

Market Comment | Weak economic indicators drove financial markets

Global Financial Markets Unit
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- **Markets reacted to increasing doubts about the global outlook and the result of EBA stress tests.** Friday's disappointing 2Q US growth figures, coupled with the mixed data from China's PMI ([see](#)) and **poor European manufacturing PMI data (especially UK)** contributed to trigger some volatility in financial markets due to increasing uncertainty about the global economic outlook. In fact, according to market measures, expectations of more prolonged sluggish global growth increased, dragging inflationary expectations down (according to the inflation swap 5Y5Y in US and EZ). Moreover central banks could reaffirm the dovish stance. **The BoE could take action at Thursday's meeting**, with the market implied probability of its raising interest rates very high (97%). In the last statement the BoE's Monetary Policy Committee hinted at further loosening of monetary policy in August, with economic activity data available after Brexit vote.
- Despite the worse-than-expected macroeconomic data, **yields went up across the board.** European curves rose, led by core countries (10Y GER +2bps, 10Y FRA +2bps, 10Y SPA +1bps, 10Y ITA +1bps). Similarly, US10Y rose 3bps despite comments by Fed's Dudley, who pointed out that the risks associated with acting prematurely outweighed those of waiting too long to move interest rates (market's expectation of September rate-hike decreased to 16%).
- Against this backdrop, **equity indices went down mostly in Europe**, - particularly in peripheral markets- (Euro Stoxx -0.8%, Ibex35 -0.9%, S&P500 +0.1%), dragged down by the banking sector after weak economic data and the release of stress test results (EMU Banks, -2.8%), with Italian bank leading the way.
- In a mild risk-off mood, the USD appreciated against GBP -0.16% and JPY -0.22% but depreciated against EUR +0.02%, while oil prices went down once again (-0.6%). **Current concerns on global glut in oil still remain, leaving downward pressure on EM currencies, especially those closely related with oil prices.** The MXN depreciated against the USD (-0.5%) due to disappointing GDP figures: Mexican GDP unexpectedly contracted (for the first time in three years). The timely estimate of second quarter GDP showed a -0.3% change compared to the previous quarter ([see](#)). On another front, at its July meeting, the Colombian Central Bank's Board increased its monetary policy rate 25 bp taking the repo rate up to 7.75%, in line with expectations ([see](#)), but it was not sufficient to avoid the depreciation of the COP (-0.6%).

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Table 1

Debt markets (changes in bps)

US 2 yr 0.44 (1.7) (1.30)
US 5 yr 1.04 (1.0) (1.12)
US 10 yr 1.48 (2.0) (1.91)

Japan 5 yr 0.18 (1.0) (1.00)

GER 5 yr 0.12 (1.1) (1.00)
GER 10 yr 0.32 (1.2) (1.00)
GER 30 yr 0.88 (2.0) (1.00)

Belgium 10 yr 0.15 (2.4) (1.00)
France 10 yr 0.12 (2.1) (1.00)
Canada 5 yr 0.41 (1.1) (1.00)
Italy 10 yr 1.18 (1.4) (1.00)
Netherlands 10 yr 0.12 (1.2) (1.00)
Spain 10 yr 1.00 (1.1) (1.00)

Emerging Markets
Brazil 10 yr 11.81 (3.1) (1.28) (4.73)
China 10 yr 4.48 (0.2) (1.11) (1.00)
Colombia 5 yr 8.10 (1.00) (1.00)
Mexico 5 yr 4.58 (2.0) (1.00) (1.00)
Peru 10 yr 7.71 (1.0) (1.00) (1.00)

Poland 10 yr 2.81 (6.1) (1.11) (1.00) (1.00)
Russia 5 yr 6.59 (11.20) (1.20) (1.00)
Russia 10 yr 4.41 (11.00) (1.00) (1.00)
Turkey 10 yr 3.42 (4.1) (1.00) (1.00)

India 10 yr 11.18 (1.0) (1.00) (1.00)
Indonesia 10 yr 8.71 (3.1) (2.0) (1.00) (1.00)

Country risk (changes in bps)

10 yr sovereign spread (against Germany)
Belgium 21 (8) (2) (1.00) (1.00)
France 23 (8) (2) (1.00) (1.00)
Germany 0 (0) (0) (1.00) (1.00)
Ireland 41 (11) (2) (1.00) (1.00)
Italy 128 (15) (1) (1.00) (1.00)
Netherlands 31 (12) (1) (1.00) (1.00)
Poland 201 (43) (4) (1.00) (1.00)
Spain 133 (13) (1) (1.00) (1.00)

5 yr sovereign spread (against Germany)
Belgium 41 (9) (2) (1.00) (1.00)
France 38 (12) (2) (1.00) (1.00)
Germany 0 (0) (0) (1.00) (1.00)
Ireland 41 (11) (2) (1.00) (1.00)
Italy 128 (15) (1) (1.00) (1.00)
Netherlands 31 (12) (1) (1.00) (1.00)
Poland 201 (43) (4) (1.00) (1.00)
Spain 133 (13) (1) (1.00) (1.00)

3 yr sovereign spread (against Germany)
Belgium 39 (10) (1) (1.00) (1.00)
France 36 (13) (3) (1.00) (1.00)
Germany 0 (0) (0) (1.00) (1.00)
Ireland 41 (11) (2) (1.00) (1.00)
Italy 128 (15) (1) (1.00) (1.00)
Netherlands 31 (12) (1) (1.00) (1.00)
Poland 201 (43) (4) (1.00) (1.00)
Spain 133 (13) (1) (1.00) (1.00)

5 yr CDS index
5 yr CDS France 411 (3) (1.00) (1.00)
5 yr CDS Germany 17 (8) (3) (1.00) (1.00)
5 yr CDS Spain 302 (9) (2) (1.00) (1.00)
5 yr CDS Ireland 71 (5) (1) (1.00) (1.00)
5 yr CDS Italy 134 (13) (1) (1.00) (1.00)
5 yr CDS Netherlands 23 (8) (3) (1.00) (1.00)
5 yr CDS Portugal 228 (6) (1) (1.00) (1.00)
5 yr CDS Spain 98 (8) (1) (1.00) (1.00)
5 yr CDS UK 30 (8) (1) (1.00) (1.00)
5 yr CDS US 19 (8) (1) (1.00) (1.00)

10 yr CDS index
5 yr CDS Argentina 420 (8) (3) (1.00) (1.00) (1.00) (1.00)
5 yr CDS Brazil 383 (4) (3) (2.0) (2.0)
5 yr CDS China 162 (4) (1) (1.00) (1.00)
5 yr CDS Colombia 244 (4) (1) (1.00) (1.00)
5 yr CDS India 103 (3) (1) (1.00) (1.00)
5 yr CDS Mexico 107 (3) (1) (1.00) (1.00)
5 yr CDS Peru 107 (3) (1) (1.00) (1.00)
5 yr CDS Venezuela 371 (8) (2) (2.0) (2.0) (1.00) (1.00)

5 yr CDS Pakistan 0 (14) (1) (1.00)
5 yr CDS Russia 225 (6) (2) (1.00)
5 yr CDS Turkey 272 (6) (2) (1.00)

5 yr CDS China 110 (8) (1) (1.00) (1.00)
5 yr CDS India 121 (8) (1) (1.00) (1.00)
5 yr CDS Indonesia 159 (12) (1) (1.00) (1.00) (1.00)

Credit risk

100% likelihood (change in percentage points for S&P default, %)
VIX 13.93 (2.7) (4.2) (1.20) (4.5)
VIX10Y 17.14 (3.4) (2.1) (1.20) (4.5)
EM FT volatility index 29.23 (8) (1) (1.00) (1.00)
Default swap index 1.11 (3) (1) (1.00) (1.00) (1.00) (1.00)
EM FT volatility index 30.12 (8) (1) (1.00) (1.00)
Credit spread index 366.13 (12) (1) (1.00) (1.00)
CS 1000 volatility index 44 (8) (1) (1.00) (1.00)

100% change in spot
US bank CDS 79 (1) (1) (1.00) (1.00)
EM bank CDS 114 (1) (1) (1.00) (1.00)
UK bank CDS 112 (2) (1) (1.00) (1.00) (1.00)

Large Spanish bank CDS 154 (2) (1) (1.00) (1.00)
Medium Spanish bank CDS 168 (1) (1) (1.00) (1.00)
Greek bank CDS 506 (6) (3) (1.00) (1.00) (1.00)
Russian bank CDS 291 (2) (1) (1.00) (1.00) (1.00)

Corporate risk (change in bps)
UK Non-financial CDS 186 (1) (1) (1.00) (1.00) (1.00)
UK Financial CDS 184 (1) (1) (1.00) (1.00) (1.00)

Interbank markets (changes in bps)
LIBOR 3m 60 (1) (1) (1.00) (1.00)
LIBOR 6m 58 (1) (1) (1.00) (1.00)
LIBOR 12m 57 (1) (1) (1.00) (1.00)
LIBOR 3m 59 (1) (1) (1.00) (1.00)
LIBOR 6m 57 (1) (1) (1.00) (1.00)
LIBOR 12m 56 (1) (1) (1.00) (1.00)

EONIA 1m 5.25 (0) (1) (1.00) (1.00)
EONIA 3m 4.75 (0) (1) (1.00) (1.00)
EONIA 6m 4.50 (0) (1) (1.00) (1.00)

LIBOR 3m 4.75 (0) (1) (1.00) (1.00)
LIBOR 6m 4.50 (0) (1) (1.00) (1.00)
LIBOR 12m 4.25 (0) (1) (1.00) (1.00)

Stock markets (Changes in percentage)

Major equity indices
S&P 500 27.84 (1.2) (1.00) (1.00) (1.00)
Dow Jones 16.02 (1) (1) (1.00) (1.00) (1.00)
Nikkei 166.81 (0) (1) (1.00) (1.00) (1.00)
FTSE 100 16.64 (1.0) (1.00) (1.00) (1.00)
Euro Stoxx 18 29.87 (1.2) (1.00) (1.00) (1.00)
MSCI EAFE 27.14 (1.2) (1.00) (1.00) (1.00)
DAX 100.02 (1.0) (1.00) (1.00) (1.00)
CAC 40 17.71 (1.0) (1.00) (1.00) (1.00)
Nifty 50 16.41 (1.0) (1.00) (1.00) (1.00)
ASX 16.87 (1.2) (1.00) (1.00) (1.00)

Asian equity
JPX 34.1 (1.2) (1.00) (1.00) (1.00)
CSI 43.16 (1.4) (1.00) (1.00) (1.00)
DAX 16.8 (1.2) (1.00) (1.00) (1.00)
MSCI 39.8 (1.2) (1.00) (1.00) (1.00)
OS 16.8 (1.2) (1.00) (1.00) (1.00)

HSE 48.1 (1.2) (1.00) (1.00) (1.00)
NSE 185.1 (1.4) (1.00) (1.00) (1.00) (1.00)
BSE 151.2 (1.2) (1.00) (1.00) (1.00) (1.00)
S&P 500 27.84 (1.2) (1.00) (1.00) (1.00) (1.00)

EM bank 71.3 (1.2) (1.00) (1.00) (1.00)
BIF 43.1 (1.2) (1.00) (1.00) (1.00)
CIBF 78.4 (1.4) (1.00) (1.00) (1.00) (1.00)
ING 5.1 (1.1) (1.00) (1.00) (1.00) (1.00)
Intesa 1.2 (1.2) (1.00) (1.00) (1.00) (1.00)
SG 24.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Unicredit 2.9 (1.2) (1.00) (1.00) (1.00) (1.00)

Large Spanish bank 58.5 (1.2) (1.00) (1.00) (1.00) (1.00)
Bankinter 3.7 (1.2) (1.00) (1.00) (1.00) (1.00)
BBVA 5.7 (1.2) (1.00) (1.00) (1.00) (1.00)

Medium Spanish bank 57.6 (1.1) (1.00) (1.00) (1.00) (1.00)
CaixaBank 2.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Pegasus 1.2 (1.2) (1.00) (1.00) (1.00) (1.00)
Santander 1.2 (1.2) (1.00) (1.00) (1.00) (1.00)
Banco 4.2 (1.2) (1.00) (1.00) (1.00) (1.00)
Bankia 5.7 (1.2) (1.00) (1.00) (1.00) (1.00)

Greek bank 2.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Alpha Bank 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Piraeus Bank 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)
National Central Bank 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Eurobank Ergasys 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)

Emerging Markets
M&A Latin 17.68 (1.2) (1.00) (1.00) (1.00) (1.00)
Mexico 18.92 (1.2) (1.00) (1.00) (1.00) (1.00)
Nigeria 18.92 (1.2) (1.00) (1.00) (1.00) (1.00)
M&A Europe 16.12 (1.2) (1.00) (1.00) (1.00) (1.00)
Poland 19.12 (1.2) (1.00) (1.00) (1.00) (1.00)
M&A Russia 17.67 (1.2) (1.00) (1.00) (1.00) (1.00)
M&A US 17.67 (1.2) (1.00) (1.00) (1.00) (1.00)

MSCI EM Asia 18.71 (1.2) (1.00) (1.00) (1.00) (1.00)
Shanghai Composite (China) 26.17 (1.2) (1.00) (1.00) (1.00) (1.00)
Jakarta Composite (Indonesia) 23.67 (1.2) (1.00) (1.00) (1.00) (1.00)

Bank index
Turkish bank 18.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Arabian F.A.S. 16.1 (1.2) (1.00) (1.00) (1.00) (1.00)
Greece 4.2 (1.2) (1.00) (1.00) (1.00) (1.00)
Turkish Bank 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)

Russian bank 17.6 (1.2) (1.00) (1.00) (1.00) (1.00)
Dobank 1.0 (1.2) (1.00) (1.00) (1.00) (1.00)
VTB Bank 1.1 (1.2) (1.00) (1.00) (1.00) (1.00)

Currencies (in percentage, positive for dollar depreciation)

EUR/USD 1.119 (0.02) (0.14) (1.00) (1.00)
GBP/USD 1.32 (0.02) (0.23) (1.00) (1.00) (1.00)
USD/JPY 102.28 (0.20) (0.30) (1.00) (1.00) (1.00)
USD/INR 65.41 (1.7) (0.10) (1.00)

Emerging Markets
USD/CLP (Chile) 14.95 (0.2) (1.00) (1.00) (1.00)
USD/COP (Colombia) 3948 (0.6) (1.00) (1.00) (1.00)
USD/CAD (Canada) 1.35 (0.01) (0.10) (1.00) (1.00)
USD/TRY (Turkey) 19.34 (1.00) (1.00) (1.00) (1.00)
USD/INR (India) 65.41 (1.7) (0.10) (1.00)
USD/IDR (Indonesia) 14,200 (0.1) (1.00) (1.00) (1.00)
USD/RUB (Russia) 68.12 (1.1) (1.00) (1.00) (1.00)
USD/ZAR (South Africa) 14.83 (0.1) (1.00) (1.00) (1.00)

Commodities (change in percentage)
Wheat 42.22 (1.0) (1.00) (1.00) (1.00)
WTI 42.20 (1.2) (1.00) (1.00) (1.00) (1.00)
Copper 27.45 (1.2) (1.00) (1.00) (1.00) (1.00)
Gold 1792.48 (1.2) (1.00) (1.00) (1.00) (1.00)
Baltic Dry Index 555 (1.2) (1.00) (1.00) (1.00) (1.00)
S&P 500 Spot commodity index 339.78 (0.1) (1.00) (1.00) (1.00) (1.00)
S&P 500 Real Spot 339.78 (0.1) (1.00) (1.00) (1.00) (1.00)
S&P 500 Index 339.78 (0.1) (1.00) (1.00) (1.00) (1.00)
S&P 500 Agricultural Spot 281.73 (1.1) (1.00) (1.00) (1.00) (1.00)

Source: Bloomberg, Datastream, Euribor

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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