Market Comment | Economic indicators and central banks as main drivers this week

Global Financial Markets Unit
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- **Better-than-expected employment data in the US during July**, with the Nonfarm Payrolls (Jul) pointing to the addition of 255,000 jobs to the US economy (255K, consensus 180K, previous 292K), reinforcing expectations that the Federal Reserve could raise interest rates before year-end, according to market reaction: the US 10Y Government bond yield jumped and the US Dollar surged. The unemployment rate remained unchanged at 4.9%, slightly above expectations.

- **Sluggish economic indicators dragged down risk assets during the first part of the week.** In **China**, the services PMI went down in July, this being one of the main drivers, undermining confidence in economic growth and suggesting slow progress with China's rebalancing process to a services economy. These fears were partly offset by today's release of better-than-expected US Payrolls. Meanwhile, economic indicators from **Europe** showed a mixed performance: no big surprise in EZ's confidence data, while the UK's Composite PMI July data pointed towards recession. This evidence could support the ambitious measures announced by BoE in its last meeting and its assurance that it had scope to do more if needed.

- **BoE measures** included (i) interest rate cut to 0.25% for the first time since 2009 (unanimously), (ii) increasing the Asset Purchase Programme to GBP 435bn (with 3 members against), (iii) launching corporate bond purchases up to 10bn (with only 1 member against). Additionally they included a new Term Funding Scheme to offset the hit to banks' margins from the cut and to facilitate the flow of credit to the real economy. This scheme would provide up to GBP 100bn to banks from central reserves. The whole package of measures approved was above expectations according to financial markets' reaction: **the GBP fell sharply against its main peers** (EUR -1.4%, USD -1.55% and during the week EUR -1.41%, USD -1.35%), as did the UK's 10Y Government bond, which reached an all-time low.

- **The Government of Japan also showed a strong commitment to sustainable growth, and approved the expected fiscal stimulus package.** The total amount was JPY 28tn, although the current new government spending is 6.2tn of which 4.6tn (0.9% of GDP) will fall in the current fiscal year, expecting to boost the weak indicators of Japanese economy, leading the JPY to appreciate during the week (JPY +0.24%) against the USD.

- **High volatility in bond markets during the week due to central banks' decisions.** Bond prices recovered from the sell-off early in the week triggered by the perceived shift from monetary policy to fiscal stimulus in Japan. In the last part of the week, the dovish approach of the BoE's meeting turned down yields globally and also contributed to sending sterling corporate bond yields to their historically lowest levels. Nonetheless, during the week the yields of 10Y Government bonds signally rose in core countries (US +11 bps, GER +6 bps, FRA +5 bps), with the exception of the UK and European periphery (UK, -7 bps, ITA -3 bps, PORT -6 bps).

- **In equity markets there were two different trends within the week**. The release of stress test results - coupled with the increasing yields - hampered the equity indices globally early this week, led by the European banking sector. Nonetheless the announcement of BoE measures gave some breathing space to developed countries' equity markets and partly offset previous losses, although they still ended the week down (Euro Stoxx -0.7%, Ibex35 -0.7%, Nikkei -1.9%) with the exception of UK equities (FTSE 100, +1.1%).

- **Oil prices recovered some of the ground lost earlier in the week (+3.2%)**, driven by the sharp drop in gasoline inventories in this week, partly dissipating underlying concerns on oversupply. Despite the rebound in oil prices, EM currencies showed mixed performances (CLP -0.2%, COP +0.3%, MXN -0.8%, PLN +0.8%, TRY -0.9%).

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Table 1

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0.71 (6) (5) (13) (-34)
US 5-yr 1.11 (8) (8) (16) (-65)
US 10-yr 1.56 (6) (11) (19) (-71)

Japan 10-yr -0.09 (-2) (10) (17) (-36)

GER 2-yr -0.61 (0) (1) (7) (-27)
GER 5-yr -0.52 (1) (1) (9) (-47)
GER 10-yr -0.064 (3) (6) (11) (-69)

Belgium 10-yr 0.17 (2) (5) (1) (-80)
France 10-yr 0.16 (3) (5) (3) (-83)
Greece 10-yr 8.3 (-1) (14) (34) (1)
Ireland 10-yr 0.43 (1) (1) (-5)
Italy 10-yr 1.14 (0) (-3) (-10) (-45)
Netherlands 10-yr 0.03 (2) (5) (0) (-76)
Portugal 10-yr 2.87 (1) (-6) (-18) (36)
Spain 10-yr 1.02 (0) (0) (-15) (-75)

Emerging Markets
Brazil 10-yr 11.82 (-4) (1) (-47) (-469)
Chile 10-yr 4.36 (0) (-10) (-2) (-30)
Colombia 10-yr 7.62 (-2) (1) (5) (-104)
Mexico 10-yr 6.01 (0) (8) (11) (-25)
Peru 10-yr 5.71 (0) (0) (-5) (-159)

Poland 10-yr 2.76 (4) (-12) (-13) (-18)
Russia 5-yr 8.56 (-11) (-2) (-3) (-132)
Russia 10-yr 8.36 (-11) (-6) (2) (-119)
Turkey 10-yr 9.67 (3) (22) (78) (-80)

India 10-yr 7.17 (0) (0) (-22) (-59)
Indonesia 10-yr 6.86 (-5) (-8) (-52) (-189)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 24 (-1) (-1) (-10) (-10)
France 22 (-1) (0) (-9) (-14)
Greece 836 (-4) (9) (23) (71)
Ireland 49 (-2) (-4) (-16) (-3)
Italy 121 (-3) (-8) (-21) (24)
Netherlands 10 (-1) (-0.5) (-11) (-7)
Portugal 294 (-2) (-11.5) (-29) (105)
Spain 108 (-3) (-5) (-27) (-6)

5-yr sovereign spreads *(against Germany)*
Belgium 6 (0) (0.2) (-6) (-2)
France 13 (0) (-1) (-8) (0)
Greece 1654 (-1) (-1) (-9) (47)
Ireland 52 (-1) (-1) (-9) (26)
Italy 77 (-2) (-5) (-15) (22)
Netherlands 7 (0) (1.2) (-6) (7)
Portugal 219 (-2) (-6) (-24) (108)
Spain 66 (-2) (-5) (-18) (-6)

2-yr sovereign spreads *(against Germany)*
Belgium 9 (0) (1) (-2) (5)
France 7 (0) (-0.8) (0) (4)
Ireland 20 (0) (2) (-10) (6)
Italy 54 (0) (-3) (-7) (23)
Netherlands 3 (0) (-1) (-2) (5)
Portugal 102 (-1) (-7) (-31) (57)
Spain 45 (1) (-2) (-9) (10)

5-yr sovereign CDS
5-yr CDS Belgium 41 (0) (-3) (-8) (10)
5-yr CDS France 32 (0) (0) (-8) (6)
5-yr CDS Germany 17 (0) (0) (-2) (5)
5-yr CDS Greece 940 (0) (5) (12) (-119)
5-yr CDS Ireland 64 (-11) (5) (-8) (24)
5-yr CDS Italy 131 (-1) (-3) (-13) (35)
5-yr CDS Netherlands 28 (0) (0) (-1) (13)
5-yr CDS Portugal 272 (-2) (0) (-22) (104)
5-yr CDS Spain 85 (-2) (1) (-16) (-3)
5-yr CDS UK 33 (-1) (-2) (-4) (14)
5-yr CDS US 20 (1) (0) (-2) (1)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 402 (-1) (-6) (-22) (-10895)
5-yr CDS Brazil 273 (-8) (-17) (-41) (-219)
5-yr CDS Chile 78 (-6) (-10) (-17) (-49)
5-yr CDS Colombia 186 (-7) (-11) (-19) (-52)
5-yr CDS Mexico 146 (-6) (-7) (-11) (-24)
5-yr CDS Peru 115 (-6) (-15) (-23) (-70)
5-yr CDS Venezuela 4348 (-181) (325) (2) (-1696)

5-yr CDS Poland86 (-1) (1) (-12) (14)
5-yr CDS Russia 223 (-11) (-13) (-13) (-79)
5-yr CDS Turkey 266 (-1) (-4) (25) (-7)

5-yr CDS China 107 (-5) (-3) (-15) (-1)
5-yr CDS India 152 (-2) (-1) (-25) (3)
5-yr CDS Indonesia 155 (-5) (-7) (-27) (-72)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 11.63 (-6.4) (-2) (-22.3) (-7)
VSTOXX 19.48 (-9) (-3.8) (-31.1) (-3)
EM EFT volatility Index 19 (-3) (-1) (-21) (-17)
Dollar/euro volatility 6.9 (-1.7) (-2.6) (-28.8) (-28)
EM FX volatility index 10 (0) (2) (-6) (-16)
Credit spread (BAA) 275.1 (-5.8) (3.4) (-3.3) (-48)
US bonds volatility index 67 (0) (5) (-12) (-1)

Bank risk *(changes in bp)*
US banks CDS 82 (0) (4) (-8) (7)
EMU banks CDS 113 (-3) (-1) (-27) (29)
UK banks CDS 103 (-8) (-7) (-34) (26)

Large Spanish banks CDS 131 (-3) (-5) (-38) (-6)
Medium Spanish banks CDS 157 (-5) (0) (-44) (0)

Greek banks CDS 1097 (20) (189) (-68) (-554)
Russian banks CDS 336 (-2) (4) (-13) (-46)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 0 (-107) (-107) (-119) (-173)
UK Non-financial CDS 0 (-157) (-157) (-170) (-192)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 5 (0) (-1) (-2) (-6)
UEM OIS spread 12m 35 (0) (0) (-3) (2)
UEM TED spread 3m 45 (0) (0.1) (4) (4)

US OIS spread 3m 36 (-1) (0) (8) (13)
US OIS spread 12m 95 (-4) (-2) (11) (39)
US TED spread 3m 52 (-1) (1) (13) (7)

Spain Ted Spread 3m 4 (0) (1.2) (3) (-1)

EONIA Index -0.34 (0) (-1.6) (-1) (-21)
Euribor 3m -0.3 (0) (-0.1) (-1) (-17)
Euribor 12m -0.05 (0) (0) (2) (-11)

Libor 3m 0.78 (0) (2) (12) (16)
Libor 12m 1.45 (0) (2) (22) (28)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2179.1 (0.7) (0.3) (3.8) (7)
Dow Jones 18493.2 (0.8) (0.3) (3.2) (6)
Nikkei 16254.5 (0) (-1.9) (5.7) (-15)
FTSE 100 6798.1 (0.9) (1.1) (5.2) (9)
EuroStoxx 50 2969.9 (1.3) (-0.7) (7.6) (-9)
IBEX 8529.1 (1.7) (-0.7) (7.6) (-11)
DAX 10344 (1.1) (0.1) (10.4) (-4)
CAC4408 (1.4) (-0.7) (7.9) (-5)
MIB 16599.5 (2.2) (-1.5) (7.6) (-22)
ASE Athens 562.8 (1.1) (-1.5) (6.3) (-11)

Bank stocks
JPM 65.8 (2) (2.9) (9.4) (0)
Citi 45.2 (3) (3.1) (10) (-13)
BoA 15 (3.3) (3.2) (16.3) (-11)
MS 29.1 (2.9) (1.3) (15.7) (-9)
GS 161.3 (2.1) (1.6) (10.8) (-10)

HSBC 531 (2.6) (7.3) (15) (-1)
RBS 175.1 (-8.8) (-9) (17.6) (-42)
Barclays 152.1 (2.2) (-1.6) (15.5) (-31)
Lloyds 52.4 (0.9) (-1.4) (10.2) (-28)

EMU banks 72.3 (2.2) (-1.5) (14.2) (-33)
BNP 43.7 (2.7) (-1.4) (14) (-16)
Crédit Agricole 7.9 (1.6) (0.1) (11.7) (-27)
Deutsche Bank 11.7 (2.8) (-2.6) (1.5) (-48)
ING 10.3 (-0.6) (2.7) (20.1) (-18)
Intesa 1.9 (3.1) (-4.8) (18) (-39)
SG 30.8 (3) (0.9) (16.8) (-28)
Unicredito 1.9 (4.8) (-11.7) (10.1) (-62)

Large Spanish banks 58.6 (2.4) (-2.9) (7.8) (-22)
Santander 3.7 (2.7) (-2.7) (11.1) (-19)
BBVA 5.1 (2.2) (-3.1) (5.3) (-25)

Medium Spanish banks 57.7 (1.9) (-2.2) (10.1) (-30)
Caixabank 2.3 (2.9) (0.2) (16.6) (-30)
Popular 1.2 (1.8) (-7.2) (1.9) (-57)
Sabadell 1.2 (1.9) (-4.7) (6.5) (-28)
Bankinter 6.2 (1.4) (-0.2) (11.7) (-5)
Bankia 0.7 (2.1) (-1.9) (10.9) (-37)

Greek banks 2.7 (1) (-4) (15.4) (-40)
Alpha Bank1.8 (1.1) (0) (24.6) (-29)
Pireus Bank0.1 (1.6) (-12.7) (-6.4) (-53)
National Central Bank0.2 (0) (-10.9) (3.4) (-48)
Eurobank Ergasias0.4 (0.9) (-12.2) (-2.2) (-57)

Emerging Markets
Main equity indices
MSCI Latam 71558 (0.63) (0.9) (6.7) (20.7)
Ibovespa (Brazil) 57594 (0.9) (1.6) (11.1) (32.9)
Mexbol 46941 (0.2) (0.2) (2.4) (9.1)

MSCI EM Europe 4418 (1.68) (0.1) (2.3) (4)
Poland 1820 (1.7) (1.8) (6.1) (-2.1)
Micex (Russia) 1945 (1.3) (-0.5) (2.6) (10.4)
Ise 100 (Turkey) 76126 (2.1) (1.2) (-2.9) (4)

MSCI EM Asia 687 (0.37) (-0.9) (3.3) (4)
Shanghai Composite (China) 2982 (0.13) (-0.4) (-0.8) (-16.5)
Jakarta Composite (Indonesia) 5374 (0.4) (1.4) (8.1) (17)

Bank stocks
Turkish banks 80 (0.3) (2.2) (-3.3) (8.6)
Akbank T.A.S. 8 (-0.3) (0.5) (-8.2) (15.5)
Garanti 8 (1.6) (4.2) (-1.8) (7.3)
Turkiye Is Bankasi 5 (-0.4) (2.2) (1.7) (2.2)

Russian banks 176 (0.3) (-0.3) (5) (16.3)
Sberbank 138 (0.9) (-0.6) (7) (36.7)
VTB Bank 0.1 (-1.2) (0.2) (0.5) (-15.2)

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

Developed Markets
EURUSD 1.107 (-0.56) (-0.95) (-0.3) (1.9)
GBPUSD 1.31 (-0.43) (-1.35) (0.9) (-11.4)
USDJPY 101.82 (-0.59) (0.24) (-0.5) (15.3)
DXY 96.43 (-0.7) (-0.9) (-0.4) (2.2)

Emerging Markets
USDARS (Argentina) 14.82 (0.2) (1.3) (-0.8) (-14.6)
USDBRL (Brazil) 3.19 (0.1) (1.8) (4.2) (19.4)
USDCLP (Chile) 657.23 (-0.1) (-0.2) (0.8) (7.2)
USDCOP (Colombia) 3062.02 (0.7) (0.3) (-2) (3.5)
USDMXN (Mexico) 18.91 (0) (-0.8) (-0.9) (-9.9)
USDPEN (Peru) 3.34 (-0.2) (0.3) (-1.8) (2.1)
LACI 65.12 (0) (0.6) (1) (4)

USDPLN (Poland) 3.87 (-0.4) (0.8) (3.3) (1.4)
USDRUB (Russia) 65.4 (0.4) (0.8) (-1.6) (9.8)
USDTRY (Turkey) 3.02 (-0.2) (-0.9) (-2.7) (-3.4)

USDCNY (China) 6.66 (-0.3) (-0.4) (0.4) (-2.6)
USDINR (India) 66.78 (0.2) (0.3) (1) (-0.9)
USDIDR (Indonesia) 13117 (0.2) (0) (0.7) (4.9)
ADXY 107.31 (-0.2) (-0.4) (0.9) (0.7)

Commodities *(change in percentage)*

Brent 43.8 (-1.1) (3.2) (-10.2) (17.5)
WTx 41.36 (-1.4) (-0.6) (-12.8) (11.7)
Copper 216.8 (-0.3) (-2.4) (0.8) (2)
Gold 1339.48 (-1.6) (-0.9) (-1.8) (26.2)
Baltic Dry Index 636 (-0.8) (-3) (-8.4) (33.1)
S&P GSCI Spot commodity index 340.672 (1.1) (0.4) (-6.9) (9.3)
S&P GSCI Brent Spot 376.937 (2.8) (1.7) (-9.2) (17.6)
S&P GSCI Metals Spot 274.41 (-1) (-1.4) (1) (8.4)
S&P GSCI Agricultural Spot 285.903 (0.1) (-1.5) (-4.5) (0.8)

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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Spain with number 0182.