

# Market Comment | Financial markets cautious ahead of tomorrow's BoE meeting

Global Financial Markets Unit  
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- **In today's session the financial markets were cautious, with the main indices almost unchanged both in the US (S&P500 -0.2%) and Europe (Euro Stoxx 50 -0.2%, Dax -0.3%, Ibex35 -0.4%),** although the major Asian indices rose, led by the Nikkei (+0.8%), recovering the ground lost since the Brexit outcome and taking advantage of easing measures. On the eve of the release of Chinese GDP growth figures (Q2), **China's trade surplus came in above expectations** (US\$48.11bn current, \$46.64bn consensus, \$49.98bn previous), but this was not enough to dissipate global concerns.
- In contrast, shares of Spanish banks rose significantly today (Sabadell +2.9%, Caixabank +1.5%, Popular +1.52%), after the European Court of Justice endorsed a limitation on the amount that Spanish banks have to reimburse to their customers in respect of excess charges deriving from rate floors in mortgage contracts.
- **Bond yields continued to fall across the board**, especially in 10Y UK Government bonds (-8 bps) followed by US (-4 bps) and Germany (-3 bps), showing that investors' appetite for bonds still remains high. In this context, Germany sold 10-year bunds with a zero percent coupon, this being the first time ever that Germany has issued 10-year debt with negative yields (-0.05%). The market's deepening into negative rates continued to reduce the stock of eligible bonds for the ECB's QE programme, creating technical difficulties for the ECB in maintaining features of its current asset purchase programme.
- **The markets are expecting the BoE's interest rate decision to be made public after tomorrow's meeting.** It is the first meeting that the BoE will have held since the Brexit outcome. The markets are expecting further measures to prop up the predicted slowdown caused by the Brexit outcome: the market implied probability of a cut in interest rates is 80.7%. The GBP/USD (-0.52%) and the FTSE100 (-0.2%) barely moved today ahead of tomorrow's decision.
- **Crude oil prices fell sharply (-4.3%) as US oil inventories decreased by less than expected** (-2.55 million barrels current, -2.95 million barrels consensus, -2.22 million barrels previous), showing the strength in supply, even though OPEC said yesterday that global demand will rise in the coming years. The EUR appreciated slightly against the USD (+xx%). EM currencies showed some depreciation, triggered by the fall in the oil price (COP -0.7%, MXN -0.4%, CLP +0.3%, PLN +0%, TRY -0.7%).

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Table 1



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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