BBVA Research

Market Comment | Oil prices and central banks' expected path drove markets this week

Global Financial Markets Unit
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- **July US economic data released today missed expectations**, as wholesale prices fell by more than expected (-0.3% MoM, consensus 0.2% MoM, prior 0.4% MoM) and core retail sales fell (-0.3% MoM, consensus 0.2%, prior 0.9%), pointing to weaknesses in the US economy and weighing on expectations of a Fed interest rate hike, which fell to 16% from 20%. At the time of publication, the USD had depreciated significantly (DXY -0.52%), while the US government bond yield had decreased signally (2Y US -6 bps)

- **The news flows about oil supply and demand brought a change in the current trend in oil prices**, which reached US$40 per barrel. Rumours about an informal meeting of OPEC members to rebalance the oil market were reinforced by yesterday's speech by Saudi Arabia's oil minister, who showed its commitment to this goal: "We are, in Saudi Arabia, watching the market closely, and if there is a need to take any action to help the market rebalance, then we would, of course in cooperation with OPEC and major non-OPEC exporters". Against this backdrop oil prices climbed during the week (+4.5%), so the prospect of future oil supply restraint was able to offset the bigger-than-expected oil stockpiles this week, among others, by record supply from Saudi Arabia. **Uncertainty regarding the geopolitical situation between Russian and Ukraine during the last few days were have passed unnoticed in markets** so far, but taking into account the sharp effect of the previous episode (summer 2014) in financial markets, the developments regarding this dispute will be closely followed by investors.

- The change of trend in oil prices, positive economic indicators in the EZ (German GDP Q2 better than expected and euro zone GDP met expectations) and the expected dovish tone of central banks allowed risk assets to gain some traction across the board despite the somewhat disappointing economic indicators from China during this week, in a context in which the BoJ and the BoE have recently shown their willingness to do more if necessary. Likewise, despite the positive US employment data last week, expectations of an interest rate hike were lower, ahead of the **Jackson Hole monetary policy symposium on 26 August, where investors expect central banks' officials to keep the current monetary policy stance broadly unchanged.**

- Against this environment, **bond markets moved as follows this week: Government yields went down across the board during the week** (10Y US -10 bps, 10Y GER -4 bps), led by peripheral bonds (10Y SPA -8 bps, 10Y POR -15 bps) and UK (10Y -10 bps), extending the trend triggered by the asset purchase programme announced by the BoE last week, and although ly the BoE encountered difficulties in meeting its demand due to bond scarcity, finally that situation seems to be fading.

- **This week's downward trend in the USD dollar extended on the back of today's economic indicators** (EURUSD +0.95%, USDJPY +0.71%). Apart from that, the ongoing rebound in commodity prices led by oil prices contributed to ease some pressure on emerging currencies, which registered a **huge appreciation during this week**, led by those closely correlated with oil prices: MXN +3.2%, COP

+5%, CLP +1.6%, TRY +1.7%, RUB 1.3%

- Meanwhile, **the three main US equity indices, S&P, Dow Jones and Nasdaq hovered around their historical highest levels**. European markets also tracked the mood (Euro Stoxx 2.3%, Ibex +1.9%, Cac +1.9%), the improvement being led by Dax (+3.2% during the week), which for the first time this year showed a positive year-to-date performance.

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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 0.69 (-5) (-3) (2) (-36)
US 5-yr 1.07 (-7) (-6) (1) (-69)
US 10-yr 1.49 (-7) (-10) (2) (-78)

Japan 10-yr -0.1 (-1) (-1) (18) (-37)

GER 2-yr -0.63 (0) (-1) (5) (-28)
GER 5-yr -0.55 (0) (-3) (5) (-50)
GER 10-yr -0.104 (-1) (-4) (-4) (-73)

Belgium 10-yr 0.12 (-1) (-5) (-6) (-85)
France 10-yr 0.12 (-1) (-4) (-3) (-87)
Greece 10-yr 8.14 (-4) (-18) (25) (-15)
Ireland 10-yr 0.33 (-1) (-9) (-9)
Italy 10-yr 1.06 (0) (-8) (-15) (-54)
Netherlands 10-yr 0 (0) (-3) (-4) (-79)
Portugal 10-yr 2.72 (-2) (-15) (-38) (20)
Spain 10-yr 0.94 (1) (-8) (-21) (-84)

Emerging Markets
Brazil 10-yr 11.82 (-1) (7) (-15) (-469)
Chile 10-yr 4.36 (0) (0) (-3) (-30)
Colombia 10-yr 7.52 (-2) (-8) (-8) (-114)
Mexico 10-yr 5.81 (-2) (-15) (-8) (-45)
Peru 10-yr 5.71 (0) (0) (-3) (-159)

Poland 10-yr 2.66 (-3) (-10) (-20) (-28)
Russia 5-yr 8.56 (8) (-1) (-12) (-132)
Russia 10-yr 8.32 (7) (-6) (-8) (-124)
Turkey 10-yr 9.4 (1) (-27) (44) (-107)

India 10-yr 7.1 (2) (-7) (-18) (-66)
Indonesia 10-yr 6.8 (2) (-6) (-38) (-195)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 22 (1) (-2) (-2) (-12)
France 22 (1) (0) (1) (-14)
Greece 824 (-3) (-14) (29) (58)
Ireland 44 (0) (-6) (-4) (-9)
Italy 116 (1) (-4) (-11) (19)
Netherlands 10 (1) (0.6) (0) (-6)
Portugal 282 (-1) (-11.6) (-34) (94)
Spain 104 (2) (-4) (-17) (-10)

5-yr sovereign spreads *(against Germany)*
Belgium 5 (0) (-0.8) (-7) (-2)
France 12 (0) (-1) (-8) (-1)
Greece 1657 (0) (3) (-5) (50)
Ireland 55 (0) (3) (-5) (29)
Italy 76 (0) (-1) (-14) (21)
Netherlands 8 (0) (0.3) (-6) (7)
Portugal 212 (1) (-7) (-35) (102)
Spain 67 (1) (1) (-17) (-5)

2-yr sovereign spreads *(against Germany)*
Belgium 9 (-2) (-1) (-1) (5)
France 5 (-2) (-1.8) (-7) (2)
Ireland 24 (4) (4) (0) (9)
Italy 54 (0) (0) (-7) (23)
Netherlands 3 (0) (1) (-2) (6)
Portugal 101 (-1) (-3) (-38) (56)
Spain 46 (1) (1) (-8) (11)

5-yr sovereign CDS
5-yr CDS Belgium 37 (0) (-5) (-9) (5)
5-yr CDS France 30 (0) (-2) (-6) (4)
5-yr CDS Germany 17 (0) (0) (-1) (5)
5-yr CDS Greece 927 (-17) (5) (7) (-132)
5-yr CDS Ireland 64 (-4) (4) (-11) (24)
5-yr CDS Italy 132 (0) (1) (-4) (36)
5-yr CDS Netherlands 25 (-1) (-2) (0) (11)
5-yr CDS Portugal 266 (-3) (-4) (-23) (98)
5-yr CDS Spain 81 (-3) (-2) (-10) (-8)
5-yr CDS UK 32 (-3) (2) (-6) (13)
5-yr CDS US 31 (0) (11) (0) (12)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 383 (-6) (-19) (-5) (-10913)
5-yr CDS Brazil 254 (-6) (-19) (-33) (-238)
5-yr CDS Chile 67 (-2) (-10) (-12) (-60)
5-yr CDS Colombia 172 (-3) (-15) (-7) (-67)
5-yr CDS Mexico 136 (-2) (-11) (1) (-35)
5-yr CDS Peru 103 (-3) (-12) (-18) (-83)
5-yr CDS Venezuela 4486 (24) (138) (378) (-1557)

5-yr CDS Poland78 (1) (-9) (-15) (6)
5-yr CDS Russia 218 (5) (-5) (3) (-83)
5-yr CDS Turkey 239 (-4) (-27) (23) (-34)

5-yr CDS China 103 (-1) (-4) (-7) (-5)
5-yr CDS India 146 (-1) (-6) (-25) (-2)
5-yr CDS Indonesia 144 (0) (-11) (-19) (-83)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 11.98 (2.6) (5.2) (-8.1) (-6)
VSTOXX 18.28 (-0.5) (-5.3) (-20.9) (-4)
EM EFT volatility Index 19 (0) (2) (-9) (-18)
Dollar/euro volatility 6.7 (-3.5) (-2.2) (-20.7) (-31)
EM FX volatility index 10 (0) (7) (2) (-11)
Credit spread (BAA) 271.7 (6.6) (-1.5) (-4.5) (-51)
US bonds volatility index 65 (0) (-2) (-9) (-4)

Bank risk *(changes in bp)*
US banks CDS 76 (-1) (-5) (1) (1)
EMU banks CDS 108 (-2) (-5) (-13) (24)
UK banks CDS 95 (-2) (-8) (-23) (18)

Large Spanish banks CDS 119 (-5) (-12) (-26) (-18)
Medium Spanish banks CDS 154 (-1) (-3) (-21) (-3)

Greek banks CDS 892 (-214) (-206) (-261) (-760)
Russian banks CDS 327 (-1) (-9) (-17) (-55)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 0 (0) (0) (-109) (-173)
UK Non-financial CDS 0 (0) (0) (-160) (-192)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 5 (0) (0) (-2) (-6)
UEM OIS spread 12m 36 (0) (0) (-2) (2)
UEM TED spread 3m 50 (0) (4.8) (4) (9)

US OIS spread 3m 40 (1) (3) (12) (17)
US OIS spread 12m 104 (3) (7) (19) (48)
US TED spread 3m 54 (0) (0) (16) (9)

Spain Ted Spread 3m 4 (-1) (-0.7) (2) (-1)

EONIA Index -0.34 (0) (-0.5) (-2) (-22)
Euribor 3m -0.3 (0) (-0.1) (0) (-17)
Euribor 12m -0.05 (0) (0) (1) (-11)

Libor 3m 0.82 (0) (3) (14) (20)
Libor 12m 1.52 (0) (5) (23) (35)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2181.7 (-0.2) (-0.1) (1.4) (7)
Dow Jones 18588.6 (-0.1) (0.2) (1.2) (7)
Nikkei 16919.9 (1.1) (4.1) (4.2) (-11)
FTSE 100 6897.5 (-0.2) (1.5) (3.4) (10)
EuroStoxx 50 3041.6 (-0.2) (2.3) (3.9) (-7)
IBEX 8703.5 (-0.2) (1.9) (2.7) (-9)
DAX 10703 (-0.4) (3.2) (7.8) (0)
CAC4494.7 (-0.2) (1.9) (3.7) (-3)
MIB 16960.7 (-0.1) (2) (2.6) (-21)
ASE Athens 575.2 (0.5) (2.2) (2.8) (-9)

Bank stocks
JPM 64.9 (-0.9) (-2.2) (2.7) (-2)
Citi 45.3 (-1) (-0.9) (4.5) (-12)
BoA 14.7 (-1.2) (-2.3) (9.4) (-13)
MS 28.9 (-1.7) (-0.4) (6.4) (-9)
GS 162.5 (-0.9) (0.2) (2.9) (-10)

HSBC 542.8 (-0.5) (2.3) (14.3) (1)
RBS 194.7 (-0.2) (9.3) (9.5) (-36)
Barclays 163.4 (0.1) (7.5) (12.6) (-25)
Lloyds 55.3 (0.1) (4) (-0.1) (-24)

EMU banks 75.5 (-0.3) (3.8) (6.7) (-30)
BNP 44.7 (-0.7) (1.9) (7.7) (-14)
Crédit Agricole 8.2 (-0.7) (3.4) (5.4) (-24)
Deutsche Bank 12.7 (-0.3) (7.8) (1.2) (-44)
ING 10.6 (-0.2) (2.8) (10.9) (-15)
Intesa 2 (0.1) (3.8) (4) (-36)
SG 32 (-0.5) (3.5) (9.4) (-25)
Unicredito 2.1 (0.7) (7.7) (4.4) (-59)

Large Spanish banks 61 (-0.5) (3.6) (1.7) (-19)
Santander 3.8 (-0.4) (3.5) (3) (-16)
BBVA 5.3 (-0.6) (3.6) (0.7) (-22)

Medium Spanish banks 60.5 (-0.2) (4.6) (5.1) (-27)
Caixabank 2.4 (0) (6.8) (11.9) (-25)
Popular 1.2 (1.1) (7) (-2.1) (-54)
Sabadell 1.2 (-0.3) (4.8) (-1.8) (-24)
Bankinter 6.4 (-0.4) (2.3) (7.8) (-2)
Bankia 0.7 (-0.4) (4.9) (6.9) (-34)

Greek banks 2.7 (-0.5) (-2.1) (-11.3) (-41)
Alpha Bank1.7 (-0.6) (-2.8) (-3.9) (-31)
Pireus Bank0.1 (0.8) (1.5) (-15.3) (-52)
National Central Bank0.2 (0) (3.3) (-6.5) (-46)
Eurobank Ergasias0.4 (-0.7) (-1.8) (-29.3) (-58)

Emerging Markets
Main equity indices
MSCI Latam 72795 (1.78) (1.7) (5.4) (22.7)
Ibovespa (Brazil) 58300 (2.4) (1.2) (7.5) (34.5)
Mexbol 48342 (1.1) (3) (4.1) (12.4)

MSCI EM Europe 4498 (0.53) (1.8) (0.8) (5.9)
Poland 1865 (0.7) (2.4) (6.3) (0.3)
Micex (Russia) 1952 (0.5) (0.4) (0.7) (10.8)
Ise 100 (Turkey) 79034 (1.4) (3.8) (-2.6) (8)

MSCI EM Asia 706 (0.36) (2.8) (4.3) (6.8)
Shanghai Composite (China) 3003 (-0.53) (0.7) (-1.5) (-16)
Jakarta Composite (Indonesia) 5419 (-0.1) (0.8) (6.3) (18)

Bank stocks
Turkish banks 83 (-0.6) (4) (-4.9) (12.5)
Akbank T.A.S. 8 (-0.5) (5.4) (-7.8) (21.5)
Garanti 8 (-0.6) (3) (-4.5) (10.1)
Turkiye Is Bankasi 5 (-0.6) (3.2) (-1.4) (5)

Russian banks 178 (-0.1) (0.5) (0.2) (17.1)
Sberbank 140 (-0.1) (0.6) (0.1) (37.8)
VTB Bank 0.1 (0) (0.2) (0.4) (-15)

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

Developed Markets
EURUSD 1.119 (0.48) (0.95) (0.9) (3)
GBPUSD 1.3 (0.08) (-0.82) (-1.4) (-12)
USDJPY 101.1 (0.84) (0.71) (3.2) (15.9)
DXY 95.43 (0.4) (0.8) (0.8) (3.2)

Emerging Markets
USDARS (Argentina) 14.64 (0.3) (1.1) (-0.5) (-13.2)
USDBRL (Brazil) 3.15 (-0.2) (0.5) (3.5) (20.5)
USDCLP (Chile) 646.07 (-0.5) (1.6) (1.6) (8.8)
USDCOP (Colombia) 2886 (0.2) (5) (1.7) (9.1)
USDMXN (Mexico) 18.16 (0.4) (3.2) (1.1) (-5.5)
USDPEN (Peru) 3.3 (0) (0.9) (-0.7) (3.3)
LACI 66.81 (-0.1) (1.9) (1.9) (6.7)

USDPLN (Poland) 3.81 (0.5) (1.4) (4.2) (3)
USDRUB (Russia) 64.62 (-0.4) (1.3) (-1.1) (10.9)
USDTRY (Turkey) 2.95 (0.3) (1.7) (-1.7) (-1.1)

USDCNY (China) 6.64 (0) (0.4) (0.8) (-2.2)
USDINR (India) 66.89 (-0.1) (-0.2) (0.2) (-1.1)
USDIDR (Indonesia) 13118 (-0.1) (0) (-0.2) (4.9)
ADXY 107.82 (-0.1) (0.4) (1) (1.2)

Commodities *(change in percentage)*

Brent 46.28 (0.5) (4.5) (0) (24.1)
WTx 43.86 (0.9) (4.9) (-2) (18.4)
Copper 215.7 (-1.5) (0.2) (-3.6) (1.5)
Gold 1352.26 (1) (1.3) (0.7) (27.4)
Baltic Dry Index 653 (2.4) (2.7) (-10.1) (36.6)
S&P GSCI Spot commodity index 349.707 (2.4) (2.2) (-2.3) (12.2)
S&P GSCI Brent Spot 394.554 (4.5) (4.6) (-0.7) (23.1)
S&P GSCI Metals Spot 277.8 (0.3) (1) (-0.6) (9.8)
S&P GSCI Agricultural Spot 293.448 (0.1) (0.3) (-4.8) (3.5)

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

Spain with number 0182.