100) (100) (100)
 Gold 100 (100) (100) (100)
 Silver 100 (100) (100) (100)
 Copper 100 (100) (100) (100)
 Iron Ore 100 (100) (100) (100)
 Wheat 100 (100) (100) (100)
 Soybean 100 (100) (100) (100)
 Corn 100 (100) (100) (100)
 Rice 100 (100) (100) (100)
 Sugar 100 (100) (100) (100)
 Cocoa 100 (100) (100) (100)
 Rubber 100 (100) (100) (100)
 Nickel 100 (100) (100) (100)
 Zinc 100 (100) (100) (100)
 Lead 100 (100) (100) (100)
 Tin 100 (100) (100) (100)
 Platinum 100 (100) (100) (100)
 Palladium 100 (100) (100) (100)

Stock markets (changes in %)

US S&P 500 100 (100) (100) (100)
 US NYSE Comp 100 (100) (100) (100)
 US DJIA 100 (100) (100) (100)
 US Russell 2000 100 (100) (100) (100)
 US Nikkei 100 (100) (100) (100)
 US Hang Seng 100 (100) (100) (100)
 US FTSE 100 100 (100) (100) (100)
 US Euronext 100 (100) (100) (100)
 US CAC 40 100 (100) (100) (100)
 US DAX 100 (100) (100) (100)
 US IEX 100 (100) (100) (100)
 US NYSE Comp 100 (100) (100) (100)
 US DJIA 100 (100) (100) (100)
 US Russell 2000 100 (100) (100) (100)
 US Nikkei 100 (100) (100) (100)
 US Hang Seng 100 (100) (100) (100)
 US FTSE 100 100 (100) (100) (100)
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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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