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 ly, 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 ly, 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

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0.75 (2) (-3) (4) (-29)
US 5-yr 1.16 (4) (-2) (6) (-60)
US 10-yr 1.59 (5) (2) (4) (-68)

Japan 10-yr -0.03 (1) (1) (4) (-30)

GER 2-yr -0.64 (3) (-2) (-2) (-30)
GER 5-yr 0 (57) (51) (53) (5)
GER 10-yr -0.061 (6) (1) (2) (-69)

Belgium 10-yr 0 (-10) (-18) (-15) (-97)
France 10-yr 0.23 (7) (6) (9) (-75)
Greece 10-yr 8.25 (2) (15) (-2) (-3)
Ireland 10-yr 0.41 (5) (-5) (4)
Italy 10-yr 1.16 (8) (-1) (4) (-44)
Netherlands 10-yr 0.05 (6) (0) (3) (-75)
Portugal 10-yr 3.08 (10) (4) (28) (56)
Spain 10-yr 1 (6) (-6) (-1) (-78)

Emerging Markets
Brazil 10-yr 11.99 (-1) (-6) (26) (-452)
Chile 10-yr 4.36 (0) (0) (0) (-30)
Colombia 10-yr 6.98 (0) (-44) (-57) (-167)
Mexico 10-yr 5.81 (4) (-4) (-8) (-45)
Peru 10-yr 5.65 (0) (0) (-6) (-166)

Poland 10-yr 2.84 (8) (3) (14) (-10)
Russia 5-yr 8.13 (-6) (-32) (-32) (-175)
Russia 10-yr 7.95 (-6) (-26) (-29) (-161)
Turkey 10-yr 9.35 (4) (-29) (-4) (-112)

India 10-yr 7.05 (-1) (-8) (-8) (-72)
Indonesia 10-yr 6.89 (1) (-17) (6) (-185)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 23 (1) (-2) (1) (-11)
France 6 (-22) (-18) (-16) (-30)
Greece 831 (-4) (14) (-4) (66)
Ireland 6 (-42) (-47) (-38) (-46)
Italy 122 (3) (-2) (3) (26)
Netherlands 11 (0) (-0.3) (2) (-6)
Portugal 314 (5) (3.1) (26) (125)
Spain 106 (1) (-7) (-2) (-9)

5-yr sovereign spreads *(against Germany)*
Belgium -45 (-52) (-53.8) (-49) (-53)
France -40 (-52) (-53) (-52) (-53)
Greece 1602 (-57) (-51) (-53) (-5)
Ireland 0 (-57) (-51) (-53) (-25)
Italy 26 (-51) (-53) (-51) (-29)
Netherlands -44 (-52) (-52.6) (-52) (-44)
Portugal 185 (-49) (-57) (-30) (74)
Spain 0 (-66) (-69) (-67) (-72)

2-yr sovereign spreads *(against Germany)*
Belgium 11 (-1) (-1) (1) (7)
France 4 (0) (0) (-3) (1)
Ireland 64 (36) (40) (45) (50)
Italy 55 (0) (-1) (-1) (23)
Netherlands 5 (0) (3) (1) (7)
Portugal 114 (2) (-1) (12) (69)
Spain 49 (0) (1) (3) (14)

5-yr sovereign CDS
5-yr CDS Belgium 34 (1) (0) (-8) (2)
5-yr CDS France 28 (0) (-1) (-3) (3)
5-yr CDS Germany 16 (0) (0) (-1) (3)
5-yr CDS Greece 990 (12) (-16) (51) (-68)
5-yr CDS Ireland 57 (-1) (-3) (-2) (17)
5-yr CDS Italy 133 (0) (-3) (13) (37)
5-yr CDS Netherlands 24 (0) (-1) (-3) (10)
5-yr CDS Portugal 284 (0) (-6) (23) (117)
5-yr CDS Spain 75 (0) (-5) (-3) (-14)
5-yr CDS UK 33 (0) (-1) (-3) (13)
5-yr CDS US 26 (0) (-1) (-5) (7)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 361 (-4) (-19) (-35) (-10936)
5-yr CDS Brazil 240 (-7) (-16) (-28) (-252)
5-yr CDS Chile 69 (-4) (-7) (-2) (-58)
5-yr CDS Colombia 154 (-7) (-16) (-20) (-84)
5-yr CDS Mexico 129 (-4) (-9) (-10) (-41)
5-yr CDS Peru 94 (-5) (-8) (-13) (-91)
5-yr CDS Venezuela 4227 (-54) (-85) (-103) (-1816)

5-yr CDS Poland69 (-2) (-6) (-10) (-3)
5-yr CDS Russia 195 (-9) (-23) (-16) (-107)
5-yr CDS Turkey 232 (-5) (-11) (-12) (-41)

5-yr CDS China 94 (-1) (-6) (-9) (-14)
5-yr CDS India 129 (0) (-4) (-21) (-20)
5-yr CDS Indonesia 136 (-2) (-11) (-11) (-91)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 12.23 (2.4) (-9.3) (4.9) (-6)
VSTOXX 17.81 (-4.1) (-11.2) (-2.6) (-4)
EM EFT volatility Index 20 (-1) (-8) (7) (-15)
Dollar/euro volatility 6.9 (-5.2) (-13.2) (-2.4) (-28)
EM FX volatility index 10 (0) (-4) (-4) (-16)
Credit spread (BAA) 260.3 (-4.8) (-1.9) (-5.2) (-63)
US bonds volatility index 64 (0) (-9) (0) (-6)

Bank risk *(changes in bp)*
US banks CDS 73 (0) (0) (-5) (-2)
EMU banks CDS 103 (-2) (-8) (-6) (20)
UK banks CDS 83 (0) (-6) (-15) (6)

Large Spanish banks CDS 109 (-2) (-9) (-14) (-28)
Medium Spanish banks CDS 145 (-2) (-6) (-13) (-12)

Greek banks CDS 811 (-54) (-264) (-294) (-841)
Russian banks CDS 323 (-10) (-13) (-6) (-59)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 0 (0) (-5) (-5) (-11)
UEM OIS spread 12m 33 (-2) (-1) (-2) (0)
UEM TED spread 3m 50 (0) (-0.8) (5) (9)

US OIS spread 3m 39 (-1) (1) (-1) (16)
US OIS spread 12m 154 (54) (54) (51) (98)
US TED spread 3m 83 (34) (32) (30) (38)

Spain Ted Spread 3m -30 (-39) (-33.8) (-35) (-35)

EONIA Index -0.35 (0) (-1.6) (-2) (-23)
Euribor 3m -0.3 (0) (-0.5) (-1) (-17)
Euribor 12m -0.06 (0) (-1) (-1) (-12)

Libor 3m 0 (-84) (-84) (-82) (-61)
Libor 12m 1.54 (0) (-3) (2) (36)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2181.7 (-0.2) (0.5) (0) (7)
Dow Jones 18492.3 (-0.2) (0.4) (-0.2) (6)
Nikkei 16958.8 (-0.3) (0.2) (1.2) (-11)
FTSE 100 6858.7 (0.2) (1.7) (0.1) (10)
EuroStoxx 50 3083.5 (-0.3) (2.2) (1.8) (-6)
IBEX 9101.1 (1) (3.9) (5) (-5)
DAX 10675.3 (-0.7) (1.3) (-0.2) (-1)
CAC4542.2 (-0.3) (2.3) (1.7) (-2)
MIB 17375.7 (0.5) (2.7) (3.5) (-19)
ASE Athens 566.6 (-1.5) (-2.1) (0.7) (-10)

Bank stocks
JPM 67.5 (0.5) (0.4) (2.5) (2)
Citi 47.9 (0.9) (1.1) (4.4) (-7)
BoA 15.9 (1) (-0.8) (4.4) (-6)
MS 32 (0.9) (0.2) (9) (1)
GS 170.5 (0.5) (1.2) (4.3) (-5)

HSBC 573.3 (1.1) (0.9) (6) (7)
RBS 202.1 (2.6) (0.5) (5.1) (-33)
Barclays 173.2 (2) (1) (7.4) (-21)
Lloyds 58.9 (2.2) (-2.9) (6.9) (-19)

EMU banks 80.8 (1.6) (1.8) (8.1) (-25)
BNP 47.8 (1.8) (2.1) (6.7) (-8)
Crédit Agricole 8.8 (1.9) (3.1) (6.9) (-19)
Deutsche Bank 13.1 (1.2) (0.2) (5.9) (-42)
ING 11.4 (0.7) (1.1) (7.7) (-9)
Intesa 2.2 (1.6) (2.9) (13.4) (-29)
SG 33.1 (2) (1.4) (3.8) (-22)
Unicredito 2.4 (2.1) (1.6) (16.8) (-54)

Large Spanish banks 66.8 (1.9) (3.5) (10.4) (-12)
Santander 4.2 (2.3) (4.6) (10.8) (-7)
BBVA 5.8 (1.7) (2.7) (10.1) (-15)

Medium Spanish banks 63 (1.9) (1) (6) (-24)
Caixabank 2.5 (2.2) (3.7) (6.8) (-22)
Popular 1.2 (2.7) (2.1) (3.8) (-55)
Sabadell 1.2 (2) (0.8) (3.9) (-23)
Bankinter 6.7 (1.5) (0.6) (5) (2)
Bankia 0.8 (1.4) (-1.3) (10.6) (-28)

Greek banks 2.8 (1) (-4) (4) (-38)
Alpha Bank1.7 (-0.6) (-4.5) (-4) (-32)
Pireus Bank0.1 (-1.4) (-4.6) (12.5) (-48)
National Central Bank0.2 (0) (-3.9) (8.2) (-42)
Eurobank Ergasias0.6 (5.8) (-2.8) (28.2) (-47)

Emerging Markets
Main equity indices
MSCI Latam 73521 (-0.18) (2.4) (2.3) (24)
Ibovespa (Brazil) 59931 (-0.3) (3.5) (4) (38.3)
Mexbol 47313 (-0.2) (-0.5) (-0.1) (10)

MSCI EM Europe 4594 (0.33) (3.3) (2.6) (8.1)
Poland 1793 (-0.9) (0) (-2.4) (-3.5)
Micex (Russia) 2051 (-0.1) (4) (4.8) (16.4)
Ise 100 (Turkey) 77843 (0.3) (2.5) (0.1) (6.3)

MSCI EM Asia 728 (-0.13) (2.3) (3.8) (10.2)
Shanghai Composite (China) 3096 (0.13) (0.3) (3.1) (-13.3)
Jakarta Composite (Indonesia) 5371 (-0.2) (-0.3) (-1.6) (17)

Bank stocks
Turkish banks 85 (1.1) (4.7) (1.8) (14.9)
Akbank T.A.S. 8 (0.9) (4.4) (1.7) (23)
Garanti 8 (1) (7.3) (3.7) (15)
Turkiye Is Bankasi 5 (1.7) (2.1) (-0.2) (5.7)

Russian banks 197 (-0.1) (7.1) (11) (29.7)
Sberbank 153 (-0.6) (6.4) (10.2) (51.5)
VTB Bank 0.1 (1.2) (8.8) (12.9) (-4.2)

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

Developed Markets
EURUSD 1.126 (0.21) (0.59) (1.3) (3.7)
GBPUSD 1.33 (-0.29) (0.26) (2.3) (-9.7)
USDJPY 102.25 (-0.5) (0.95) (-0.4) (14.9)
DXY 94.9 (0.1) (0.8) (1.3) (3.8)

Emerging Markets
USDARS (Argentina) 15.06 (-0.1) (-1.1) (-2) (-16.5)
USDBRL (Brazil) 3.19 (0.1) (2) (-1.5) (19.4)
USDCLP (Chile) 662.83 (-0.2) (2.6) (-1.6) (6.5)
USDCOP (Colombia) 2853.88 (0.2) (4.6) (4.4) (10.1)
USDMXN (Mexico) 18.6 (-1.2) (0.8) (-0.9) (-8.1)
USDPEN (Peru) 3.37 (-0.2) (0.7) (-1.9) (1.3)
LACI 65.58 (-0.4) (1.5) (-0.8) (4.7)

USDPLN (Poland) 3.84 (0.2) (1.5) (-0.1) (2.2)
USDRUB (Russia) 63.76 (0.7) (3.4) (1.5) (12.1)
USDTRY (Turkey) 2.95 (-0.5) (0.3) (0.6) (-1.2)

USDCNY (China) 6.67 (-0.1) (0.1) (-0.2) (-2.7)
USDINR (India) 66.42 (-0.1) (0.8) (0.6) (-0.4)
USDIDR (Indonesia) 13063 (0.2) (1.6) (0.5) (5.3)
ADXY 107.64 (-0.1) (0.5) (0) (1)

Commodities *(change in percentage)*

Brent 49.64 (3.7) (9.2) (10.4) (33.2)
WTx 47.17 (3.7) (9.3) (10.3) (27.3)
Copper 208.65 (-0.3) (0.9) (-2.9) (-1.8)
Gold 1337 (-0.5) (1.8) (-0.3) (26)
Baltic Dry Index 773 (3.8) (8.6) (22.5) (61.7)
S&P GSCI Spot commodity index 352.181 (1.1) (3) (2) (13)
S&P GSCI Brent Spot 408.341 (1.5) (5.6) (6.1) (27.4)
S&P GSCI Metals Spot 270.16 (0.3) (-0.3) (-1.8) (6.7)
S&P GSCI Agricultural Spot 290.156 (1) (2.7) (-1.3) (2.3)

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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