Market Comment | Search for yield strategies faded this week

Global Financial Markets Unit
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- **US economy grew less than expected in the second quarter (1.2% SAAR, BBVA 2.5% SAAR, consensus 2.6% SAAR, previous 0.8% SAAR revised from 1.1% SAAR). Private investment dropped 3.2%, fixed investment subtracted 0.52 pp from growth and inventories took another 1.16 pp off**, while consumption rose slightly less than expected (4.2%, consensus 4.4%).

- **Very timid increase in easing measures by BoJ, which slightly disappointed financial markets.** BoJ expanded its purchases of exchange-traded funds and doubled the size of a U.S. dollar lending programme. The central bank maintained its annual target for expanding the monetary base at ¥80 trillion. It also kept the minus 0.1 percent rate for commercial banks' extra reserves. The BoJ also updated its economic projections: inflation ex-fresh food has been revised to +0.1% (from 0.5%) for FY16 and left unchanged at +1.7% for FY17, while GDP growth estimates were cut to 1.0% YoY (from 1.2%) for FY16 and increased to 1.3% YoY for FY17 (from 0.1% YoY in April). (see official statement). According to market-based metrics the **BoJ's additional monetary stimulus fell short of expectations**.

- **Central banks and oil prices drove the markets this week**. The Central Banks meetings did not bring any significant news. **The Fed used July's statement to re-prime the policy normalization pump**. Improvements in domestic conditions moved the FOMC closer to resuming normalisation. However, the uncertainty and the U.S. elections will complicate the possibility of a rate increase in September (see). Moreover, the softer-than-expected 2Q16 GDP growth also led to a decline in the market implied probability of a rate hike in December's FOMC meeting (to 32% from 37%). On the other hand, **the BoJ increased its easing measures, but slightly disappointed financial markets**. The Japanese yen depreciated by -1.6% against US dollar, while the Japanese 10Y yield surged by 8 bps and Japanese equity markets showed only a shy increase +0.6%. Investors are now waiting for the ambitious anticipated fiscal package (more than 5% of GDP), which will be launched early next week.

- Nonetheless, **the downward trend in oil prices (-7.5%) halted the search for yield strategies**. In bond markets safe-haven bond yields ended the week down (-9 bps in US and -9 bps in Germany), while European peripheral bond prices also increased, sending their yields lower in the week (-7 bps Italy, -10 bps Spain and -7 bps Italy). Equity indices remained quite stable during the week amid the 2Q earnings report period (Euro Stoxx 50 +0.4%, S&P500 -0.1%, Nikkei -0.3%, Ibex35, -0.5%). However, the release of banking stress test results in the EZ could be a source of concern if their outcome disappoints.

- The US dollar depreciated in the week, reflecting the Fed's statement and the disappointing 2Q16 US GDP figures. The dollar index decreased (DXY 2.1%), with the dollar depreciating against its main peers (JPY 3.62% EUR 1.81% GBP 1.38%) in the week. The bearish sentiment in the oil market dragged down the main EM currencies, mostly those closely related with oil prices (CLP -0.4%, COP -4%, MXN -1.2%), while TRY +2.4% recovered from the sharp losses experienced last week.

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Table 1

BBVA Research

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0.67 (-4) (-4) (3) (-38)
US 5-yr 1.04 (-4) (-8) (-2) (-72)
US 10-yr 1.47 (-3) (-9) (-4) (-80)

Japan 10-yr -0.19 (8) (3) (4) (-46)

GER 2-yr -0.63 (-1) (-1) (3) (-28)
GER 5-yr -0.53 (-2) (-4) (3) (-48)
GER 10-yr -0.119 (-3) (-9) (1) (-75)

Belgium 10-yr 0.12 (-3) (-12) (-14) (-85)
France 10-yr 0.1 (-3) (-11) (-12) (-89)
Greece 10-yr 8.17 (10) (16) (-2) (-12)
Ireland 10-yr 0.41 (-3) (-7) (-19)
Italy 10-yr 1.17 (-3) (-7) (-21) (-43)
Netherlands 10-yr -0.02 (-4) (-11) (-12) (-81)
Portugal 10-yr 2.93 (-3) (-12) (-16) (41)
Spain 10-yr 1.02 (-7) (-10) (-24) (-76)

Emerging Markets
Brazil 10-yr 11.82 (-7) (-12) (-30) (-469)
Chile 10-yr 4.46 (-1) (7) (-3) (-20)
Colombia 10-yr 7.6 (1) (17) (8) (-106)
Mexico 10-yr 5.9 (-3) (0) (1) (-36)
Peru 10-yr 5.71 (0) (0) (-36) (-159)

Poland 10-yr 2.88 (-3) (-4) (-6) (-7)
Russia 5-yr 8.59 (-7) (-23) (6) (-129)
Russia 10-yr 8.44 (-7) (-17) (7) (-111)
Turkey 10-yr 9.45 (-5) (-35) (36) (-102)

India 10-yr 7.17 (-2) (-8) (-28) (-59)
Indonesia 10-yr 6.94 (-3) (-12) (-55) (-181)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 24 (-1) (-3) (-14) (-10)
France 22 (0) (-2) (-12) (-14)
Greece 828 (13) (25) (-3) (63)
Ireland 53 (-1) (2) (-20) (1)
Italy 129 (0) (2) (-21) (32)
Netherlands 10 (-1) (-2) (-13) (-6)
Portugal 305 (-1) (-3.2) (-16) (116)
Spain 114 (-4) (-1) (-25) (-1)

5-yr sovereign spreads *(against Germany)*
Belgium 6 (0) (-2.9) (-13) (-2)
France 13 (0) (-2) (-10) (0)
Greece 1655 (2) (4) (-3) (48)
Ireland 53 (2) (4) (-3) (28)
Italy 82 (0) (1) (-11) (27)
Netherlands 6 (0) (-2.6) (-9) (6)
Portugal 224 (-2) (-17) (-20) (114)
Spain 71 (-1) (1) (-12) (-1)

2-yr sovereign spreads *(against Germany)*
Belgium 10 (-1) (-1) (-1) (6)
France 8 (0) (-1.5) (-6) (4)
Ireland 18 (-1) (-1) (-18) (4)
Italy 57 (0) (1) (-3) (25)
Netherlands 4 (0) (-2) (-2) (7)
Portugal 109 (-3) (-21) (-22) (64)
Spain 47 (0) (1) (-6) (12)

5-yr sovereign CDS
5-yr CDS Belgium 44 (-1) (-1) (-14) (13)
5-yr CDS France 32 (0) (0) (-14) (7)
5-yr CDS Germany 17 (0) (0) (-6) (5)
5-yr CDS Greece 934 (-1) (2) (-62) (-124)
5-yr CDS Ireland 70 (0) (0) (-16) (30)
5-yr CDS Italy 135 (-1) (1) (-38) (39)
5-yr CDS Netherlands 28 (0) (0) (-5) (13)
5-yr CDS Portugal 274 (-6) (1) (-54) (106)
5-yr CDS Spain 86 (-4) (0) (-32) (-2)
5-yr CDS UK 37 (0) (0) (-9) (17)
5-yr CDS US 19 (0) (-1) (-3) (0)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 408 (0) (17) (-21) (-10889)
5-yr CDS Brazil 290 (3) (6) (-33) (-202)
5-yr CDS Chile 88 (2) (9) (-19) (-39)
5-yr CDS Colombia 198 (5) (19) (-25) (-41)
5-yr CDS Mexico 153 (3) (12) (-21) (-17)
5-yr CDS Peru 130 (-1) (7) (-24) (-55)
5-yr CDS Venezuela 4022 (3) (262) (-436) (-2021)

5-yr CDS Poland86 (-2) (-6) (-19) (14)
5-yr CDS Russia 236 (-1) (16) (-12) (-66)
5-yr CDS Turkey 270 (-2) (-7) (19) (-3)

5-yr CDS China 110 (-2) (0) (-16) (2)
5-yr CDS India 153 (0) (-1) (-26) (4)
5-yr CDS Indonesia 162 (-4) (1) (-27) (-65)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 12.18 (-4.2) (1.3) (-26.8) (-6)
VSTOXX 20.39 (-2.9) (6.7) (-28.6) (-2)
EM EFT volatility Index 19 (-4) (-3) (-21) (-16)
Dollar/euro volatility 7.2 (0.8) (-10.1) (-26.8) (-26)
EM FX volatility index 10 (0) (-2) (-6) (-15)
Credit spread (BAA) 272.8 (3.3) (6.4) (-18.9) (-50)
US bonds volatility index 67 (0) (-5) (-7) (-2)

Bank risk *(changes in bp)*
US banks CDS 78 (0) (3) (-19) (3)
EMU banks CDS 115 (-2) (4) (-33) (31)
UK banks CDS 110 (-1) (6) (-37) (33)

Large Spanish banks CDS 136 (0) (7) (-45) (-1)
Medium Spanish banks CDS 158 (0) (0) (-50) (0)

Greek banks CDS 908 (-225) (26) (-441) (-744)
Russian banks CDS 340 (2) (5) (-26) (-42)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 107 (0) (0) (-241) (-66)
UK Non-financial CDS 157 (-1) (0) (-26) (-35)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 6 (0) (1) (-2) (-5)
UEM OIS spread 12m 35 (1) (0) (-3) (2)
UEM TED spread 3m 45 (0) (0.4) (6) (5)

US OIS spread 3m 34 (0) (3) (8) (12)
US OIS spread 12m 95 (1) (9) (14) (39)
US TED spread 3m 52 (0) (11) (13) (7)

Spain Ted Spread 3m 3 (-1) (1.2) (1) (-2)

EONIA Index -0.34 (0) (0) (0) (-21)
Euribor 3m -0.3 (0) (0) (-2) (-17)
Euribor 12m -0.05 (0) (0) (0) (-11)

Libor 3m 0.76 (0) (4) (11) (14)
Libor 12m 1.42 (0) (5) (20) (24)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2173 (0.1) (-0.1) (4.9) (6)
Dow Jones 18442.6 (-0.1) (-0.7) (4.2) (6)
Nikkei 16569.3 (0.6) (-0.3) (6.4) (-13)
FTSE 100 6722.1 (0) (-0.1) (5.7) (8)
EuroStoxx 50 2983.3 (0.6) (0.4) (5.3) (-9)
IBEX8557.6 (0.9) (-0.5) (5.6) (-10)
DAX 10330 (0.5) (1.8) (7.5) (-4)
CAC4429.7 (0.2) (1.1) (5.6) (-4)
MIB 16738.7 (1.3) (-0.2) (5) (-22)
ASE Athens 571.3 (1.5) (0) (5.4) (-10)

Bank stocks
JPM 64.1 (0) (0.1) (4.8) (-3)
Citi 44 (-0.2) (-0.7) (4.5) (-15)
BoA 14.6 (-0.5) (1.6) (10.7) (-13)
MS 28.8 (-0.1) (-0.3) (14.3) (-9)
GS 159.6 (-0.6) (-0.5) (9.7) (-11)

HSBC 495.2 (0.9) (0.3) (9.4) (-8)
RBS 191.6 (1.9) (1.2) (6.3) (-37)
Barclays 155.7 (6.2) (2.5) (12.8) (-29)
Lloyds 53.2 (1.3) (-2.4) (-4.2) (-27)

EMU banks 72.8 (2) (-1.5) (8.9) (-33)
BNP 43.9 (2.5) (1.2) (11.1) (-16)
Crédit Agricole 7.9 (1.7) (-0.3) (4.3) (-28)
Deutsche Bank 12 (0.7) (-8.4) (-5.3) (-47)
ING 10 (1.7) (-1.9) (10.4) (-20)
Intesa 1.9 (2.4) (-0.4) (18.2) (-37)
SG 30.2 (1.3) (0) (8.3) (-29)
Unicredito 2.2 (4.9) (-5) (12.8) (-58)

Large Spanish banks 59.9 (2.2) (-2.1) (5.5) (-21)
Santander 3.8 (1.4) (-3) (8.3) (-17)
BBVA 5.2 (2.9) (-1.4) (3.3) (-23)

Medium Spanish banks 58.8 (2.1) (-0.1) (6.3) (-29)
Caixabank 2.2 (4.4) (1.8) (13) (-30)
Popular 1.2 (1.5) (-2.9) (3.5) (-55)
Sabadell 1.2 (2.1) (2.4) (1.8) (-25)
Bankinter 6.2 (1.6) (-0.3) (6.6) (-5)
Bankia 0.7 (1.2) (-2.4) (6.9) (-36)

Greek banks 2.8 (6.5) (-4.5) (-1) (-37)
Alpha Bank1.8 (6.6) (-1.7) (2.3) (-29)
Pireus Bank0.2 (11.1) (-6.8) (-12.8) (-46)
National Central Bank0.2 (13.5) (4.1) (3.1) (-41)
Eurobank Ergasias0.5 (3.7) (-13.6) (-9.6) (-51)

Emerging Markets
Main equity indices
MSCI Latam 70903 (-0.23) (-0.4) (8.8) (19.5)
Ibovespa (Brazil) 56751 (0.1) (-0.4) (11.3) (30.9)
Mexbol 46446 (-0.8) (-2.3) (2.2) (8.1)

MSCI EM Europe 4412 (0.04) (0.6) (3.2) (3.9)
Poland 1760 (-1.6) (-1.9) (0.2) (-5.3)
Micex (Russia) 1943 (-0.6) (0.8) (2.9) (10.3)
Ise 100 (Turkey) 75406 (0.2) (5.1) (-1.7) (5.1)

MSCI EM Asia 693 (0) (0.7) (7.1) (5)
Shanghai Composite (China) 2979 (-0.5) (-1.1) (1.6) (-15.8)
Jakarta Composite (Indonesia) 5216 (-1.6) (0.4) (4.7) (14)

Bank stocks
Turkish banks 78 (0.9) (4.8) (-2.2) (6.2)
Akbank T.A.S. 8 (1.3) (3.5) (-5.4) (14.9)
Garanti 7 (0.5) (3.7) (-3.6) (2.9)
Turkiye Is Bankasi 5 (0.7) (7.7) (4.1) (0)

Russian banks 178 (1.2) (1.1) (2.5) (17.1)
Sberbank 139 (1.9) (1.2) (4.2) (37.7)
VTB Bank 0.1 (-0.6) (1) (-1.3) (-14.9)

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

Developed Markets
EURUSD 1.118 (0.89) (1.81) (0.5) (2.9)
GBPUSD 1.33 (0.96) (1.38) (-1) (-9.8)
USDJPY 102.29 (2.83) (3.62) (0.5) (14.9)
DXY 95.46 (1.3) (2.1) (0.3) (3.2)

Emerging Markets
USDARS (Argentina) 15.07 (-0.2) (-1) (-0.7) (-16.5)
USDBRL (Brazil) 3.23 (1.8) (0.7) (-0.4) (18.4)
USDCLP (Chile) 652.96 (1.6) (-0.4) (1.4) (7.9)
USDCOP (Colombia) 3068.63 (0.8) (-4) (-5.2) (3.3)
USDMXN (Mexico) 18.76 (0.7) (-1.2) (-1.5) (-9)
USDPEN (Peru) 3.35 (0.4) (-0.9) (-2) (1.8)
LACI 64.92 (1) (-0.7) (-1) (3.7)

USDPLN (Poland) 3.9 (1) (2) (1.9) (0.6)
USDRUB (Russia) 66.03 (1.3) (-1.9) (-3.6) (9)
USDTRY (Turkey) 2.99 (0.7) (2.4) (-3.5) (-2.6)

USDCNY (China) 6.63 (0.4) (0.7) (0.1) (-2.1)
USDINR (India) 67 (0.1) (0.1) (1) (-1.3)
USDIDR (Indonesia) 13112 (-0.1) (-0.1) (0.3) (4.9)
ADXY 107.58 (0.4) (0.8) (0.7) (1)

Commodities *(change in percentage)*

Brent 42.25 (-1.1) (-7.5) (-16.5) (13.3)
WTx 41.44 (0.7) (-6.2) (-16.9) (11.9)
Copper 222.85 (1) (-0.2) (2.1) (4.8)
Gold 1348.19 (0.9) (1.9) (2.2) (27)
Baltic Dry Index 665 (0) (-7.4) (3.9) (39.1)
S&P GSCI Spot commodity index 336.681 (-0.8) (-4) (-9.5) (8.9)
S&P GSCI Brent Spot 367.915 (-1.5) (-7.3) (-12.2) (17.2)
S&P GSCI Metals Spot 274.85 (1.2) (-1.1) (2.2) (7.8)
S&P GSCI Agricultural Spot 286.973 (-1) (-2) (-8.8) (1.2)

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