

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)

US 3yr 0.71 (0.0) (0.0) (0.0)
 US 5yr 1.11 (0.0) (0.0) (0.0)
 US 10yr 1.58 (0.0) (0.0) (0.0)

Japan 10yr 0.00 (0.0) (0.0) (0.0)
 GSE 3yr -0.84 (0.0) (0.0) (0.0)
 GSE 5yr -0.82 (0.0) (0.0) (0.0)
 GSE 10yr -0.84 (0.0) (0.0) (0.0)

Bulgaria 10yr 0.17 (0.0) (0.0) (0.0)
 France 10yr 0.16 (0.0) (0.0) (0.0)
 Greece 10yr 0.11 (0.0) (0.0) (0.0)
 Ireland 10yr 0.11 (0.0) (0.0) (0.0)
 Italy 10yr 0.14 (0.0) (0.0) (0.0)
 Netherlands 10yr 0.11 (0.0) (0.0) (0.0)
 Portugal 10yr 0.27 (0.0) (0.0) (0.0)
 Spain 10yr 0.12 (0.0) (0.0) (0.0)

Financing facilities
 China 10yr 0.02 (0.0) (0.0) (0.0)
 China 10yr 0.02 (0.0) (0.0) (0.0)
 Colombia 10yr 0.02 (0.0) (0.0) (0.0)
 Mexico 10yr 0.02 (0.0) (0.0) (0.0)
 Peru 10yr 0.02 (0.0) (0.0) (0.0)

Poland 10yr 0.25 (0.0) (0.0) (0.0)
 Russia 5yr 0.11 (0.0) (0.0) (0.0)
 Russia 10yr 0.11 (0.0) (0.0) (0.0)
 Turkey 10yr 0.07 (0.0) (0.0) (0.0)
 India 10yr 0.00 (0.0) (0.0) (0.0)
 Indonesia 10yr 0.00 (0.0) (0.0) (0.0)

Country risk (changes in bp)

10yr sovereign spreads (against Germany)
 Belgium 24 (0.0) (0.0) (0.0)
 France 22 (0.0) (0.0) (0.0)
 Greece 336 (4.0) (0.0) (0.0)
 Ireland 49 (0.0) (0.0) (0.0)
 Italy 21 (0.0) (0.0) (0.0)
 Netherlands 16 (0.0) (0.0) (0.0)
 Portugal 254 (2.0) (0.0) (0.0)
 Spain 163 (0.0) (0.0) (0.0)

5yr sovereign spreads (against Germany)
 Belgium 8 (0.0) (0.0) (0.0)
 France 10 (0.0) (0.0) (0.0)
 Greece 100 (1.0) (0.0) (0.0)
 Ireland 12 (0.0) (0.0) (0.0)
 Italy 1 (0.0) (0.0) (0.0)
 Netherlands 7 (0.0) (0.0) (0.0)
 Portugal 210 (2.0) (0.0) (0.0)
 Spain 81 (0.0) (0.0) (0.0)

3yr sovereign spreads (against Germany)
 Belgium 3 (0.0) (0.0) (0.0)
 France 7 (0.0) (0.0) (0.0)
 Greece 29 (0.0) (0.0) (0.0)
 Ireland 5 (0.0) (0.0) (0.0)
 Italy 0 (0.0) (0.0) (0.0)
 Netherlands 3 (0.0) (0.0) (0.0)
 Portugal 102 (1.0) (0.0) (0.0)
 Spain 41 (0.0) (0.0) (0.0)

5yr sovereign CDS
 5yr CDS Belgium 30 (0.0) (0.0) (0.0)
 5yr CDS France 17 (0.0) (0.0) (0.0)
 5yr CDS Germany 17 (0.0) (0.0) (0.0)
 5yr CDS Greece 460 (6.0) (0.0) (0.0)
 5yr CDS Ireland 64 (1.0) (0.0) (0.0)
 5yr CDS Italy 12 (0.0) (0.0) (0.0)
 5yr CDS Netherlands 28 (0.0) (0.0) (0.0)
 5yr CDS Portugal 272 (4.0) (0.0) (0.0)
 5yr CDS Spain 85 (1.0) (0.0) (0.0)
 5yr CDS US 20 (0.0) (0.0) (0.0)

5yr sovereign CDS
 5yr CDS Argentina 402 (1.0) (0.0) (0.0)
 5yr CDS Brazil 271 (4.0) (0.0) (0.0)
 5yr CDS China 78 (0.0) (0.0) (0.0)
 5yr CDS Colombia 181 (1.0) (0.0) (0.0)
 5yr CDS Denmark 14 (0.0) (0.0) (0.0)
 5yr CDS India 116 (0.0) (0.0) (0.0)
 5yr CDS Mexico 248 (1.0) (0.0) (0.0)
 5yr CDS Russia 248 (1.0) (0.0) (0.0)
 5yr CDS Turkey 248 (1.0) (0.0) (0.0)

5yr CDS Poland 65 (1.0) (0.0) (0.0)
 5yr CDS Russia 22 (0.0) (0.0) (0.0)
 5yr CDS Turkey 248 (1.0) (0.0) (0.0)
 5yr CDS China 307 (0.0) (0.0) (0.0)
 5yr CDS India 102 (0.0) (0.0) (0.0)
 5yr CDS Indonesia 105 (0.0) (0.0) (0.0)

Credit risk

1000 companies (changes in percentage except for G&A spreads, 10)
 VIX 11 (0.0) (0.0) (0.0) (0.0)
 VIX10Y 18 (0.0) (0.0) (0.0) (0.0)
 EMFT volatility index 19 (0.0) (0.0) (0.0) (0.0)
 CDS average index 6.3 (0.0) (0.0) (0.0) (0.0)
 EMFT volatility index 10 (0.0) (0.0) (0.0) (0.0)
 Credit spread S&P 27 (0.0) (0.0) (0.0) (0.0)
 US S&P quality index 87 (0.0) (0.0) (0.0) (0.0)

Bank assets in \$ bn

US banks CDS 81 (0.0) (0.0) (0.0)
 EMU banks CDS 173 (2.0) (0.0) (0.0)
 UK banks CDS 193 (8.0) (0.0) (0.0)

Large Spanish banks CDS

BBVA 51 (0.0) (0.0) (0.0) (0.0)
 Banco Sabadell 50 (0.0) (0.0) (0.0) (0.0)
 Caixa 50 (0.0) (0.0) (0.0) (0.0)
 Santander 50 (0.0) (0.0) (0.0) (0.0)

Medium Spanish banks CDS

Bankia 100 (0.0) (0.0) (0.0) (0.0)
 Banco Popular 100 (0.0) (0.0) (0.0) (0.0)

Corporate risk (changes in bp)

EMU Non-financial CDS 107 (0.0) (0.0) (0.0) (0.0)
 UK Non-financial CDS 121 (0.0) (0.0) (0.0) (0.0)

Interbank markets (changes in bp)

LEI 100 spread 3m 0.00 (0.0) (0.0) (0.0)
 LEI 100 spread 6m 0.00 (0.0) (0.0) (0.0)
 LEI 100 spread 12m 0.00 (0.0) (0.0) (0.0)
 LEI 100 spread 3m 0.00 (0.0) (0.0) (0.0)

LIBOR

LIBOR 3m spread 1m 36 (0.0) (0.0) (0.0)
 LIBOR 3m spread 3m 36 (0.0) (0.0) (0.0)
 LIBOR 3m spread 6m 36 (0.0) (0.0) (0.0)
 LIBOR 3m spread 12m 36 (0.0) (0.0) (0.0)

Spain Tel Spread 3m

Spain Tel Spread 3m 4 (0.0) (0.0) (0.0) (0.0)

EMU Index

EMU Index 0.34 (0.0) (0.0) (0.0) (0.0)
 Euro Stoxx 3 (0.0) (0.0) (0.0) (0.0)
 Euro Stoxx 12m -0.00 (0.0) (0.0) (0.0) (0.0)

Libor 3m

Libor 3m 0.00 (0.0) (0.0) (0.0) (0.0)
 Libor 3m 1.00 (0.0) (0.0) (0.0) (0.0)

Stock markets (changes in percentage)

Major equity indices
 S&P 500 271 (0.0) (0.0) (0.0) (0.0)
 Dow Jones 189 (0.0) (0.0) (0.0) (0.0)
 Nikkei 1024 (0.0) (0.0) (0.0) (0.0)
 FTSE 100 478 (0.0) (0.0) (0.0) (0.0)
 Euro Stoxx 100 268 (0.0) (0.0) (0.0) (0.0)
 BRIC 11 (0.0) (0.0) (0.0) (0.0)
 OMX 1004 (0.0) (0.0) (0.0) (0.0)
 CAC40 11 (0.0) (0.0) (0.0) (0.0)
 NYSE 100 2.2 (0.0) (0.0) (0.0) (0.0)
 NYSE 200 3.2 (0.0) (0.0) (0.0) (0.0)

Bank assets

JPM 81 (0.0) (0.0) (0.0) (0.0)
 Cit 41 (0.0) (0.0) (0.0) (0.0)
 BofA 10 (0.0) (0.0) (0.0) (0.0)
 HSBC 91 (0.0) (0.0) (0.0) (0.0)

EMU banks

HSBC 51 (0.0) (0.0) (0.0) (0.0)
 BNP 15 (0.0) (0.0) (0.0) (0.0)
 BNP 15 (0.0) (0.0) (0.0) (0.0)
 BNP 15 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 72 (0.0) (0.0) (0.0) (0.0)
 BNP 15 (0.0) (0.0) (0.0) (0.0)
 Credit Agricole 7 (0.0) (0.0) (0.0) (0.0)
 ING 10 (0.0) (0.0) (0.0) (0.0)
 Cit 10 (0.0) (0.0) (0.0) (0.0)
 BNP 15 (0.0) (0.0) (0.0) (0.0)
 Cit 10 (0.0) (0.0) (0.0) (0.0)

Large Spanish banks

Large Spanish banks 58 (0.0) (0.0) (0.0) (0.0)
 Santander 3 (0.0) (0.0) (0.0) (0.0)
 BBVA 1 (0.0) (0.0) (0.0) (0.0)

Medium Spanish banks

Medium Spanish banks 57 (0.0) (0.0) (0.0) (0.0)
 Caixabank 2 (0.0) (0.0) (0.0) (0.0)
 Popular 1 (0.0) (0.0) (0.0) (0.0)
 Sabadell 1 (0.0) (0.0) (0.0) (0.0)
 Bankia 5 (0.0) (0.0) (0.0) (0.0)

Small Spanish banks

Small Spanish banks 2 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 100 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 100 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)

Small Spanish banks

Small Spanish banks 2 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)
 Banco de España 1 (0.0) (0.0) (0.0) (0.0)

Currencies (in percentage positive for dollar depreciation)

EURUSD 1.50 (0.0) (0.0) (0.0) (0.0)
 GBPUSD 1.50 (0.0) (0.0) (0.0) (0.0)
 USDJPY 100 (0.0) (0.0) (0.0) (0.0)
 CHF 1.00 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 14 (0.0) (0.0) (0.0) (0.0)
 USDBR 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 14 (0.0) (0.0) (0.0) (0.0)
 USDBR 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)

EMU banks

EMU banks 14 (0.0) (0.0) (0.0) (0.0)
 USDBR 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)
 USDCJP 1 (0.0) (0.0) (0.0) (0.0)

Commodities (change in percentage)

Oil 10 (0.0) (0.0) (0.0) (0.0)
 WTI 41.36 (1.0) (0.0) (0.0) (0.0)
 Copper 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)

Commodities

Commodities 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)

Commodities

Commodities 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
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Commodities

Commodities 100 (0.0) (0.0) (0.0) (0.0)
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 S&P 500 100 (0.0) (0.0) (0.0) (0.0)

Commodities

Commodities 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)
 S&P 500 100 (0.0) (0.0) (0.0) (0.0)

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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