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Market Comment | Risk-on mood amid Japan stimulus hopes and easing Brexit uncertainty

Global Financial Markets Unit
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- **Global stocks rose across the board (S&P500 +0.7%, Euro Stoxx50 +1.7%, Dax +1.4%, Ibex35 +2.4%), reflecting the decrease in risk aversion in today's session, underpinned by Japan stimulus hopes.** The Japanese yen fell significantly (-1.88%) and Japanese stocks jumped for a second day (Nikkei, +2.5%) on hopes that a new package of fiscal stimulus in Japan may be implemented soon, after Japanese Prime Minister, Shinz Abe, ordered the economy minister, Ishihara, to compile economic stimulus measures by the end of the month. The package may consist of up to ¥10 trillion ($8.9 billion), 2.4% of GDP. The markets also anticipated further monetary policy easing by the BoJ.

- In addition, **the GBP rose significantly** (1.81%) against the USD while the EUR/USD rate remained unchanged. The announcement of the next UK Prime Minister, Theresa May, contributed to calming uncertainty in the markets regarding Brexit consequences, and supported UK's assets.

- Moreover, **markets expect that the major central banks will remain supportive, avoiding an increase in market uncertainty**. Despite the US employment report and the new record high in the S&P 500, the market continued dovish on the Federal Reserve rate path, not pricing in a probability of a rate hike until 2017. Moreover, the market implied probability of a rate cut in BoE interest rate is slightly above 80% for this Thursday's meeting, after the BoE's governor said that it may take further measures during the summer, if necessary. Nonetheless, global concerns did not fade completely, with inflationary expectations remaining at very low levels both in Europe (5Y5Y inflation swap EU, 1.28%) and in the US (5Y5Y inflation swap US, 1.92%).

- **Italian banks rallied, led by UniCredit** (+14%), after its announcement of the sale of its stake of €328m in the subsidiary FinecoBank, in order to prop up capital requirements and the launch of a new strategic review. Moreover, EU officials were more tilted to resolve the Italian bank's NPL problems, encouraging also the rebound in Italian banking sector.

- **Bond markets also reflected the risk-on mood, with increasing yields across the board**, led by safe-haven bond yields (10Y USA +7 bps, 10Y GER +8 bps) and with less intensity in peripherals bonds (10Y ITA +2 bps, 10Y SPA +2 bps, 10Y PORT +3 bps), with the consequent drop in the spreads (10Y ITA -5 bps, 10Y SPA -6 bps, 10Y PORT -5 bps).

- **Oil rose significantly (+3.6%) after the OPEC monthly report forecast higher demand** for its crude next year, expecting a tighter market and removing the overall excess oil stocks in 2017. Demand for gold (-1.3%) also dampened due the risk-on mood in the market. EM currencies appreciated significantly today, in line with oil prices' behaviour, (COP +0.9%, MXN +1%, CLP +0.5%, PLN +0.4%, TRY +0.4%)

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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 0.67 (2) (12) (-5) (-37)
US 5-yr 1.07 (5) (13) (-9) (-69)
US 10-yr 1.5 (7) (13) (-14) (-77)

Japan 10-yr -0.27 (0) (-2) (-13) (-54)

GER 2-yr -0.67 (3) (1) (-13) (-33)
GER 5-yr -0.56 (4) (3) (-15) (-53)
GER 10-yr -0.093 (0) (9) (-11) (-72)

Belgium 10-yr 0.23 (6) (6) (-20) (-74)
France 10-yr 0.19 (7) (6) (-20) (-80)
Greece 10-yr 7.89 (3) (-11) (40) (-39)
Ireland 10-yr 0.48 (3) (4) (-26)
Italy 10-yr 1.23 (2) (-3) (-16) (-37)
Netherlands 10-yr 0.08 (6) (6) (-16) (-71)
Portugal 10-yr 3.14 (3) (12) (4) (63)
Spain 10-yr 1.18 (2) (-1) (-25) (-60)

Emerging Markets
Brazil 10-yr 12.01 (1) (-13) (-84) (-450)
Chile 10-yr 4.36 (0) (-3) (-21) (-30)
Colombia 10-yr 7.57 (2) (1) (-36) (-108)
Mexico 10-yr 5.87 (1) (-6) (-20) (-40)
Peru 10-yr 5.73 (-1) (-5) (-35) (-158)

Poland 10-yr 2.85 (1) (0) (-26) (-9)
Russia 5-yr 8.65 (-4) (7) (-18) (-123)
Russia 10-yr 8.34 (-3) (-3) (-32) (-122)
Turkey 10-yr 8.96 (4) (7) (-49) (-151)

India 10-yr 7.34 (-5) (-5) (-16) (-42)
Indonesia 10-yr 7.1 (0) (-28) (-55) (-165)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 32 (-2) (-3) (-8) (-2)
France 28 (-1) (-3) (-8) (-8)
Greece 799 (-5) (-20) (51) (33)
Ireland 57 (-4) (-5) (-15) (5)
Italy 132 (-5) (-13) (-4) (35)
Netherlands 17 (-2) (-3.4) (-5) (1)
Portugal 324 (-5) (3) (15) (135)
Spain 127 (-6) (-11) (-14) (13)

5-yr sovereign spreads *(against Germany)*
Belgium 11 (0) (-2.1) (3) (4)
France 19 (-1) (-1) (-4) (6)
Greece 1660 (-4) (-3) (15) (53)
Ireland 56 (-4) (-3) (22) (33)
Italy 88 (-2) (-3) (4) (34)
Netherlands 13 (1) (-0.4) (-5) (13)
Portugal 248 (-2) (8) (16) (137)
Spain 83 (-2) (-1) (-7) (11)

2-yr sovereign spreads *(against Germany)*
Belgium 10 (-1) (-1) (4) (6)
France 12 (2) (4) (1) (9)
Ireland 28 (-3) (0) (11) (13)
Italy 61 (-3) (1) (11) (30)
Netherlands 7 (0) (1) (1) (10)
Portugal 138 (-2) (8) (29) (93)
Spain 56 (-3) (2) (7) (21)

5-yr sovereign CDS
5-yr CDS Belgium 50 (-3) (2) (3) (18)
5-yr CDS France 36 (-2) (0) (3) (13)
5-yr CDS Germany 18 (-2) (2) (1) (6)
5-yr CDS Greece 955 (-48) (119) (15) (-103)
5-yr CDS Ireland 76 (-1) (3) (10) (36)
5-yr CDS Italy 143 (-3) (1) (9) (47)
5-yr CDS Netherlands 28 (-1) (1) (2) (13)
5-yr CDS Portugal 305 (-3) (16) (14) (137)
5-yr CDS Spain 100 (0) (-2) (2) (11)
5-yr CDS UK 41 (-3) (5) (5) (21)
5-yr CDS US 20 (-1) (1) (-2) (1)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 395 (-9) (-18) (-47) (-10899)
5-yr CDS Brazil 299 (-3) (-6) (-27) (-192)
5-yr CDS Chile 82 (-3) (-7) (-18) (-45)
5-yr CDS Colombia 189 (-4) (-9) (-21) (-50)
5-yr CDS Mexico 143 (-2) (-10) (-18) (-27)
5-yr CDS Peru 125 (-1) (-7) (-17) (-40)
5-yr CDS Venezuela 4244 (13) (-74) (-613) (-1799)

5-yr CDS Poland95 (-2) (0) (11) (23)
5-yr CDS Russia 217 (-8) (-10) (-22) (-85)
5-yr CDS Turkey 219 (-6) (-17) (-25) (-54)

5-yr CDS China 115 (-5) (-4) (-8) (6)
5-yr CDS India 175 (-2) (6) (8) (27)
5-yr CDS Indonesia 169 (-9) (-9) (-20) (-58)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 13.48 (-0.4) (-13.5) (-20.8) (-5)
VSTOXX 22.32 (-5.3) (-16.4) (-26.2) (0)
EM EFT volatility Index 20 (-1) (-18) (-16) (-12)
Dollar/euro volatility 8.6 (-3.6) (-12.5) (-28.6) (-11)
EM FX volatility index 10 (0) (-2) (-5) (-12)
Credit spread (BAA) 267.9 (-7.1) (-14.7) (-11) (-55)
US bonds volatility index 70 (0) (-11) (-7) (3)

Bank risk *(changes in bp)*
US banks CDS 77 (-3) (-8) (-4) (2)
EMU banks CDS 131 (-3) (-3) (14) (47)
UK banks CDS 128 (-7) (-3) (12) (51)

Large Spanish banks CDS 0 (-155) (-162) (-142) (-137)
Medium Spanish banks CDS 0 (-193) (-185) (-187) (-157)

Greek banks CDS 1143 (-14) (-294) (-36) (-509)
Russian banks CDS 351 (-4) (3) (5) (-31)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 114 (-3) (-3) (-175) (-59)
UK Non-financial CDS 164 (-3) (-3) (-5) (-28)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 7 (0) (0) (-1) (-4)
UEM OIS spread 12m 37 (-1) (-2) (0) (4)
UEM TED spread 3m 45 (0) (2.7) (10) (4)

US OIS spread 3m 28 (0) (-1) (1) (5)
US OIS spread 12m 81 (-2) (-4) (3) (25)
US TED spread 3m 37 (-2) (-4) (-4) (-8)

Spain Ted Spread 3m 1 (0) (-1.2) (0) (-3)

EONIA Index -0.33 (0) (-0.3) (0) (-20)
Euribor 3m -0.29 (0) (0.1) (-3) (-16)
Euribor 12m -0.06 (0) (0) (-4) (-12)

Libor 3m 0.67 (0) (1) (1) (6)
Libor 12m 1.27 (0) (4) (0) (9)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2151.3 (0.7) (3) (2.6) (5)
Dow Jones 18349.5 (0.7) (2.9) (2.7) (5)
Nikkei 16095.7 (2.5) (2.7) (-3) (-15)
FTSE 100 6677.2 (-0.1) (2) (9.2) (7)
EuroStoxx 50 2935.6 (1.7) (4.4) (0.8) (-10)
IBEX8507.8 (2.4) (5.5) (0.2) (-11)
DAX 9974 (1.4) (4.6) (1.4) (-7)
CAC4333.8 (1.6) (4.1) (0.6) (-7)
MIB 16735.8 (2.9) (6.1) (-2.2) (-22)
ASE Athens 551.9 (0.7) (4.7) (-10.8) (-13)

Bank stocks
JPM 63.2 (1.4) (6.1) (-1.1) (-4)
Citi 43.3 (2.3) (6.1) (-1.5) (-16)
BoA 13.5 (2.5) (6.3) (-2.1) (-20)
MS 27.3 (3.1) (9.2) (6.9) (-14)
GS 156.2 (2.6) (8.1) (4.2) (-13)

HSBC 475.9 (-0.6) (2.4) (9.7) (-11)
RBS 181.7 (1.3) (14.6) (-15.1) (-40)
Barclays 148.2 (1.9) (9.1) (-12.5) (-32)
Lloyds 56.2 (2.5) (10.2) (-16.2) (-23)

EMU banks 72.1 (5.7) (11.3) (-7) (-33)
BNP 42.4 (5.4) (8.5) (-4.2) (-19)
Crédit Agricole 7.9 (4.2) (9.4) (-3.2) (-27)
Deutsche Bank 12.8 (6.4) (4.7) (-8.9) (-43)
ING 9.7 (3.4) (9.9) (-6.2) (-22)
Intesa 1.9 (6.9) (20.8) (-8.6) (-38)
SG 29.8 (4.5) (11.2) (-8.8) (-30)
Unicredito 2.1 (14) (16.1) (-11.3) (-59)

Large Spanish banks 60.8 (5.4) (8.8) (-1.3) (-19)
Santander 3.8 (6.6) (12.4) (-1.5) (-17)
BBVA 5.3 (4.4) (6) (-1.1) (-22)

Medium Spanish banks 57.2 (4.9) (6.4) (-8.4) (-31)
Caixabank 2.1 (4.2) (8.7) (-3.4) (-34)
Popular 1.3 (8.2) (5.4) (-13) (-54)
Sabadell 1.2 (4.9) (6.1) (-15.6) (-25)
Bankinter 6 (3.5) (5.9) (-3.7) (-9)
Bankia 0.7 (5.7) (6.2) (-8.3) (-38)

Greek banks 2.9 (3.1) (28) (-23.3) (-36)
Alpha Bank1.8 (2.9) (28.7) (-19) (-30)
Pireus Bank0.2 (3.3) (19.2) (-32.3) (-44)
National Central Bank0.2 (0) (13.5) (-22.8) (-44)
Eurobank Ergasias0.6 (4.5) (31.5) (-31.8) (-44)

Emerging Markets
Main equity indices
MSCI Latam 68771 (1.19) (1.5) (3.7) (16)
Ibovespa (Brazil) 54648 (1.3) (5.4) (10.6) (26.1)
Mexbol 46423 (0.5) (1.3) (2.8) (8)

MSCI EM Europe 4392 (1.51) (0.9) (-2.4) (3.4)
Poland 1754 (0.5) (2.2) (-1.6) (-5.6)
Micex (Russia) 1942 (1.5) (2.5) (2) (10.3)
Ise 100 (Turkey) 81142 (2.4) (3.5) (5.5) (13.1)

MSCI EM Asia 672 (1.83) (0.3) (0.6) (1.7)
Shanghai Composite (China) 3049 (1.82) (1.4) (4.2) (-13.8)
Jakarta Composite (Indonesia) 5100 (0.6) (2.6) (5.2) (11)

Bank stocks
Turkish banks 87 (3.8) (5.4) (10.9) (18.4)
Akbank T.A.S. 9 (5.2) (4.7) (12.5) (31.8)
Garanti 8 (3.1) (5.9) (9.4) (15.7)
Turkiye Is Bankasi 5 (2.5) (5.6) (10.7) (6.1)

Russian banks 179 (1.7) (5.5) (2) (18.3)
Sberbank 140 (2.1) (6.3) (5) (38.4)
VTB Bank 0.1 (0.7) (3.6) (-4.7) (-12.9)

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

Developed Markets
EURUSD 1.107 (0.12) (-0.05) (-1.6) (1.9)
GBPUSD 1.32 (1.81) (1.62) (-7.2) (-10.2)
USDJPY 104.73 (-1.88) (-2.94) (2.1) (12.9)
DXY 96.5 (0.1) (-0.3) (-2) (2.2)

Emerging Markets
USDARS (Argentina) 14.59 (0.9) (1.9) (-5.6) (-12.8)
USDBRL (Brazil) 3.27 (1.1) (0.9) (4.3) (17.4)
USDCLP (Chile) 657.63 (0.5) (0.9) (3.8) (7.2)
USDCOP (Colombia) 2910.25 (0.9) (2.4) (2) (8.3)
USDMXN (Mexico) 18.29 (1) (2.8) (1.8) (-6.3)
USDPEN (Peru) 3.28 (0) (0.1) (1.5) (3.9)
LACI 65.69 (2.9) (1.8) (2.3) (4.9)

USDPLN (Poland) 3.99 (0.4) (0.5) (-2.5) (-1.6)
USDRUB (Russia) 63.95 (0.5) (0.7) (2.3) (11.8)
USDTRY (Turkey) 2.89 (0.4) (1.2) (1.2) (0.8)

USDCNY (China) 6.69 (0.1) (0) (-1.9) (-3)
USDINR (India) 67.18 (-0.1) (0.4) (-0.6) (-1.6)
USDIDR (Indonesia) 13120 (-0.1) (0.6) (1.3) (4.8)
ADXY 106.73 (0.2) (0.3) (-0.1) (0.2)

Commodities *(change in percentage)*

Brent 47.91 (3.6) (-0.1) (-5.2) (28.5)
WTx 46.29 (3.4) (-0.7) (-5.7) (25)
Copper 217.55 (1.3) (-0.3) (7.1) (2.4)
Gold 1337.73 (-1.3) (-1.4) (5) (26)
Baltic Dry Index 704 (0) (1.7) (15.4) (47.3)
S&P GSCI Spot commodity index 355.912 (-0.6) (-5.5) (-8.2) (15.1)
S&P GSCI Brent Spot 395.83 (-0.8) (-7.6) (-11) (26.1)
S&P GSCI Metals Spot 272.02 (0.2) (-1.8) (5.4) (6.7)
S&P GSCI Agricultural Spot 300.962 (0.2) (-2.1) (-10) (6.1)

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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