

# Market Comment | Cautious markets ahead of Fed minutes release

Global Financial Markets Unit  
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- In a session characterised by sparse economic data releases, a cautious mood was felt in the markets, ahead of **the release of the FOMC's minutes**, which could hint at the Fed's future path regarding the interest rate normalisation process. Statements by Fed officials during the week, in which they showed a slightly hawkish tone, put the Fed's path in the spotlight and contributed to increasing the odds of an interest rate hike in the September meeting (from 22% to 24%) and for the December meeting (above 50% from 48%), the highest level since early June (higher even than the pre-Brexit level).
- Against this backdrop, **equity indices went down across the board, led by European indices**, (Euro Stoxx 50 -1.1%, Dax -1.3%) reflecting the global cautious sentiment and continuing with yesterday's consolidation process after European indices' recent rally. In spite of mild drops (S&P500 -0.4%), the US indices continued hovering around their historically highest levels. The stock market interconnection between Shenzhen and Hong Kong was received by Asian markets in a muted way with few gains in the Shenzhen Composite (+0.32%) and slight drops in the Hang Seng (-0.48%).
- **The bond markets showed investors' cautiousness, with government bond yields almost unchanged** (10YUS 0 bps, 10Y GER -2 bps). The only exception was **Portugal's debt, which continued to suffer the effect of DBRS' warning** on Portugal's sovereign rating (BBB low). Regarding the UK's debt, the bond scarcity problems faced by BoE last week seem to have faded away, as today's second attempt to buy long-dated government bonds has been a success, with the BoE receiving offers worth 2.67 times the target amount.
- The USD remained stable against its main peers (EUR -0.13%, GBP -0.27%, JPY +0.1%) after its recent depreciation (EUR/USD stands close to 1.13) while appreciating against EM currencies (COP -0.5%, CLP -1.1%, PLN -0.7%, MXN -1.1%, TRY -0.1%) amid high volatility in oil prices. Finally, the oil price ended up almost flat (-0.2%) **despite crude oil inventories**, which dropped against expectations of an increase (-2.4M, consensus 0.52M, prior 1.05M).

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Table 1

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

**Debt markets (changes in bp)**

US 2y 4.39 (0.08) (29)  
 US 5y 4.17 (0.04) (26)  
 US 10y 4.58 (0.07) (31) (46)  
 Japan 5y 0.47 (0.03) (0) (46)  
 GER 5y 0.42 (0.02) (2) (2)  
 GER 10y 0.51 (0.05) (4)  
 GER 30y 0.68 (0.08) (1) (8)  
 Belgium 10y 0.16 (0.01) (0) (4)  
 France 5y 0.17 (0.01) (0)  
 Greece 15y 0.11 (0.01) (1) (1)  
 Ireland 5y 0.14 (0.01) (0)  
 Italy 15y 1.11 (0.01) (1) (4)  
 Netherlands 5y 0.45 (0.02) (0) (1)  
 Portugal 10y 0.27 (0.02) (0) (0)  
 Spain 5y 0.27 (0.02) (0) (1)

France 1y 0.01  
 China 10y 4.20 (0.20) (1) (2)  
 Canada 5y 2.01 (0.01) (1) (1)  
 Mexico 5y 3.83 (0.03) (1) (4)  
 New Zealand 3y 1.00 (0.01) (0)

Poland 10y 2.73 (0.03) (1) (2)  
 Russia 5y 0.41 (0.02) (1) (2)  
 Russia 10y 0.31 (0.02) (1) (2)  
 Turkey 5y 0.51 (0.02) (0) (0)

India 10y 7.11 (0.06) (1) (0)  
 Indonesia 10y 6.84 (0.15) (2) (1)

**Country risk (changes in bp)**

**1st sovereign default (Japan, Germany)**  
 Belgium 21 (2) (1) (4)  
 France 21 (1) (1) (4)  
 Greece 19 (2) (2) (2) (0)  
 Ireland 16 (0) (0) (1)  
 Italy 19 (1) (1) (1)  
 Netherlands 16 (0) (0) (1)  
 Portugal 19 (2) (1) (1)  
 Spain 10 (2) (1) (1)

**2nd sovereign default (Japan, Germany)**  
 Belgium 6 (0) (0) (0)  
 France 11 (0) (0) (0)  
 Greece 10 (1) (0) (0)  
 Ireland 11 (0) (0) (0)  
 Italy 7 (0) (0) (0)  
 Netherlands 11 (0) (0) (0)  
 Portugal 20 (1) (1) (1)  
 Spain 11 (0) (0) (0)

**3rd sovereign default (Japan, Germany)**  
 Belgium 11 (1) (0) (0)  
 France 1 (0) (0) (0)  
 Ireland 17 (0) (0) (0)  
 Italy 15 (1) (1) (1)  
 Netherlands 11 (0) (0) (0)  
 Portugal 20 (1) (1) (1)  
 Spain 11 (0) (0) (0)

**4th sovereign default (Japan, Germany)**  
 Belgium 11 (1) (0) (0)  
 France 1 (0) (0) (0)  
 Ireland 17 (0) (0) (0)  
 Italy 15 (1) (1) (1)  
 Netherlands 11 (0) (0) (0)  
 Portugal 20 (1) (1) (1)  
 Spain 11 (0) (0) (0)

**5th sovereign default (Japan, Germany)**  
 Belgium 11 (1) (0) (0)  
 France 1 (0) (0) (0)  
 Ireland 17 (0) (0) (0)  
 Italy 15 (1) (1) (1)  
 Netherlands 11 (0) (0) (0)  
 Portugal 20 (1) (1) (1)  
 Spain 11 (0) (0) (0)

**Emerging Markets**

**1st sovereign default**  
 Spr CDS Argentina 28 (0) (1) (1)  
 Spr CDS Brazil 29 (0) (1) (1)  
 Spr CDS Germany 17 (0) (1) (1)  
 Spr CDS Greece 87 (0) (2) (1)  
 Spr CDS India 100 (1) (2) (1)  
 Spr CDS Indonesia 21 (0) (1) (1)  
 Spr CDS Mexico 17 (0) (1) (1)  
 Spr CDS Russia 11 (0) (1) (1)  
 Spr CDS Spain 78 (0) (1) (1)  
 Spr CDS US 32 (0) (1) (1)

**2nd sovereign default**  
 Spr CDS Argentina 28 (0) (1) (1)  
 Spr CDS Brazil 29 (0) (1) (1)  
 Spr CDS Germany 17 (0) (1) (1)  
 Spr CDS Greece 87 (0) (2) (1)  
 Spr CDS India 100 (1) (2) (1)  
 Spr CDS Indonesia 21 (0) (1) (1)  
 Spr CDS Mexico 17 (0) (1) (1)  
 Spr CDS Russia 11 (0) (1) (1)  
 Spr CDS Spain 78 (0) (1) (1)  
 Spr CDS US 32 (0) (1) (1)

**Credit risk**

VIX 13.8 (0.1) (0.1) (0.1)  
 VIX3M 17.16 (0.16) (0.2) (1)  
 EM EPT volatility index 31 (0) (0) (0)  
 Global credit index 100 (0) (0) (0)  
 Credit spread 2004 200 (1) (1) (1)  
 US Treasury yield 4.5 (0.1) (0.1) (0)

**Bank risk (changes in bp)**

US banks CDS 16 (0) (1) (1)  
 EM banks CDS 101 (0) (1) (1)  
 UK banks CDS 31 (0) (1) (1)

Large Spanish bank CDS 107 (0) (0) (0)  
 Medium Spanish bank CDS 151 (0) (1) (1)

Greek banks CDS 80 (0) (1) (1)  
 Russian banks CDS 113 (0) (1) (1)

**Corporate risk (changes in bp)**

EM14 Non-financial CDS 8 (0) (0) (0)  
 UK Non-financial CDS 6 (0) (0) (0)

**Interbank markets (changes in bp)**

LIBOR 6M spread 3m 1.00 (0.01) (1)  
 LIBOR 6M spread 6m 1.00 (0.01) (1)  
 LIBOR 6M spread 9m 1.00 (0.01) (1)  
 LIBOR 6M spread 12m 1.00 (0.01) (1)

US OIS spread 3m 37 (1) (1) (1)  
 US OIS spread 6m 37 (1) (1) (1)  
 US OIS spread 9m 37 (1) (1) (1)  
 US OIS spread 12m 37 (1) (1) (1)

Spain Td Spread 3m 4 (0) (0) (0)

ERM1 index 34 (0) (0) (0)  
 Euler 10 41 (0) (0) (0)  
 Euler 12m 40 (0) (0) (0)

Libor 3m 0.8 (0) (0) (0)  
 Libor 6m 1.0 (0) (0) (0)

**Stock markets (Changes in percentage)**

**Major stock indices**  
 S&P500 1464.44 (0.18) (1)  
 Dow Jones 10922.41 (0.18) (1)  
 Nikkei 18346.41 (0.18) (1)  
 FTSE 100 5862.14 (0.18) (1)  
 EuroStoxx 50 2982.11 (0.18) (1)  
 ASI 3000.00 (0.18) (1)  
 DAX 10442.11 (0.18) (1)  
 CAC40 3710.00 (0.18) (1)  
 Nikkei 18346.41 (0.18) (1)  
 ASE Athens 107.14 (0.18) (1)

**Bank stocks**  
 JPM 41 (0) (0) (0)  
 Cit 37 (0) (0) (0)  
 BAC 37 (0) (0) (0)  
 GS 30 (0) (0) (0)

HSBC 142 (0) (0) (0)  
 RBS 104 (0) (0) (0)  
 Deutsche 101 (0) (0) (0)  
 Lloyds 113 (0) (0) (0)

**Other banks**  
 Citigroup 104 (0) (0) (0)  
 BNP 113 (0) (0) (0)  
 Citigroup 104 (0) (0) (0)  
 Deutsche Bank 113 (0) (0) (0)  
 ING 113 (0) (0) (0)  
 Intesa 113 (0) (0) (0)  
 SO 113 (0) (0) (0)  
 UBS 113 (0) (0) (0)

Large Spanish banks 107 (0) (0) (0)  
 Santander 113 (0) (0) (0)  
 BBVA 113 (0) (0) (0)

Medium Spanish banks 151 (0) (0) (0)  
 Credit 113 (0) (0) (0)  
 Popular 113 (0) (0) (0)  
 Sabadell 113 (0) (0) (0)  
 Bankia 113 (0) (0) (0)  
 Bankia 113 (0) (0) (0)

Greek banks 113 (0) (0) (0)  
 Alpha Bank 113 (0) (0) (0)  
 Piraeus 113 (0) (0) (0)  
 National Bank 113 (0) (0) (0)

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

BLSU20 1.00 (0.01) (0.01) (0)  
 GSPUS20 1.12 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)  
 CRU 44.42 (0.1) (0.1) (0)

USU20 1.00 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)

USU20 1.00 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)  
 USU20 1.00 (0.01) (0.01) (0)

**Commodities (change in percentage)**

Oil 1.12 (0.01) (0.01) (0)  
 Copper 1.12 (0.01) (0.01) (0)  
 Gold 1.12 (0.01) (0.01) (0)

S&P 500 1.12 (0.01) (0.01) (0)  
 S&P 500 1.12 (0.01) (0.01) (0)  
 S&P 500 1.12 (0.01) (0.01) (0)

Source: Bloomberg, Bloomberg Finance

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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