BBVA Research

Market Comment | Positive tone in financial markets amid Fed interest rate bets

Global Financial Markets Unit
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- **Positve tone in the financial markets** ahead of important economic indicators to be published this week, both in Europe and China. UK Manufacturing production and German GDP 2Q will help to gauge the impact of Brexit on the European economy. On the other hand, the disappointing trade data from China with both lower-than-expected exports (-4.4%, consensus -3.0%, prior -4.8%) and imports (-12.5%, consensus -7%, prior -8.4%), suggest cooling domestic demand. Nonetheless, last Friday's encouraging US employment data allowed a positive beginning of the week in markets and also increased the probability of Fed's rate-hike in its September meeting (from 20% to 28%).

- Positive mood was also present in **oil prices trend (+2.4%), benefiting from rumours regarding the possibility of OPEC's meeting informally next month** - amid glut concerns and low oil prices - thereby renewing hopes for an agreement among exporters to freeze output.

- Against this backdrop, **global stocks rose across the board, with US equities hovering around historical record highs** (S&P: -0.1% at 2180.9). The Nikkei outperformed (+2.4%), propped up by the yen's depreciation, while European indices rose modestly (EuroStoxx +0.3%, Dax +0.6%) led by European banks - continuing the ongoing recovery after the recent sell-off.

- **Government bond yields showed no significant changes** (10Y US -1bps, GER 0 bps). EZ peripheral premiums decreased (ITA -2 bps, SPA -3 bps), and the Spanish Government Bond yield went below 1%, setting a new record low. The UK Government bond, which continued the downward pressure in yield (-6 bps) shored up by BoE's measures announced last week, while at the same time sterling corporate bonds renewed their historically lowest yields.

- **The USD appreciated against its main peers** (GBP -1.06%, EUR -0.06%, JPY -0.72%), due to renewed bets on a US interest rate hike. EM currencies (TRY +0.5%, COP +1.6%, CLP +0.5%, MXN +1%) appreciated, triggered by the recovery in oil prices.

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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 (-1) (3) (12) (-33)
US 5-yr 1.13 (-1) (5) (17) (-63)
US 10-yr 1.58 (-1) (6) (19) (-69)

Japan 10-yr -0.04 (5) (10) (24) (-30)

GER 2-yr -0.62 (-1) (-1) (6) (-28)
GER 5-yr -0.53 (-1) (-1) (8) (-48)
GER 10-yr -0.065 (0) (3) (11) (-69)

Belgium 10-yr 0.16 (-1) (1) (-2) (-81)
France 10-yr 0.15 (0) (3) (2) (-84)
Greece 10-yr 8.3 (-2) (10) (31) (2)
Ireland 10-yr 0.39 (-3) (-4) (-8)
Italy 10-yr 1.12 (-2) (-6) (-12) (-47)
Netherlands 10-yr 0.02 (-1) (3) (-1) (-77)
Portugal 10-yr 2.83 (-5) (-8) (-25) (31)
Spain 10-yr 0.99 (-2) (-4) (-19) (-78)

Emerging Markets
Brazil 10-yr 11.88 (13) (10) (-38) (-463)
Chile 10-yr 4.36 (0) (-10) (-4) (-30)
Colombia 10-yr 7.6 (0) (-9) (-1) (-106)
Mexico 10-yr 5.92 (-5) (-6) (-1) (-35)
Peru 10-yr 5.71 (0) (0) (-6) (-159)

Poland 10-yr 2.77 (1) (-4) (-16) (-17)
Russia 5-yr 8.51 (-6) (-8) (-19) (-137)
Russia 10-yr 8.3 (-7) (-14) (-12) (-125)
Turkey 10-yr 9.49 (-18) (0) (60) (-98)

India 10-yr 7.17 (0) (3) (-21) (-59)
Indonesia 10-yr 6.87 (1) (-3) (-51) (-188)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 22 (-2) (-2) (-12) (-12)
France 22 (0) (-1) (-9) (-14)
Greece 837 (-2) (7) (20) (71)
Ireland 46 (-4) (-7) (-19) (-7)
Italy 119 (-2) (-9) (-23) (22)
Netherlands 9 (-1) (-0.6) (-12) (-8)
Portugal 289 (-5) (-11.1) (-35) (100)
Spain 106 (-3) (-7) (-30) (-9)

5-yr sovereign spreads *(against Germany)*
Belgium 5 (-1) (0.4) (-7) (-3)
France 12 (0) (0) (-9) (-1)
Greece 1655 (1) (1) (-8) (48)
Ireland 53 (1) (1) (-8) (27)
Italy 77 (0) (-3) (-17) (22)
Netherlands 8 (0) (2) (-7) (7)
Portugal 216 (-3) (-3) (-32) (105)
Spain 65 (0) (-2) (-21) (-7)

2-yr sovereign spreads *(against Germany)*
Belgium 12 (2) (2) (1) (8)
France 7 (0) (-0.9) (-1) (3)
Ireland 19 (-1) (1) (-11) (5)
Italy 55 (1) (-1) (-8) (24)
Netherlands 3 (1) (0) (-3) (6)
Portugal 103 (0) (1) (-35) (58)
Spain 45 (0) (0) (-12) (10)

5-yr sovereign CDS
5-yr CDS Belgium 41 (0) (-2) (-11) (10)
5-yr CDS France 32 (0) (-1) (-7) (6)
5-yr CDS Germany 17 (0) (0) (-2) (5)
5-yr CDS Greece 940 (0) (2) (1) (-118)
5-yr CDS Ireland 75 (11) (-12) (-1) (35)
5-yr CDS Italy 130 (-1) (0) (-18) (35)
5-yr CDS Netherlands 28 (0) (0) (-2) (13)
5-yr CDS Portugal 267 (-5) (-2) (-32) (99)
5-yr CDS Spain 83 (-2) (-1) (-15) (-5)
5-yr CDS UK 32 (-1) (-3) (-5) (13)
5-yr CDS US 20 (0) (1) (-2) (1)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 400 (-2) (-3) (-28) (-10897)
5-yr CDS Brazil 266 (-7) (-19) (-46) (-226)
5-yr CDS Chile 73 (-4) (-13) (-19) (-53)
5-yr CDS Colombia 180 (-7) (-14) (-21) (-59)
5-yr CDS Mexico 142 (-4) (-8) (-10) (-28)
5-yr CDS Peru 111 (-4) (-15) (-22) (-75)
5-yr CDS Venezuela 4327 (-21) (236) (30) (-1717)

5-yr CDS Poland85 (-2) (-1) (-15) (13)
5-yr CDS Russia 217 (-6) (-19) (-17) (-85)
5-yr CDS Turkey 258 (-8) (-12) (18) (-15)

5-yr CDS China 105 (-2) (-5) (-18) (-3)
5-yr CDS India 151 (-1) (-3) (-28) (2)
5-yr CDS Indonesia 151 (-4) (-9) (-34) (-76)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 11.54 (1.3) (-7.2) (-21.8) (-7)
VSTOXX 18.94 (-1.9) (-6.8) (-28.7) (-3)
EM EFT volatility Index 19 (2) (-5) (-21) (-18)
Dollar/euro volatility 7.3 (6.5) (4) (-21.9) (-25)
EM FX volatility index 10 (0) (0) (-6) (-17)
Credit spread (BAA) 274.4 (1.2) (2.5) (-7.4) (-49)
US bonds volatility index 67 (0) (5) (-13) (-2)

Bank risk *(changes in bp)*
US banks CDS 79 (-3) (0) (-8) (4)
EMU banks CDS 111 (-2) (-3) (-31) (27)
UK banks CDS 99 (-4) (-12) (-43) (22)

Large Spanish banks CDS 127 (-4) (-7) (-43) (-10)
Medium Spanish banks CDS 154 (-3) (-4) (-47) (-3)

Greek banks CDS 1097 (0) (189) (-60) (-554)
Russian banks CDS 332 (-4) (-5) (-21) (-50)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 0 (0) (-106) (-121) (-173)
UK Non-financial CDS 0 (0) (-158) (-172) (-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 37 (0) (2) (9) (14)
US OIS spread 12m 97 (0) (0) (12) (41)
US TED spread 3m 54 (1) (4) (16) (9)

Spain Ted Spread 3m 3 (-1) (-6.6) (2) (-1)

EONIA Index -0.34 (0) (-0.9) (-1) (-21)
Euribor 3m -0.3 (0) (-0.1) (-1) (-17)
Euribor 12m -0.05 (0) (0) (2) (-11)

Libor 3m 0.79 (0) (3) (13) (18)
Libor 12m 1.48 (0) (4) (23) (30)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2180.9 (-0.1) (0.5) (4) (7)
Dow Jones 18521.7 (-0.1) (0.6) (3.5) (6)
Nikkei 16650.6 (2.4) (0.1) (9) (-13)
FTSE 100 6809.1 (0.2) (1.7) (4.2) (9)
EuroStoxx 50 2982.9 (0.3) (0.5) (7.3) (-9)
IBEX 8562.5 (0.3) (0.6) (6.9) (-10)
DAX 10432.4 (0.6) (1) (10.8) (-3)
CAC4415.5 (0.1) (7.2) (-5)
MIB 16743.8 (0.7) (1.1) (8.5) (-22)
ASE Athens 560.4 (-0.4) (-1.6) (5.4) (-11)

Bank stocks
JPM 66.1 (-0.4) (3.5) (9) (0)
Citi 45.8 (0.2) (5.5) (11) (-11)
BoA 15.1 (0.3) (5.3) (16) (-10)
MS 29.2 (0.1) (2.3) (13.5) (-8)
GS 163.1 (0.6) (3.1) (10.9) (-10)

HSBC 537 (1.2) (9.8) (15.6) (0)
RBS 184.7 (3.6) (-2.3) (16.5) (-39)
Barclays 157.4 (3.6) (4) (16.8) (-28)
Lloyds 54.6 (2.6) (2.4) (9.8) (-26)

EMU banks 73.9 (1.7) (3.6) (16.3) (-32)
BNP 44.4 (1.2) (1.6) (15.3) (-16)
Crédit Agricole 8.1 (2.2) (4.3) (14) (-25)
Deutsche Bank 12.2 (3.1) (3) (6.3) (-46)
ING 10.5 (1.5) (6) (21.1) (-16)
Intesa 1.9 (1.3) (1.2) (20.3) (-38)
SG 31.3 (1.2) (6.4) (17.7) (-26)
Unicredito 2 (2.8) (1.3) (14.8) (-61)

Large Spanish banks 59.6 (1.2) (1.8) (8.6) (-21)
Santander 3.8 (1.8) (1.7) (12.5) (-17)
BBVA 5.1 (0.7) (1.8) (5.5) (-24)

Medium Spanish banks 58.7 (1.4) (1.5) (12.3) (-29)
Caixabank 2.3 (1.6) (3.9) (17.4) (-28)
Popular 1.2 (2.3) (1.1) (5.6) (-56)
Sabadell 1.2 (1.6) (-0.3) (8.5) (-27)
Bankinter 6.3 (0.5) (1.3) (13.1) (-4)
Bankia 0.7 (2.1) (1.8) (14.7) (-35)

Greek banks 2.7 (-0.7) (-2.2) (8.9) (-40)
Alpha Bank1.6 (-0.6) (0.6) (18.9) (-29)
Pireus Bank0.1 (-2.3) (-12.3) (-9.9) (-54)
National Central Bank0.2 (-0.6) (-5.3) (-0.6) (-48)
Eurobank Ergasias0.4 (-1.1) (-8.5) (-11) (-57)

Emerging Markets
Main equity indices
MSCI Latam 71736 (0.25) (0.7) (7.3) (21)
Ibovespa (Brazil) 57661 (0.1) (0.6) (11.1) (33)
Mexbol 47194 (0.5) (1.1) (4.2) (9.7)

MSCI EM Europe 4431 (0.29) (0.7) (3.3) (4.3)
Poland 1825 (0.3) (3.7) (8) (-1.8)
Micex (Russia) 1944 (0) (0) (3.5) (10.4)
Ise 100 (Turkey) 76066 (-0.1) (0.9) (-3) (3.9)

MSCI EM Asia 695 (1.16) (1.1) (5.9) (5.2)
Shanghai Composite (China) 2977 (-0.19) (-0.1) (-1.3) (-16.7)
Jakarta Composite (Indonesia) 5420 (0.9) (3.9) (9) (18)

Bank stocks
Turkish banks 83 (3.7) (3.8) (-0.1) (12.2)
Akbank T.A.S. 8 (3.9) (2.7) (-4.9) (19.7)
Garanti 8 (3.4) (4.9) (1.2) (10.5)
Turkiye Is Bankasi 5 (3.8) (3.8) (5.2) (5.7)

Russian banks 178 (0.6) (1) (4.1) (17.2)
Sberbank 139 (0.5) (0.7) (5.8) (37.7)
VTB Bank 0.1 (0.6) (1.7) (0) (-14.6)

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

Developed Markets
EURUSD 1.108 (-0.06) (-0.75) (0.1) (2)
GBPUSD 1.3 (-0.26) (-1.06) (1) (-11.5)
USDJPY 102.55 (-0.72) (-0.16) (-1.8) (14.7)
DXY 96.43 (-0.2) (-0.8) (-0.1) (2.2)

Emerging Markets
USDARS (Argentina) 14.78 (0.1) (1.1) (-0.5) (-14.3)
USDBRL (Brazil) 3.18 (-0.5) (2.6) (5.5) (19.7)
USDCLP (Chile) 653.86 (0.5) (0.6) (1.8) (7.7)
USDCOP (Colombia) 2989.74 (1.6) (3.2) (-0.1) (5.8)
USDMXN (Mexico) 18.56 (1) (1.6) (1.4) (-7.9)
USDPEN (Peru) 3.31 (0.7) (1.1) (-0.8) (3.1)
LACI 65.77 (0.3) (2) (2.5) (5)

USDPLN (Poland) 3.85 (0.2) (1.3) (3.9) (1.8)
USDRUB (Russia) 64.58 (1.4) (3.6) (0) (11)
USDTRY (Turkey) 2.99 (0.5) (0.2) (-1.6) (-2.3)

USDCNY (China) 6.66 (0) (-0.3) (0.3) (-2.6)
USDINR (India) 66.85 (-0.1) (-0.2) (0.8) (-1)
USDIDR (Indonesia) 13124 (-0.1) (-0.6) (0.2) (4.8)
ADXY 107.43 (0.1) (-0.2) (1) (0.8)

Commodities *(change in percentage)*

Brent 45.33 (2.4) (7.6) (-2.3) (21.6)
WTx 42.96 (2.8) (7.2) (-4.8) (16)
Copper 216.25 (0.4) (-1.5) (1.9) (1.7)
Gold 1337.51 (0.1) (-1.2) (-1.7) (26)
Baltic Dry Index 636 (0) (-2.2) (-9) (33.1)
S&P GSCI Spot commodity index 342.026 (0.4) (2.9) (-3.7) (9.7)
S&P GSCI Brent Spot 377.345 (0.1) (5.2) (-4.4) (17.7)
S&P GSCI Metals Spot 275.03 (0.2) (-0.8) (2.4) (8.7)
S&P GSCI Agricultural Spot 292.662 (2.4) (2.6) (-0.5) (3.2)

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

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