

Market Comment | Fed expectations and oil moved the markets during the week

Global Financial Markets Unit
19 Aug 2016

- In a week characterized by **sparse economic data**, the main movers of financial markets were the Fed along with a strong rebound in oil prices. Early in the week, a hawkish tone was perceived in the speeches of important Fed members, but the release of the **FOMC's more dovish minutes** (agreement on how prudent it is to wait before raising interest rates again) deflated the mood and lowered the implied market probability of interest-rate hikes. Markets continue to be focused on the Fed (particularly, on what Janet Yellen will say at her Jackson Hole speech on August 26th) and less on the ECB, whose minutes did not add new insights regarding its future path. **Oil prices have extended the rebound over the week** (+7.7%), reaching 55.57 USD per barrel on the back of lower inventory data (which unexpectedly dropped) and signs of agreement among OPEC members ahead of an informal meeting on price stabilization to be held next month.
- After last-week's rally in equity markets, **major indices fell across the board** - led by European indices (Dax -1.9%, Euro Stoxx 50 -2.9%), particularly the banking sector (EMU, -5.9%). US markets ended almost flat (S&P500 -0.3%), hovering around their historically high levels.
- Against this backdrop, bond markets showed **increases in government bond yields** (10Y US +7 bps, 10Y GER +6 bps), with a **significant increase in Portugal's sovereign yield** (10Y POR +32 bps) suffering from **DBRS's warning on Portugal's debt** on Tuesday ahead of its next rating revision in October. DBRS admitted that underlying concerns about the Portuguese economy could reduce its creditworthiness, putting at stake the participation of Portuguese bonds in the ECB buying programme, given that DBRS rating for Portugal (BBB low) allowed its bonds to remain part of programme.
- The reassessment of the Fed interest rate triggered a **depreciation of the USD against its main peers** (EUR +1.42%, GBP +1.08%, JPY +1%), thereby dropping the dollar index during the week (1.2%). Meanwhile, given the sharp increase in the oil price, EM currencies appreciated during the week (MXN +0.1%, COP +2.1%, PLN +0.6%, TRY +0.9%)

Updat 16.30 CET 19 August, 2016
Table 1

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

Debt markets (changes in bp)

Germany

US 3m 4.14 (0.00) (0.37)
 US 3m 1.66 (0.00) (0.48)
 US 10y 1.58 (0.00) (0.49)

Japan 10y 0.48 (0.00) (0.15) (0.36)

GER 3m -0.62 (0.00) (0.12) (0.27)
 GER 3m -0.20 (0.00) (0.14) (0.48)

Belgium 10y 0.16 (0.00) (0.00) (0.01)
 France 10y 0.16 (0.00) (0.00) (0.01)
 Greece 10y 0.88 (0.00) (0.00) (0.00)
 Ireland 10y 0.44 (0.00) (0.00) (0.00)
 Italy 10y 1.11 (0.00) (0.00) (0.00)
 Netherlands 10y 0.48 (0.00) (0.00) (0.00)
 Portugal 10y 0.31 (0.00) (0.00) (0.00)
 Spain 10y 0.19 (0.00) (0.00) (0.00)

Finland 10y 1.16 (0.00) (0.00) (0.00)
 China 10y 4.30 (0.00) (0.00) (0.00)
 Canada 10y 2.20 (0.00) (0.00) (0.00)
 Mexico 10y 3.80 (0.00) (0.00) (0.00)
 New York 10y 1.00 (0.00) (0.00) (0.00)

Poland 10y 2.80 (0.00) (0.00) (0.00)
 Russia 0.51 (0.00) (0.00) (0.00)
 Russia 10y 4.20 (0.00) (0.00) (0.00)
 Turkey 10y 10.00 (0.00) (0.00) (0.00)

India 10y 7.14 (0.00) (0.00) (0.00)
 Indonesia 10y 6.90 (0.00) (0.00) (0.00)

Country risk (changes in bp)

1st sovereign spread (against Germany)

Belgium 21 (0.00) (0.00) (0.00)
 France 22 (0.00) (0.00) (0.00)
 Greece 810 (0.00) (0.00) (0.00)
 Ireland 81 (0.00) (0.00) (0.00)
 Italy 117 (0.00) (0.00) (0.00)
 Netherlands 81 (0.00) (0.00) (0.00)
 Portugal 81 (0.00) (0.00) (0.00)
 Spain 91 (0.00) (0.00) (0.00)

3rd sovereign spread (against Germany)

Belgium 7 (0.00) (0.00) (0.00)
 France 11 (0.00) (0.00) (0.00)
 Greece 182 (0.00) (0.00) (0.00)
 Ireland 11 (0.00) (0.00) (0.00)
 Italy 74 (0.00) (0.00) (0.00)
 Netherlands 11 (0.00) (0.00) (0.00)
 Portugal 11 (0.00) (0.00) (0.00)
 Spain 11 (0.00) (0.00) (0.00)

2nd sovereign spread (against Germany)

Belgium 3 (0.00) (0.00) (0.00)
 France 3 (0.00) (0.00) (0.00)
 Greece 5 (0.00) (0.00) (0.00)
 Ireland 3 (0.00) (0.00) (0.00)
 Italy 5 (0.00) (0.00) (0.00)
 Netherlands 3 (0.00) (0.00) (0.00)
 Portugal 3 (0.00) (0.00) (0.00)
 Spain 3 (0.00) (0.00) (0.00)

1st sovereign CDS

Spr CDS Belgium 30 (0.00) (0.00) (0.00)
 Spr CDS France 29 (0.00) (0.00) (0.00)
 Spr CDS Germany 11 (0.00) (0.00) (0.00)
 Spr CDS Greece 974 (0.00) (0.00) (0.00)
 Spr CDS Ireland 80 (0.00) (0.00) (0.00)
 Spr CDS Italy 103 (0.00) (0.00) (0.00)
 Spr CDS Netherlands 20 (0.00) (0.00) (0.00)
 Spr CDS Portugal 20 (0.00) (0.00) (0.00)
 Spr CDS Spain 80 (0.00) (0.00) (0.00)
 Spr CDS UK 27 (0.00) (0.00) (0.00)
 Spr CDS US 27 (0.00) (0.00) (0.00)

Emerging Markets

Spr CDS Argentina

Spr CDS Argentina 302 (0.00) (0.00) (0.00)
 Spr CDS Brazil 304 (0.00) (0.00) (0.00)
 Spr CDS China 40 (0.00) (0.00) (0.00)
 Spr CDS Colombia 37 (0.00) (0.00) (0.00)
 Spr CDS Mexico 130 (0.00) (0.00) (0.00)
 Spr CDS Peru 101 (0.00) (0.00) (0.00)
 Spr CDS Venezuela 227 (0.00) (0.00) (0.00)

Spr CDS Russia

Spr CDS Russia 222 (0.00) (0.00) (0.00)
 Spr CDS Turkey 240 (0.00) (0.00) (0.00)

Spr CDS India

Spr CDS India 100 (0.00) (0.00) (0.00)
 Spr CDS Korea 140 (0.00) (0.00) (0.00)
 Spr CDS Indonesia 140 (0.00) (0.00) (0.00)

Credit risk

1st credit default swap (percentage spread for BAA assets, bp)

VIX 12.18 (0.00) (0.00) (0.00)
 VIX30 12.18 (0.00) (0.00) (0.00)
 EM DFT volatility index 39 (0.00) (0.00) (0.00)
 EM volatility index 32 (0.00) (0.00) (0.00)
 EM FT volatility index 32 (0.00) (0.00) (0.00)
 Credit spread BAA 206.14 (0.00) (0.00) (0.00)
 US Treasury yield rate 4.41 (0.00) (0.00) (0.00)

Bank risk (changes in bp)

US banks CDS 11 (0.00) (0.00) (0.00)
 EM banks CDS 111 (0.00) (0.00) (0.00)
 UK Non-Financial CDS 0 (0.00) (0.00) (0.00)

Large Spanish banks CDS

Large Spanish banks CDS 108 (0.00) (0.00) (0.00)
 Medium Spanish banks CDS 154 (0.00) (0.00) (0.00)

Greek banks CDS

Greek banks CDS 164 (0.00) (0.00) (0.00)
 Russian banks CDS 171 (0.00) (0.00) (0.00)

Corporate risk (changes in bp)

EM Non-Financial CDS 0 (0.00) (0.00) (0.00)
 UK Non-Financial CDS 0 (0.00) (0.00) (0.00)

Interbank markets (changes in bp)

LIBOR 3m spread 3m 1.00 (0.00) (0.00)
 LIBOR 6m spread 3m 2.00 (0.00) (0.00)
 LIBOR 12m spread 3m 3.00 (0.00) (0.00)

US 03b spread 3m 38.11 (0.00) (0.00)
 US 03b spread 6m 39.12 (0.00) (0.00)
 US 03b spread 12m 40.13 (0.00) (0.00)
 US TED spread 3m 51.14 (0.00) (0.00)

Spain Td Spread 3m 3.00 (0.00) (0.00)

EDBk Index 34 (0.00) (0.00) (0.00)
 Euler Index 41 (0.00) (0.00) (0.00)
 Euler Index 48 (0.00) (0.00) (0.00)

Libor 3m 0.81 (0.00) (0.00) (0.00)
 Libor 6m 1.82 (0.00) (0.00) (0.00)

Stock markets (Changes in percentage)

Major world indices

S&P500 2711.61 (0.00) (0.00) (0.00)
 Dow Jones 10000.00 (0.00) (0.00) (0.00)
 Nikkei 18000.00 (0.00) (0.00) (0.00)
 FTSE 100 5000.00 (0.00) (0.00) (0.00)
 EuroStoxx 50 2500.00 (0.00) (0.00) (0.00)
 HSI 10000.00 (0.00) (0.00) (0.00)
 CAC40 10000.00 (0.00) (0.00) (0.00)
 Nikkei 225 10000.00 (0.00) (0.00) (0.00)
 AEX 10000.00 (0.00) (0.00) (0.00)

Bank stocks

JP Morgan 100.00 (0.00) (0.00) (0.00)
 Citigroup 100.00 (0.00) (0.00) (0.00)
 Bank of America 100.00 (0.00) (0.00) (0.00)
 Wells Fargo 100.00 (0.00) (0.00) (0.00)

HSBC 100.00 (0.00) (0.00) (0.00)
 RBS 100.00 (0.00) (0.00) (0.00)
 Deutsche 100.00 (0.00) (0.00) (0.00)
 Lloyds 100.00 (0.00) (0.00) (0.00)

BNP Paribas 100.00 (0.00) (0.00) (0.00)
 Citigroup 100.00 (0.00) (0.00) (0.00)
 Deutsche Bank 100.00 (0.00) (0.00) (0.00)
 ING 100.00 (0.00) (0.00) (0.00)

Intesa 100.00 (0.00) (0.00) (0.00)
 Societe Generale 100.00 (0.00) (0.00) (0.00)
 UBS 100.00 (0.00) (0.00) (0.00)

Large Spanish banks 100.00 (0.00) (0.00) (0.00)
 Santander 100.00 (0.00) (0.00) (0.00)
 BBVA 100.00 (0.00) (0.00) (0.00)

Medium Spanish banks 100.00 (0.00) (0.00) (0.00)
 Santander 100.00 (0.00) (0.00) (0.00)
 Caixa 100.00 (0.00) (0.00) (0.00)

Poland 100.00 (0.00) (0.00) (0.00)
 Powszechny 100.00 (0.00) (0.00) (0.00)
 Banki 100.00 (0.00) (0.00) (0.00)

Banque 100.00 (0.00) (0.00) (0.00)
 BNP Paribas 100.00 (0.00) (0.00) (0.00)
 BNP 100.00 (0.00) (0.00) (0.00)

Alpha Bank 100.00 (0.00) (0.00) (0.00)
 First Bank 100.00 (0.00) (0.00) (0.00)
 National Credit 100.00 (0.00) (0.00) (0.00)
 Eurobank Ergasias 100.00 (0.00) (0.00) (0.00)

Major world indices

MSCI Latin America 100.00 (0.00) (0.00) (0.00)
 MSCI Europe 100.00 (0.00) (0.00) (0.00)
 MSCI Asia 100.00 (0.00) (0.00) (0.00)
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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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