

Market Comment | Positive mood remains in markets despite BoE's leaving rates on hold.

Global Financial Markets Unit
14 Jul 2016

- **BOE unexpectedly leaves interest rates on hold.** The BoE decided today to maintain interest rates unchanged (only one of the nine members voted to cut interest rates) and (unanimously) to maintain the stock of purchased assets unchanged at £375 billion. No new measures were announced, but the Committee expect to loosen monetary policy in August, considering the economic outlook with available economic activity data after the Brexit outcome. They agreed that although economic confidence had weakened in the near term, the resilience of the UK financial system cushioned the consequences of the potential slowdown triggered by Brexit ([see](#)).
- **Positive mood remains in markets despite BoE's leaving rates on hold.** The unexpected outcome of today's BoE meeting was not enough to diminish the recent optimism in financial markets. The consensus was expecting the implementation of easing measures to offset the spillover from the Brexit vote, but finally the BoE remained on hold despite hinting at a looser monetary policy in upcoming meetings. UK assets were the most volatile during today's session, and once the decision was released, the GBP appreciated sharply, while yields rebounded to 2.5%, although the former effect moderated slightly as the session went by.
- Against this backdrop and ahead of tomorrow's Chinese 2Q GDP release, global equity indices continued their upward trend and most of them are hovering around pre-Brexit levels, led by the US and EM. □ **Today's purchases were led by European indices (Euro Stoxx50, +1.4%; Dax, +1.5%; Ibex35, +1%), showing the continuation of the current risk-on mood.** Financials (Euro Stoxx banks: +3.4%) behaved especially bullishly, favoured by the upturn in yields (from historically lowest levels). In the same line, US indices again rose to fresh all-time highs, supported, among other things, by better-than-expected 2Q16 quarterly earnings (S&P: +0.6%)
- **The bond markets reflected a reduction in demand for bonds triggered by the BoE's decision.** The biggest rise was that of UK 10Y Gilt (+5 bps) and US 10Y Government Bond (+5 bps) while yields of European sovereign bonds inched up (SPA +3 bps, ITA +1 bps, POR +2 bps).
- The unexpected decision of BoE led to a **substantial appreciation of the GBP against its main peers** (+1.54% against the USD and +1.28% against the EUR), while the JPY continued on its downward trend (-0.98%) as talks on both more monetary and fiscal stimulus in Japan are underway. EM currencies (COP +0.4%, MXN +0.3%, CLP +1%, PLN +0.1%, TRY +0.6%) supported the oil price rebound (2.5%) which partially offset yesterday's sharp falls caused by US oil inventories.

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Table 1

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

Debt markets (changes in pp)

US 2yr	1.87 (1.81) (1.47)
US 5yr	1.85 (1.71) (1.46) (1.94)
US 10yr	1.52 (1.41) (1.17) (1.79)
Japan 10yr	4.26 (4.12) (3.17) (4.52)
GER 2yr	4.46 (4.12) (3.18) (3.52)
GER 5yr	4.49 (4.12) (3.17) (3.52)
GER 10yr	4.49 (4.12) (3.17) (3.52)
Regain 10yr	0.21 (0.14) (0.20) (1.74)
France 10yr	1.19 (1.05) (1.01) (1.34)
Greece 10yr	7.37 (6.12) (5.34) (4.42)
Interest 5yr	46 (46) (46) (46)
Italy 10yr	1.22 (1.12) (0.92) (1.30)
Netherlands 10yr	4.18 (4.18) (3.18) (4.17)
Portugal 10yr	1.12 (1.12) (1.12) (1.12)
Spain 10yr	1.11 (1.11) (1.01) (1.45)

Equity markets

France 10yr	1.19 (1.05) (1.01) (1.34)
China 10yr	4.38 (3.12) (1.12) (1.27)
Colombia 10yr	1.18 (1.18) (1.18) (1.18)
Mexico 10yr	4.30 (3.12) (1.12) (1.24)
Peru 10yr	1.11 (1.11) (1.11) (1.11)
United 10yr	2.40 (2.40) (2.40) (2.40)
United 5yr	1.44 (1.44) (1.44) (1.44)
United 10yr	1.44 (1.44) (1.44) (1.44)
United 10yr	1.44 (1.44) (1.44) (1.44)
United 10yr	1.44 (1.44) (1.44) (1.44)
United 10yr	1.44 (1.44) (1.44) (1.44)

Commodity risk (changes in pp)

Oil

WTI	21 (21) (21) (21)
Brent	21 (21) (21) (21)
Crude	21 (21) (21) (21)
Gasoline	21 (21) (21) (21)
Heating Oil	21 (21) (21) (21)
Natural Gas	21 (21) (21) (21)
Coal	21 (21) (21) (21)

Metals

Gold	21 (21) (21) (21)
Silver	21 (21) (21) (21)
Copper	21 (21) (21) (21)
Aluminum	21 (21) (21) (21)
Zinc	21 (21) (21) (21)
Nickel	21 (21) (21) (21)
Platinum	21 (21) (21) (21)
Palladium	21 (21) (21) (21)

Commodity risk (changes in percentage)

Energy

WTI	1.19 (1.19) (1.19) (1.19)
Brent	1.19 (1.19) (1.19) (1.19)
Crude	1.19 (1.19) (1.19) (1.19)
Gasoline	1.19 (1.19) (1.19) (1.19)
Heating Oil	1.19 (1.19) (1.19) (1.19)
Natural Gas	1.19 (1.19) (1.19) (1.19)
Coal	1.19 (1.19) (1.19) (1.19)

Metals

Gold	1.19 (1.19) (1.19) (1.19)
Silver	1.19 (1.19) (1.19) (1.19)
Copper	1.19 (1.19) (1.19) (1.19)
Aluminum	1.19 (1.19) (1.19) (1.19)
Zinc	1.19 (1.19) (1.19) (1.19)
Nickel	1.19 (1.19) (1.19) (1.19)
Platinum	1.19 (1.19) (1.19) (1.19)
Palladium	1.19 (1.19) (1.19) (1.19)

Credit risk

US

US 10yr	1.19 (1.19) (1.19) (1.19)
US 5yr	1.19 (1.19) (1.19) (1.19)
US 2yr	1.19 (1.19) (1.19) (1.19)
US 10yr	1.19 (1.19) (1.19) (1.19)
US 5yr	1.19 (1.19) (1.19) (1.19)
US 2yr	1.19 (1.19) (1.19) (1.19)

Europe

Germany 10yr	1.19 (1.19) (1.19) (1.19)
France 10yr	1.19 (1.19) (1.19) (1.19)
Italy 10yr	1.19 (1.19) (1.19) (1.19)
Spain 10yr	1.19 (1.19) (1.19) (1.19)
UK 10yr	1.19 (1.19) (1.19) (1.19)

Interest rate markets (changes in pp)

US 10yr	1.19 (1.19) (1.19) (1.19)
US 5yr	1.19 (1.19) (1.19) (1.19)
US 2yr	1.19 (1.19) (1.19) (1.19)
Germany 10yr	1.19 (1.19) (1.19) (1.19)
France 10yr	1.19 (1.19) (1.19) (1.19)
Italy 10yr	1.19 (1.19) (1.19) (1.19)
Spain 10yr	1.19 (1.19) (1.19) (1.19)
UK 10yr	1.19 (1.19) (1.19) (1.19)

Stock markets (changes in percentage)

US

S&P 500	1.19 (1.19) (1.19) (1.19)
NASDAQ	1.19 (1.19) (1.19) (1.19)
DAX	1.19 (1.19) (1.19) (1.19)
FTSE 100	1.19 (1.19) (1.19) (1.19)
Nikkei 225	1.19 (1.19) (1.19) (1.19)
Hang Seng	1.19 (1.19) (1.19) (1.19)
ASX 200	1.19 (1.19) (1.19) (1.19)

Europe

Germany 10yr	1.19 (1.19) (1.19) (1.19)
France 10yr	1.19 (1.19) (1.19) (1.19)
Italy 10yr	1.19 (1.19) (1.19) (1.19)
Spain 10yr	1.19 (1.19) (1.19) (1.19)
UK 10yr	1.19 (1.19) (1.19) (1.19)

Currencies (in percentage, positive for dollar depreciation)

US

EUR/USD	1.19 (1.19) (1.19) (1.19)
GBP/USD	1.19 (1.19) (1.19) (1.19)
JPY/USD	1.19 (1.19) (1.19) (1.19)
CHF/USD	1.19 (1.19) (1.19) (1.19)
AUD/USD	1.19 (1.19) (1.19) (1.19)
CAD/USD	1.19 (1.19) (1.19) (1.19)

Europe

EUR/GBP	1.19 (1.19) (1.19) (1.19)
EUR/JPY	1.19 (1.19) (1.19) (1.19)
EUR/CHF	1.19 (1.19) (1.19) (1.19)
EUR/AUD	1.19 (1.19) (1.19) (1.19)
EUR/CAD	1.19 (1.19) (1.19) (1.19)

Commodity risk (changes in percentage)

Energy

WTI	1.19 (1.19) (1.19) (1.19)
Brent	1.19 (1.19) (1.19) (1.19)
Crude	1.19 (1.19) (1.19) (1.19)
Gasoline	1.19 (1.19) (1.19) (1.19)
Heating Oil	1.19 (1.19) (1.19) (1.19)
Natural Gas	1.19 (1.19) (1.19) (1.19)
Coal	1.19 (1.19) (1.19) (1.19)

Metals

Gold	1.19 (1.19) (1.19) (1.19)
Silver	1.19 (1.19) (1.19) (1.19)
Copper	1.19 (1.19) (1.19) (1.19)
Aluminum	1.19 (1.19) (1.19) (1.19)
Zinc	1.19 (1.19) (1.19) (1.19)
Nickel	1.19 (1.19) (1.19) (1.19)
Platinum	1.19 (1.19) (1.19) (1.19)
Palladium	1.19 (1.19) (1.19) (1.19)

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

Debt markets (changes in bp)

US 2 yr 1.87 (1.81) (1.97)
 US 3 yr 1.92 (1.82) (1.94)
 US 10 yr 1.92 (1.84) (1.97)

Japan 10 yr 2.30 (2.21) (1.95) (2.02)

GB 2 yr 4.66 (4.12) (4.12)
 GB 5 yr 4.96 (5.11) (4.12)
 GB 10 yr 4.96 (5.11) (4.12)

Belgium 10 yr 4.21 (4.16) (2.5) (2.78)
 France 10 yr 3.74 (4.12) (2.48)
 Greece 10 yr 7.97 (7.12) (2.04) (2.44)
 Ireland 10 yr 6.40 (4.12)

Italy 10 yr 5.22 (5.12) (2.42) (2.42)
 Netherlands 10 yr 2.81 (4.12) (1.97) (2.72)
 Portugal 10 yr 5.12 (5.12) (4.27) (4.82)
 Spain 10 yr 1.97 (1.97) (1.96) (4.82)

Finland 10 yr 1.86 (4.12) (2.01) (4.82)
 Chile 10 yr 4.38 (4.12) (4.12) (4.12)
 Colombia 10 yr 4.12 (4.12) (4.12) (4.12)

Kuwait 10 yr 5.82 (5.12) (2.12) (2.42)
 Peru 10 yr 5.74 (5.12) (2.12) (1.92)

Poland 10 yr 2.82 (4.12) (2.42) (2.42)
 Russia 10 yr 3.44 (4.12) (2.42) (2.42)
 Russia 10 yr 3.88 (4.12) (2.42) (1.92)

Turkey 10 yr 8.84 (4.12) (4.12) (2.42) (4.82)

India 10 yr 7.28 (6.12) (4.12) (4.82)
 Indonesia 10 yr 7.17 (4.12) (4.12) (4.82)

Country risk (changes in bp)

Spain 20 (21) (4) (21) (4)
 France 20 (21) (28) (17)
 Greece 20 (4) (22) (28) (25)

Ireland 20 (21) (14) (12)
 Italy 20 (4) (11) (11) (11)
 Netherlands 11 (11) (11) (11) (11)

Portugal 19 (18) (18) (12) (22)
 Spain 12 (11) (11) (11) (7)

Spain 10 (10) (10) (10) (10)
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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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