

Market Comment | European yields jump after ECB keeps policy unchanged

Global Financial Markets Unit
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- At today's monetary policy meeting there were **no changes in the ECB's monetary policy stance**, as the central bank left key interest rates unchanged and confirmed that the monthly asset purchases of €80 billion are intended to run until the end of March 2017, or beyond if necessary. Moreover, Mr Draghi highlighted that there was **no discussion at today's meeting on expanding the asset purchase programme (APP) or any other measure**. Nevertheless, he reaffirmed the Governing Council (GC) unanimity in its commitment to continue with current stimulus measures until it sees a "sustained adjustment in the path of inflation consistent with its inflation aim." Moreover, he reiterated that the central bank is willing and able to act if needed. The risks to the euro zone growth outlook remain tilted to the downside and relate mainly to the external environment. The Staff barely changed its projections over the forecast horizon.
- The uneventful ECB monetary policy meeting **slightly disappointed financial markets**, as a certain amount of fine tuning in PSPP had been expected. There was some volatility, with the euro appreciating strongly, European yields jumping and European equities declining. However, the European equity markets trimmed losses and the euro moderated its gains later in the session.
- The **European bond markets suffered the highest movements**. The 10Y German sovereign bond yield increased (+6bps), remaining at negative levels, while the peripheral yields showed bigger increases (Spain +6bps, Italy +8bps, Portugal +10bps) as Mr Draghi did not hint at capital key changes. The surge in European yields also drove US and UK yields higher (+5bps and +8bps respectively), partly offsetting last Tuesday's fall in yields, which took place when investors reassessed the probability of the FOMC's interest rate hike.
- The **euro ended the session appreciating** against other main currencies (Euro Index 0.34%). On the other hand, the Japanese yen (JPY -0.5%) and the British pound (GBP -0.3%) remained stable against the USD. Meanwhile, **oil prices rose (3.71%), supported by the higher-than-expected draw in oil inventories data** (14.5M, consensus 0.23M, prior 2.28M) and encouraging Chinese imports. Against this backdrop, EM currencies showed mixed performances (TRY -0.5%, MXN -1.2%, CLP -0.2%, PLN +0.2%, COP +0.2%).
- Higher yields and a stronger euro weighed on European equity markets, while European stocks recovered some ground at the end of the session, but still inching down for the day as a whole (Euro Stoxx50 -0.3%, Dax -0.7%). **The European banking sector outperformed** (EMU banks +1.6%). **US equities continued tilted to the downside but little changed** (S&P500 -0.2%), hovering around their historically highest levels. In Asia, **Japan's GDP Q2 upward revision** (0.7%, consensus 0.2%, prior 0.2%) along with **China's higher-than-expected** imports (1.5%, consensus -4.9%, prior -12.5%) and exports (-2.8%, consensus -4%, prior -4.4%) had a mild effect on stocks (Hang Seng +0.75%, Nikkei -0.3%).

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Table 1

Debt markets (changes in bp)

US 2yr 3.78 (2) (2) (4) (26)
 US 5yr 1.98 (0) (0) (0) (0)
 US 10yr 1.93 (0) (2) (4) (48)

Japan 10yr -0.03 (0) (0) (0) (36)
 Canada 5yr 0.14 (0) (0) (0) (0)
 GERM 5yr 0.67 (0) (0) (0) (0)
 GERM 10yr 0.95 (0) (0) (0) (0)

Belgium 10yr 0.16 (0) (0) (0) (0)
 France 10yr 0.23 (0) (0) (0) (0)
 Greece 10yr 0.23 (0) (0) (0) (0)
 Ireland 10yr 0.41 (0) (0) (0) (0)
 Italy 10yr 1.48 (0) (0) (0) (0)
 Netherlands 10yr 0.80 (0) (0) (0) (0)
 Portugal 10yr 2.08 (0) (0) (0) (0)
 Spain 10yr 1.01 (0) (0) (0) (0)

Emerging Markets
 Brazil 10yr 11.58 (0) (0) (0) (0)
 China 10yr 3.08 (0) (0) (0) (0)
 Colombia 10yr 5.88 (0) (0) (0) (0)
 Mexico 10yr 5.81 (0) (0) (0) (0)
 Peru 10yr 5.02 (0) (0) (0) (0)

Russia 10yr 2.18 (0) (0) (0) (0)
 Russia 5yr 1.31 (0) (0) (0) (0)
 Russia 10yr 1.65 (0) (0) (0) (0)
 Turkey 10yr 8.35 (0) (0) (0) (0)

India 10yr 7.01 (0) (0) (0) (0)
 Indonesia 10yr 5.98 (0) (0) (0) (0)

Country risk (changes in bp)

10 yr sovereign spreads (against Germany)
 Belgium 23 (2) (2) (1) (1)
 France 6 (2) (2) (1) (1) (0)
 Greece 371 (4) (4) (4) (4)
 Ireland 6 (2) (2) (1) (1) (0)
 Italy 252 (2) (2) (2) (2)
 Netherlands 11 (0) (0) (0) (0)
 Portugal 204 (0) (0) (0) (0)
 Spain 104 (0) (0) (0) (0)

1 yr sovereign spreads (against Germany)
 Belgium 45 (2) (2) (1) (1) (0)
 France 40 (2) (2) (1) (1) (0)
 Greece 102 (4) (4) (4) (4) (0)
 Ireland 5 (0) (0) (0) (0) (0)
 Italy 26 (1) (1) (1) (1) (0)
 Netherlands 44 (0) (0) (0) (0) (0)
 Portugal 102 (4) (4) (4) (4) (0)
 Spain 1 (0) (0) (0) (0) (0)

2 yr sovereign spreads (against Germany)
 Belgium 11 (0) (0) (0) (0) (0)
 France 4 (0) (0) (0) (0) (0)
 Ireland 10 (0) (0) (0) (0) (0)
 Italy 56 (0) (0) (0) (0) (0)
 Netherlands 15 (0) (0) (0) (0) (0)
 Portugal 114 (0) (0) (0) (0) (0)
 Spain 4 (0) (0) (0) (0) (0)

5 yr sovereign CDS
 5yr CDS Belgium 24 (0) (0) (0) (0)
 5yr CDS France 28 (0) (0) (0) (0)
 5yr CDS Germany 10 (0) (0) (0) (0)
 5yr CDS Greece 399 (2) (2) (2) (2) (0)
 5yr CDS Ireland 27 (0) (0) (0) (0) (0)
 5yr CDS Italy 122 (0) (0) (0) (0) (0)
 5yr CDS Netherlands 24 (0) (0) (0) (0) (0)
 5yr CDS Portugal 204 (0) (0) (0) (0) (0)
 5yr CDS Spain 10 (0) (0) (0) (0) (0)
 5yr CDS UK 10 (0) (0) (0) (0) (0)
 5yr CDS US 26 (0) (0) (0) (0) (0)

Emerging Markets

5 yr sovereign CDS
 5yr CDS Argentina 361 (4) (4) (4) (4) (0)
 5yr CDS Brazil 200 (1) (1) (1) (1) (0)
 5yr CDS Colombia 162 (1) (1) (1) (1) (0)
 5yr CDS Mexico 129 (4) (4) (4) (4) (0)
 5yr CDS Peru 94 (0) (0) (0) (0) (0)
 5yr CDS Venezuela 427 (4) (4) (4) (4) (0)
 5yr CDS Russia 494 (4) (4) (4) (4) (0)
 5yr CDS Turkey 232 (0) (0) (0) (0) (0)

5 yr CDS China 84 (0) (0) (0) (0) (0)
 5yr CDS India 126 (0) (0) (0) (0) (0)
 5yr CDS Indonesia 134 (0) (0) (0) (0) (0)

Credit risk

100% probability (average 9 percentage spread for BAA spreads in bp)
 VISTOR 17 (4) (4) (4) (4) (0)
 EMF 17 (4) (4) (4) (4) (0)
 EMF 17 (4) (4) (4) (4) (0)
 Delinquency ratio 6.9 (2) (2) (2) (2) (0)
 EMF 17 (4) (4) (4) (4) (0)
 Debt spread (BAA) 200 (1) (1) (1) (1) (0)
 US Treasury yield 4.0 (0) (0) (0) (0) (0)

Bank risk (changes in bp)
 US bank CDS 73 (0) (0) (0) (0) (0)
 EMU bank CDS 162 (2) (2) (2) (2) (0)
 UK bank CDS 101 (0) (0) (0) (0) (0)

Large Spanish banks CDS 108 (2) (2) (2) (2) (0)
 Medium Spanish banks CDS 145 (2) (2) (2) (2) (0)
 Greek banks CDS 111 (0) (0) (0) (0) (0)
 Russian banks CDS 323 (4) (4) (4) (4) (0)

Interbank markets (changes in bp)

LEIBOR 3m spread 3m 3 (0) (0) (0) (0) (0)
 LIBOR 3m spread 3m 31 (2) (2) (2) (2) (0)
 LIBOR 6m spread 3m 50 (0) (0) (0) (0) (0)

US 6m spread 3m 78 (1) (1) (1) (1) (0)
 US 6m spread 6m 154 (0) (0) (0) (0) (0)
 US 12m spread 3m 81 (0) (0) (0) (0) (0)

Spain 6m spread 3m 101 (0) (0) (0) (0) (0)
 COFINA Index 4.35 (0) (0) (0) (0) (0)
 Euler 3m -2.3 (0) (0) (0) (0) (0)
 Euler 12m -0.8 (0) (0) (0) (0) (0)

Libor 3m 0.84 (4) (4) (4) (4) (0)
 Libor 12m 1.54 (0) (0) (0) (0) (0)

Block markets (Changes in percentage)

Bank spreads
 S&P 500 2.94 (1) (1) (1) (1) (0)
 Dow Jones 3.00 (2) (2) (2) (2) (0)
 Nikkei 10.68 (4) (4) (4) (4) (0)
 FTSE 100 6.62 (2) (2) (2) (2) (0)
 Euro Stoxx 50 3.07 (1) (1) (1) (1) (0)
 MSCI 100 (1) (1) (1) (1) (0)
 DJI 3.07 (1) (1) (1) (1) (0)
 CAC 40 2.3 (0) (0) (0) (0) (0)
 HSI 10.12 (0) (0) (0) (0) (0)
 AEX 10.06 (1) (1) (1) (1) (0)

Bank credit
 CMA 0.2 (0) (0) (0) (0) (0)
 Cit 4.3 (0) (0) (0) (0) (0)
 BNP 1.9 (0) (0) (0) (0) (0)
 MS 21 (0) (0) (0) (0) (0)
 CIB 17.5 (0) (0) (0) (0) (0)

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 RBS 20.1 (2) (2) (2) (2) (0)
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 UBS 18.3 (2) (2) (2) (2) (0)

EMU banks
 BNP 1.9 (0) (0) (0) (0) (0)
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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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