

# Market Comment | ECB inaction drives bond yields higher ahead of Fed meeting

Global Financial Markets Unit  
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- **Speculation about central banks' upcoming policy stance drove financial markets over the week.** August's US payrolls and service sector data were released early in the week, when weak outturns lowered the probability of a Fed interest rate hike. However, **expectations of a hike in 2016 bounced back** (to 38% September and 63% December) after hawkish statements by some Fed officials (Williams and Rosengren gave support to an interest rate hike this year) coupled with the ECB's decision to hold monetary policy unchanged.
- **The lack of action from the ECB and the hawkish comments from Fed members dragged down the sovereign bond markets across the board.** In the US the 2Y yield, the interest linked with the monetary policy, bounced back, ending the week flat, after decreasing (-5 bps) early in the week due to the weak service sector data. The US 10Y increased significantly late in the week (+7 bps), reaching levels close to pre-Brexit. The 10Y German yield also surged, touching positive levels (+5 bps, to 0.005%) after the ECB refrained from announcing any change or extension in the PSPP, even though the Governing Council tasked the relevant committees to evaluate options to ensure a smooth implementation of its purchase programme. European 10Y yields surged across the board (France +11 bps, Spain +5 bps, Italy +7 bps), while the peripheral risk premium ended the week without change. EM yields also jumped at the end of the week, as the implied probability of a Fed rate hike in 2016 increased.
- The EUR appreciated against the USD during the week (+0.56%), although expectations of a FOMC hike in 2016 bounced back. **Despite the high volatility, oil prices surged in the week** (+4%) triggered by expectations of a Russian and Saudi Arabian agreement on an oil production freeze (which in the end were not met), higher-than-expected China import data and a significant drop in US crude oil inventories. EM currencies ended the week showing mixed performances (MXN -1.6%, CLP +0.2%, COP +1.2%, PLN +1.3%), but overall showing depreciation since the Fed interest rate hike expectations rebounded
- **Higher yields and a strong euro weighed on European equities, which ended the week lower** (Euro Stoxx50 -0.8%, Dax -0.9%), with the exception of Spanish shares (Ibex 35 +1.4%), underpinned by the banking sector. Moreover, in Europe as a whole both the banking and the insurance sectors were among the best performers in the week, as negative interest rates moderated after Draghi's remarks. Meanwhile, US stocks decreased from their historical highs due to the surge in yields (S&P500 -1%). In China, positive news influenced share prices, leading to a large gain during the week in H-shares (Hang Seng, +3.58%).

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Table 1





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

**Debt markets (changes in %)**

US 2yr 5.79 (2) (1) (2) (2)  
 US 5yr 3.2 (2) (1) (1) (4)  
 US 10yr 1.87 (2) (1) (1) (4)

Japan 10yr 0.02 (2) (2) (1) (2)  
 GBR 2yr 4.0 (1) (1) (1) (2)  
 GBR 5yr 4.4 (1) (1) (1) (4)  
 GBR 10yr 5.05 (1) (1) (1) (4)

Belgium 10yr 0.23 (1) (1) (1) (2)  
 France 10yr 0.27 (1) (1) (1) (2)  
 Greece 10yr 0.02 (1) (1) (1) (1)  
 Ireland 10yr 0.02 (1) (1) (1) (1)  
 Italy 10yr 1.24 (1) (1) (1) (1)  
 Netherlands 10yr 0.02 (1) (1) (1) (1)  
 Portugal 10yr 1.0 (1) (1) (1) (1)  
 Spain 10yr 1.07 (1) (1) (1) (1)

China 10yr 3.2 (1) (1) (1) (1)  
 Colombia 10yr 7.31 (2) (1) (1) (1)  
 Mexico 10yr 5.5 (1) (1) (1) (1)  
 Peru 10yr 3.65 (1) (1) (1) (1)

Russia 10yr 7.5 (1) (1) (1) (1)  
 Russia 5yr 1.8 (1) (1) (1) (1)  
 Russia 10yr 7.5 (1) (1) (1) (1)  
 Turkey 10yr 5.3 (1) (1) (1) (1)

India 10yr 7.05 (1) (1) (1) (1)  
 Indonesia 10yr 4.2 (1) (1) (1) (1)

**Country risk (changes in %)**

**10 yr sovereign spreads (against Germany)**

Belgium 0.02 (1) (1) (1) (1)  
 France 0.02 (1) (1) (1) (1)  
 Greece 0.07 (1) (1) (1) (1)  
 Ireland 0.01 (1) (1) (1) (1)  
 Italy 0.04 (1) (1) (1) (1)  
 Netherlands 0.01 (1) (1) (1) (1)  
 Portugal 0.01 (1) (1) (1) (1)  
 Spain 0.02 (1) (1) (1) (1)

**5 yr sovereign spreads (against Germany)**

Belgium 0.02 (1) (1) (1) (1)  
 France 0.02 (1) (1) (1) (1)  
 Greece 0.02 (1) (1) (1) (1)  
 Ireland 0.01 (1) (1) (1) (1)  
 Italy 0.01 (1) (1) (1) (1)  
 Netherlands 0.01 (1) (1) (1) (1)  
 Portugal 0.01 (1) (1) (1) (1)  
 Spain 0.01 (1) (1) (1) (1)

**2 yr sovereign spreads (against Germany)**

Belgium 0.01 (1) (1) (1) (1)  
 France 0.01 (1) (1) (1) (1)  
 Greece 0.01 (1) (1) (1) (1)  
 Ireland 0.01 (1) (1) (1) (1)  
 Italy 0.01 (1) (1) (1) (1)  
 Netherlands 0.01 (1) (1) (1) (1)  
 Portugal 0.01 (1) (1) (1) (1)  
 Spain 0.01 (1) (1) (1) (1)

**5 yr sovereign CDS**

5 yr CDS Belgium 24 (1) (1) (1) (1)  
 5 yr CDS France 28 (1) (1) (1) (1)  
 5 yr CDS Germany 10 (1) (1) (1) (1)  
 5 yr CDS Greece 391 (1) (1) (1) (1)  
 5 yr CDS Ireland 24 (1) (1) (1) (1)  
 5 yr CDS Italy 134 (1) (1) (1) (1)  
 5 yr CDS Netherlands 24 (1) (1) (1) (1)  
 5 yr CDS Portugal 284 (1) (1) (1) (1)  
 5 yr CDS Spain 28 (1) (1) (1) (1)  
 5 yr CDS UK 28 (1) (1) (1) (1)  
 5 yr CDS US 28 (1) (1) (1) (1)

**Emerging Markets**

**5 yr sovereign CDS**

5 yr CDS Argentina 46 (1) (1) (1) (1)  
 5 yr CDS Brazil 242 (1) (1) (1) (1)  
 5 yr CDS China 70 (1) (1) (1) (1)  
 5 yr CDS Colombia 101 (1) (1) (1) (1)  
 5 yr CDS Mexico 131 (1) (1) (1) (1)  
 5 yr CDS Peru 31 (1) (1) (1) (1)  
 5 yr CDS Venezuela 478 (1) (1) (1) (1)  
 5 yr CDS Poland 21 (1) (1) (1) (1)  
 5 yr CDS Russia 195 (1) (1) (1) (1)  
 5 yr CDS Turkey 234 (1) (1) (1) (1)  
 5 yr CDS China 40 (1) (1) (1) (1)  
 5 yr CDS India 20 (1) (1) (1) (1)  
 5 yr CDS Indonesia 136 (1) (1) (1) (1)

**Comd risk**

US 10Y10Y (change in percentage spread for 5AA spreads, %)  
 VE 14.12 (1) (1) (1) (1)  
 VIX 18.81 (1) (1) (1) (1)  
 EMFTY volatility index 21.05 (1) (1) (1) (1)  
 Deloitte volatility 7.2 (1) (1) (1) (1)  
 EM FT volatility index 16.0 (1) (1) (1) (1)  
 Credit spread (BAA) 22.2 (1) (1) (1) (1)  
 US bank volatility index 16.0 (1) (1) (1) (1)

**Bank risk (changes in %)**

US banks CDS 17 (1) (1) (1) (1)  
 EMU banks CDS 162 (1) (1) (1) (1)  
 UK banks CDS 30 (1) (1) (1) (1)  
 Large Spanish banks CDS 112 (1) (1) (1) (1)  
 Medium Spanish banks CDS 147 (1) (1) (1) (1)  
 Greek banks CDS 181 (1) (1) (1) (1)  
 Russian banks CDS 322 (1) (1) (1) (1)

**Interbank markets (changes in %)**

LEM USD spread 3m 7 (1) (1) (1) (1)  
 LEM USD spread 6m 13 (1) (1) (1) (1)  
 LEM TED spread 3m 81 (1) (1) (1) (1)  
 US USD spread 3m 39 (1) (1) (1) (1)  
 US USD spread 6m 38 (1) (1) (1) (1)  
 US TED spread 3m 49 (1) (1) (1) (1)  
 Spain Ted spread 3m 7 (1) (1) (1) (1)  
 EONIA Index 3.34 (1) (1) (1) (1)  
 Euro3m -3.2 (1) (1) (1) (1)  
 Euro3m -4.0 (1) (1) (1) (1)  
 Libor 3m 0.93 (1) (1) (1) (1)  
 Libor 12m 1.54 (1) (1) (1) (1)

**Stock markets (Changes in percentage)**

**Major indices**

S&P500 2102.1 (1) (1) (1) (1)  
 Dow Jones 1839.7 (1) (1) (1) (1)  
 Nikkei 16056.0 (1) (1) (1) (1)  
 FTSE 100 6762.4 (1) (1) (1) (1)  
 EuroStoxx 50 2698.6 (1) (1) (1) (1)  
 MSCI World 4181.1 (1) (1) (1) (1)  
 DJIA 10072.4 (1) (1) (1) (1)  
 CAC40 4174.0 (1) (1) (1) (1)  
 ASI 1718.1 (1) (1) (1) (1)  
 ASE Athens 148.8 (1) (1) (1) (1)

**Bank stocks**

JPM 42.4 (1) (1) (1) (1)  
 Cit 47.8 (1) (1) (1) (1)  
 BofA 36.8 (1) (1) (1) (1)  
 MS 32.1 (1) (1) (1) (1)  
 GS 17.1 (1) (1) (1) (1)

**EMU banks**

BBVA 47.8 (1) (1) (1) (1)  
 BNP 206.3 (1) (1) (1) (1)  
 Deutsche 174.8 (1) (1) (1) (1)  
 UBS 54.4 (1) (1) (1) (1)

**Other banks**

EMU banks 81.2 (1) (1) (1) (1)  
 BNP 48.1 (1) (1) (1) (1)  
 Citigroup 1.8 (1) (1) (1) (1)  
 Deutsche 13.5 (1) (1) (1) (1)  
 HSBC 1.3 (1) (1) (1) (1)  
 JPM 2.1 (1) (1) (1) (1)  
 UBS 3.0 (1) (1) (1) (1)  
 Unicredit 2.3 (1) (1) (1) (1)

**Large Spanish banks**

Large Spanish banks 45.5 (1) (1) (1) (1)  
 Santander 4.2 (1) (1) (1) (1)  
 BBVA 5.7 (1) (1) (1) (1)

**Medium Spanish banks**

Medium Spanish banks 63.3 (1) (1) (1) (1)  
 Caixabank 2.1 (1) (1) (1) (1)  
 Finisra 1.1 (1) (1) (1) (1)  
 Sabadell 1.3 (1) (1) (1) (1)  
 Banesco 0.7 (1) (1) (1) (1)  
 Bankia 0.8 (1) (1) (1) (1)

**Greek banks**

Greek banks 2.7 (1) (1) (1) (1)  
 Alpha Bank 1.2 (1) (1) (1) (1)  
 Piraeus Bank 1.2 (1) (1) (1) (1)  
 Panathinaikos 2.1 (1) (1) (1) (1)  
 Eurobank Ergasias 1.2 (1) (1) (1) (1)

**Russian banks**

Russian banks 116 (1) (1) (1) (1)  
 Sberbank 102 (1) (1) (1) (1)  
 VTB Bank 0.1 (1) (1) (1) (1)

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

EURUSD 1.01 (1) (1) (1) (1)  
 GBPUSD 1.31 (1) (1) (1) (1)  
 USDJPY 102.7 (1) (1) (1) (1)  
 DXY 95.41 (1) (1) (1) (1)

**USD/BRL (Argentina)**

USD/BRL (Brazil) 1.27 (1) (1) (1) (1)  
 USD/COP (Colombia) 1.12 (1) (1) (1) (1)  
 USD/MXN (Mexico) 16.37 (1) (1) (1) (1)  
 USD/INR (India) 73.8 (1) (1) (1) (1)  
 USD/IDR (Indonesia) 15251.7 (1) (1) (1) (1)

**USD/PLN (Poland)**

USD/PLN (Poland) 3.06 (1) (1) (1) (1)  
 USD/TRY (Turkey) 2.37 (1) (1) (1) (1)  
 USD/CNY (China) 6.68 (1) (1) (1) (1)  
 USD/HK (Hong Kong) 7.75 (1) (1) (1) (1)  
 USD/AUD (Australia) 0.71 (1) (1) (1) (1)  
 AUD/INR (India) 137.06 (1) (1) (1) (1)

**Commodities (change in percentage)**

WTI 48.71 (1) (1) (1) (1)  
 Crude 20.05 (1) (1) (1) (1)  
 Gold 1702.49 (1) (1) (1) (1)  
 S&P 500 Spot commodity index 361.96 (1) (1) (1) (1)  
 S&P 500 Spot Gold 166.4 (1) (1) (1) (1)  
 S&P 500 Spot Silver 19.75 (1) (1) (1) (1)  
 S&P 500 Agricultural Spot 201.91 (1) (1) (1) (1)

**Stocks (Banking, Deposit and Finance)**

Bank 44.71 (1) (1) (1) (1)  
 WTI 48.44 (1) (1) (1) (1)  
 Crude 20.05 (1) (1) (1) (1)  
 Gold 1702.49 (1) (1) (1) (1)  
 S&P 500 Spot commodity index 361.96 (1) (1) (1) (1)  
 S&P 500 Spot Gold 166.4 (1) (1) (1) (1)  
 S&P 500 Spot Silver 19.75 (1) (1) (1) (1)  
 S&P 500 Agricultural Spot 201.91 (1) (1) (1) (1)

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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