Market Comment | Market volatility surges ahead of upcoming events

Global Financial Markets Unit
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- **This week started with a significant increase in market volatility (V2X +20%, VIX +15%).** The banking sector triggered a negative mood in financial markets, despite the unexpectedly positive confidence data in Germany (IFO: 109.5, previous 106.2). US politics was another source of volatility, with **the focus this week shifting from monetary policy towards US presidential politics**, despite the fact that a number of important FOMC members are set to speak this week. Tonight, the first debate will be held between US presidential candidates Hillary Clinton and Donald Trump, with the potential to tip the scales of the US presidential elections, as the tightening of the polls increases.

- Moreover, **oil prices rose significantly (WTx +3.2%, Brent +2.9%)** amid today's start of the 15th International Energy Forum in Algiers and ahead of the informal OPEC meeting scheduled for Wednesday. In the past few weeks a barrage of **news encouraged speculation about a potential agreement to cut or freeze oil output** in the above-mentioned OPEC meeting, which could involve participation by non-OPEC members such as Russia.

- **Negative mood in equity markets across the board driven by the EZ banking sector.** Deutsche Bank led the falls in European equities, owing to expectations of a capital increase raise after the US Justice Department imposed a US$14 billion fine on Deutsche Bank last week, and Chancellor Merkel ruled out any aid to the bank. Nonetheless, the bank has denied any plans for capital increases. The sell-off drove the bank's stock to its lowest level in more than 20 years (-7.5% to 10.55 EUR), and put the European banking sector under the spotlight. The increase in risk aversion ahead of political events dragged down European indices (Euro Stoxx -1.9%, DAX -2.2%, IBEX -1.3%), which did not benefit from the rebound in oil prices. US shares also went down (S&P500 -0.7%).

- The increase in equity volatility, favoured flows into bond markets, and **sovereign bond yields went down across the board** (10YUS -4 bps, 10YGER -3 bps, 10YFRA -3 bps, 10YSPA -5 bps, 10YITA -3 bps). Despite the upsurge of volatility there was no significant increase in peripheral premiums.

- In FX markets, **the USD continued its depreciation trend against its main peers**, suffering the effects of keeping interest rates unchanged in the last FOMC meeting (EUR +0.3%, GBP +0.05%, JPY +0.64%). EM currencies registered mixed performances (TRY -0.3%, BRL +0.5%, RUB +0.3%, MXN -0.2%, COP -0.2%). The rebound in oil prices contributed to pushing up the commodity-price sensitive currencies, while others such as the Turkish lira and the Mexican peso suffered the effect of idiosyncratic vulnerabilities. The former was hampered by Moody's downgrade of the country's credit rating to junk (one notch to Ba1 with a 'stable' outlook) due to: 1) the increase in risks related to the country's sizeable external funding requirements, and 2) the weakening in previously supportive credit fundamentals, particularly growth and institutional strength. The latter continues to suffer from the political uncertainty in the US as the latest set of polls show a narrow margin between the main political candidates.

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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 0.73 (-3) (-5) (-6) (-32)
US 5-yr 1.11 (-4) (-11) (-5) (-66)
US 10-yr 1.58 (-4) (-14) (0) (-69)

Japan 10-yr -0.06 (-2) (-3) (2) (-33)

GER 2-yr -0.68 (-1) (-3) (-7) (-34)
GER 5-yr -0.58 (-3) (-8) (-7) (-53)
GER 10-yr -0.116 (-3) (-13) (-5) (-75)

Belgium 10-yr 0.12 (-3) (-13) (-3) (-85)
France 10-yr 0.18 (-3) (-14) (2) (-81)
Greece 10-yr 8.4 (1) (-24) (34) (11)
Ireland 10-yr 0.36 (-3) (-12) (-4)
Italy 10-yr 1.18 (-3) (-13) (5) (-41)
Netherlands 10-yr 0 (-4) (-13) (-4) (-80)
Portugal 10-yr 3.38 (0) (1) (40) (87)
Spain 10-yr 0.92 (-5) (-12) (0) (-85)

Emerging Markets
Brazil 10-yr 11.93 (6) (-31) (-5) (-458)
Chile 10-yr 4.25 (0) (0) (-11) (-41)
Colombia 10-yr 7.07 (3) (-21) (-20) (-159)
Mexico 10-yr 6.16 (4) (6) (32) (-10)
Peru 10-yr 5.81 (0) (-3) (22) (-149)

Poland 10-yr 2.8 (1) (-10) (12) (-14)
Russia 5-yr 8.4 (0) (-4) (-13) (-148)
Russia 10-yr 8.2 (0) (-6) (-4) (-136)
Turkey 10-yr 9.57 (28) (-2) (7) (-90)

India 10-yr 6.79 (-2) (-9) (-33) (-97)
Indonesia 10-yr 6.91 (4) (-7) (-15) (-183)

Country risk *(changes in bp)*
Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 24 (0) (0) (2) (-11)
France 30 (0) (-1) (7) (-6)
Greece 852 (4) (-10) (39) (86)
Ireland 47 (0) (1) (-2) (-5)
Italy 130 (0) (0) (10) (33)
Netherlands 11 (0) (0.4) (1) (-5)
Portugal 350 (4) (14.4) (44) (161)
Spain 103 (-1) (2) (4) (-11)

5-yr sovereign spreads *(against Germany)*
Belgium 9 (0) (1.2) (4) (2)
France 14 (0) (1) (3) (1)
Greece 1660 (3) (8) (7) (53)
Ireland 58 (3) (8) (7) (32)
Italy 82 (1) (0) (9) (27)
Netherlands 10 (0) (0.4) (2) (10)
Portugal 260 (-1) (2) (29) (149)
Spain 63 (-1) (2) (8) (-9)

2-yr sovereign spreads *(against Germany)*
Belgium 12 (-1) (3) (1) (8)
France 7 (1) (2.1) (2) (4)
Ireland 25 (0) (-3) (2) (11)
Italy 57 (1) (-1) (5) (25)
Netherlands 4 (0) (-1) (1) (7)
Portugal 115 (2) (-8) (5) (70)
Spain 48 (1) (2) (7) (13)

5-yr sovereign CDS
5-yr CDS Belgium 32 (0) (-1) (-3) (0)
5-yr CDS France 29 (0) (0) (-1) (3)
5-yr CDS Germany 19 (1) (1) (-1) (6)
5-yr CDS Greece 949 (0) (-128) (102) (-110)
5-yr CDS Ireland 59 (0) (1) (-3) (19)
5-yr CDS Italy 139 (2) (1) (-2) (43)
5-yr CDS Netherlands 25 (0) (1) (-1) (10)
5-yr CDS Portugal 301 (-2) (-2) (11) (134)
5-yr CDS Spain 79 (1) (2) (-6) (-10)
5-yr CDS UK 33 (-1) (0) (1) (14)
5-yr CDS US 26 (0) (0) (-1) (7)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 393 (12) (-6) (15) (-10904)
5-yr CDS Brazil 270 (6) (1) (14) (-221)
5-yr CDS Chile 85 (6) (-4) (11) (-42)
5-yr CDS Colombia 173 (7) (-1) (3) (-66)
5-yr CDS Mexico 168 (10) (10) (30) (-3)
5-yr CDS Peru 106 (5) (-4) (5) (-79)
5-yr CDS Venezuela 3600 (2) (-711) (-624) (-2443)

5-yr CDS Poland71 (0) (0) (-7) (-1)
5-yr CDS Russia 209 (3) (4) (-22) (-93)
5-yr CDS Turkey 245 (3) (2) (1) (-28)

5-yr CDS China 105 (2) (5) (3) (-4)
5-yr CDS India 141 (4) (8) (10) (-7)
5-yr CDS Indonesia 147 (5) (2) (7) (-80)

Credit risk
Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 14.16 (15.2) (-8.8) (3.9) (-4)
VSTOXX 20.22 (20.1) (-0.5) (-0.9) (-2)
EM EFT volatility Index 23 (9) (-3) (7) (-2)
Dollar/euro volatility 6.5 (4.4) (-8) (-16.7) (-32)
EM FX volatility index 10 (1) (-3) (5) (-8)
Credit spread (BAA) 272.5 (4.3) (3.6) (4.5) (-51)
US bonds volatility index 60 (0) (-14) (-14) (-12)

Bank risk *(changes in bp)*
US banks CDS 77 (1) (1) (4) (2)
EMU banks CDS 121 (2) (7) (6) (37)
UK banks CDS 96 (0) (4) (3) (18)

Large Spanish banks CDS 129 (3) (7) (8) (-8)
Medium Spanish banks CDS 157 (-2) (4) (3) (0)

Greek banks CDS 769 (87) (40) (-229) (-883)
Russian banks CDS 325 (-3) (-5) (-5) (-57)

Interbank markets *(changes in bp)*
UEM OIS spread 3m 0 (0) (0) (-6) (-11)
UEM OIS spread 12m 34 (1) (1) (0) (0)
UEM TED spread 3m 44 (0) (0.2) (-7) (3)

US OIS spread 3m 43 (0) (1) (4) (20)
US OIS spread 12m 0 (0) (0) (-97) (-56)
US TED spread 3m 0 (-69) (-61) (-51) (-45)

Spain Ted Spread 3m 19 (0) (9) (15) (15)

EONIA Index -0.35 (0) (0.2) (0) (-22)
Euribor 3m -0.3 (0) (-0.2) (-1) (-17)
Euribor 12m -0.06 (0) (0) (-1) (-12)

Libor 3m 0.85 (0) (-1) (2) (24)
Libor 12m 1.56 (0) (0) (3) (38)

Stock markets *(Changes in percentage)*
Developed Markets
Main equity indices
S&P500 2150.1 (-0.7) (0.5) (-1) (5)
Dow Jones 18128.2 (-0.7) (0) (-1.7) (4)
Nikkei 16544.6 (-1.3) (0.2) (-0.1) (-13)
FTSE 100 6818 (-1.3) (0.1) (0) (9)
EuroStoxx 50 2975.9 (-1.9) (0.3) (-0.4) (-9)
IBEX 8711.4 (-1.3) (0) (1.3) (-9)
DAX 10393.7 (-2.2) (0.2) (-1.3) (-3)
CAC4407.9 (-1.8) (0.3) (0) (-5)
MIB 16192.5 (-1.6) (-1.3) (-3.1) (-24)
ASE Athens 563.6 (-1.8) (1.1) (-0.4) (-11)

Bank stocks
JPM 66.3 (-1.4) (0.2) (0.4) (0)
Citi 46.4 (-1.7) (-0.5) (-0.8) (-10)
BoA 15.3 (-1.5) (-1.9) (-1.5) (-9)
MS 31.3 (-1.8) (-0.9) (1.2) (-2)
GS 162.2 (-1.8) (-2.4) (-2.3) (-10)

HSBC 569.2 (-0.9) (-2) (4.9) (6)
RBS 177.5 (-2.8) (-4.5) (-9.2) (-41)
Barclays 168.1 (-1.9) (0.7) (2.3) (-23)
Lloyds 54.3 (-3.1) (-4.8) (-7.1) (-26)

EMU banks 74.7 (-3) (-1.4) (-1.2) (-31)
BNP 45.4 (-3.3) (1.1) (2.2) (-13)
Crédit Agricole 8.6 (-2.7) (0.3) (5.5) (-21)
Deutsche Bank 10.6 (-7.5) (-9.8) (-15.6) (-53)
ING 10.8 (-2.2) (0.3) (-0.4) (-13)
Intesa 2 (-1.2) (-4.4) (-0.4) (-36)
SG 31 (-2.9) (-1) (-2.4) (-27)
Unicredito 2.1 (-3.6) (0.8) (-4.8) (-60)

Large Spanish banks 61.5 (-2.7) (0.1) (0) (-18)
Santander 3.9 (-2) (-1) (0.7) (-15)
BBVA 5.3 (-3.2) (0.9) (-0.6) (-21)

Medium Spanish banks 57.4 (-1.4) (-3.2) (-3.8) (-30)
Caixabank 2.2 (-2) (-8.5) (-5.9) (-31)
Popular 1.1 (-2.5) (2.7) (-3.8) (-59)
Sabadell 1.1 (-1) (-2) (-7.2) (-31)
Bankinter 6.3 (-1.2) (-3.2) (-0.3) (-4)
Bankia 0.7 (-1.1) (-2.2) (-3.8) (-35)

Greek banks 2.6 (-5.6) (3) (-2.1) (-43)
Alpha Bank1.5 (-5.6) (2) (-6.7) (-39)
Pireus Bank0.1 (-6.9) (3.1) (0.7) (-51)
National Central Bank0.2 (-7.4) (-1.6) (-2.6) (-45)
Eurobank Ergasias0.5 (-5.1) (7.2) (11) (-52)

Emerging Markets
Main equity indices
MSCI Latam 72355 (-0.53) (2.8) (0.7) (22)
Ibovespa (Brazil) 58060 (-1.1) (1.7) (0.6) (33.9)
Mexbol 47246 (-1.1) (2.9) (-1) (9.8)

MSCI EM Europe 4540 (-0.53) (3) (1.9) (6.9)
Poland 1740 (-1.3) (0.3) (-2.6) (-6.4)
Micex (Russia) 1998 (-0.7) (0.8) (0.7) (13.4)
Ise 100 (Turkey) 76726 (-3.8) (0.9) (0.8) (4.8)

MSCI EM Asia 728 (-0.21) (2.7) (2.6) (10.3)
Shanghai Composite (China) 2980 (-1.76) (-0.7) (-3.4) (-16.6)
Jakarta Composite (Indonesia) 5352 (-0.7) (1.6) (-1) (17)

Bank stocks
Turkish banks 82 (-5.3) (-4) (0.8) (11.1)
Akbank T.A.S. 8 (-5.2) (-3.9) (1.7) (18.8)
Garanti 8 (-5.6) (-4.7) (3.4) (11.2)
Turkiye Is Bankasi 5 (-4.9) (-3.3) (-3.1) (2.2)

Russian banks 192 (-1.3) (0.3) (6.2) (26.3)
Sberbank 149 (-1.6) (0.3) (4.4) (47.2)
VTB Bank 0.1 (-0.7) (0.4) (10.8) (-6.1)

Currencies *(in percentage, positive for dollar depreciation)*
Developed Markets
EURUSD 1.126 (0.3) (0.76) (-0.2) (3.7)
GBPUSD 1.3 (0.05) (-0.45) (-1.7) (-12)
USDJPY 100.37 (0.64) (1.53) (0.2) (16.5)
DXY 95.19 (0.3) (0.7) (-0.4) (3.5)

Emerging Markets
USDARS (Argentina) 15.21 (-0.3) (-0.4) (-2.2) (-17.6)
USDBRL (Brazil) 3.23 (0.5) (1.4) (0.2) (18.5)
USDCLP (Chile) 661.91 (-0.1) (2) (0.2) (6.6)
USDCOP (Colombia) 2921.98 (-0.2) (-0.1) (-0.8) (8)
USDMXN (Mexico) 19.82 (-0.2) (-0.7) (-7.9) (-15.2)
USDPEN (Peru) 3.36 (-0.1) (0.9) (-0.3) (1.6)
LACI 63.85 (0) (0.3) (-2.6) (2)

USDPLN (Poland) 3.81 (0.5) (0.9) (0.7) (2.8)
USDRUB (Russia) 63.88 (0.3) (1.2) (1.8) (11.9)
USDTRY (Turkey) 2.98 (-0.3) (-0.1) (-1.5) (-2.1)

USDCNY (China) 6.67 (0) (0) (-0.1) (-2.7)
USDINR (India) 66.61 (0.1) (0.5) (0.7) (-0.7)
USDIDR (Indonesia) 13041 (0.3) (0.8) (1.5) (5.4)
ADXY 107.33 (0) (0.3) (0) (0.7)

Commodities *(change in percentage)*
Brent 47.22 (2.9) (2.8) (-4.9) (26.7)
WTx 45.9 (3.2) (6) (-3) (23.9)
Copper 218.75 (-0.2) (1.8) (5.4) (2.9)
Gold 1339.47 (0.1) (2) (1.3) (26.2)
Baltic Dry Index 941 (0.4) (12.6) (31.1) (96.9)
S&P GSCI Spot commodity index 351.525 (-2.1) (0.7) (-3.2) (12.8)
S&P GSCI Brent Spot 395.575 (-3.6) (0.1) (-6.9) (23.4)
S&P GSCI Metals Spot 277.9 (-0.2) (2.2) (2.5) (9.8)
S&P GSCI Agricultural Spot 295.262 (-0.9) (-0.2) (1) (4.1)

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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