

# Market Comment | Cautious financial markets ahead of US employment data

Global Financial Markets Unit  
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- Financial markets remained in a cautious mood in today's session, with a slight increase in market volatility. **In the absence of significant economic indicators, markets were awaiting tomorrow's job data in the US** as a useful indicator to hint at the Fed's route map to year-end. Expectations of an interest rate hike by the Fed (which inched up to 63% for a December hike) reacted to hawkish comments from the Fed's Fischer, who said he considered that ultra-low rates were not necessarily here to stay. On the other hand, lingering concerns over a "hard" Brexit affected UK markets across the board once again (government bond yields soared, the GBP continued on its downward trend and equities fell). Moreover, today's release of ECB minutes did not mention the possibility of tapering. On the contrary, the Government Council discussed the worryingly low inflationary expectations and insisted on its commitment to the current asset purchase programme until March 2017 or beyond if necessary.
- In these circumstances, **European government bonds remained broadly unchanged** (10YGER -2 bps), with the exception of Portugal and the UK. In Portugal, government bond yields soared (10YPOR +5 bps), after an additional warning from DBRS about the "vicious cycle of high debt and low growth", ahead of its rating decision on 21 October. In the UK, concerns about a "hard" Brexit weighed on government bonds, whose yields soared (10YUK +6 bps). US government bond yields also increased (10YUS +1 bps) on the back of increased prospects of a Fed interest rate hike.
- **Equity indices were little changed across the board**, especially in Europe (Euro Stoxx50 +0.1%, Dax +0.1%), but the banking sector **outperformed** (EMU banks, +1.7%) favoured by recent increases in yields. In the UK, despite the GBP's depreciation, equities fell (FTSE100 -0.3%), while still hovering around historical high levels. The US indices inched down (S&P500 -0.2%), whereas gains were limited in Asian markets (Nikkei +0.5%, Hang Seng +0.7%).
- Against this backdrop, **the GBP extended its depreciation against the USD (-0.8%)**, renewing its multi-year low levels and going further below to post-Brexit levels. In addition, **the USD appreciated (-0.4%) as investors focused on the Fed's monetary policy path**. The stronger dollar due to the prospects of a Fed interest rate hike hampered the EM currencies across the board (PLN -0.1%, MXN -0.1%, CLP -0.3%), despite the upward trend in oil prices (+1%). Rumours regarding the possibility that OPEC may cut production by an additional 1% to the amount agreed in Algiers if needed, fanned the oil price rebound.

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Table 1

Debt markets (10Y, %, changes in bps)					
	level	Daily	Weekly	Monthly	YTD
<b>Developed Markets</b>					
US (2-yr)	0.83	0.2	0.0	11	21
US	1.71	1.1	15.3	18	56
GR (2-yr)	0.67	-0.2	0.8	0	33
Germany	0.02	-1.5	9.7	9	65
France	0.28	-4.7	9.5	11	71
Spain	1.00	-3.2	8.7	8	77
Italy	1.33	-2.7	14.3	42	26
Portugal	3.50	4.7	19.6	51	99
Green	8.20	0.3	1.6	5	1
Japan (2-yr)	0.28	0.1	1.0	10	27
Japan	0.06	2.2	4.0	32	32
<b>Emerging Markets</b>					
Brazil	11.49	3.5	-22.5	51	503
Chile	4.23	0.6	6.7	13	43
Colombia	7.20	1.3	10.0	7	-146
Mexico	6.11	0.1	9.5	34	-15
Peru	5.77	0.0	0.0	12	-154
Poland	3.02	1.8	11.2	23	7
Russia	8.23	8.8	7.8	17	-133
Turkey	9.45	-1.0	2.0	6	-102
India	7.50	0.5	-1.6	3	-14
Indonesia	7.06	4.0	6.3	18	-169
<b>Country risk (bp, changes in bps)</b>					
10-yr sovereign spread vs Germany					
France	30	-3.2	-0.2	2	-6
Italy	136	-0.9	2.9	16	39
Portugal	352	6.2	9.9	42	164
Spain	102	-1.7	-1.0	-2	-12
2-yr sovereign spread vs Germany					
France	6	-0.5	0.4	1	2
Italy	50	0.3	0.0	3	27
Portugal	106	-1.4	1.6	-9	61
Spain	46	-0.1	-1.4	-3	10
<b>Emerging Markets</b>					
5-yr sovereign CDS *					
Brazil	270	-3	9	18	-222
Chile	88	-1	6	14	-38
Colombia	176	-2	12	10	63
Mexico	161	-3	0	25	-9
Peru	102	-2	5	1	-83
Venezuela	2,953	41	-499	-1,361	-3,050
Poland	70	0	-2	3	-2
Russia	218	-3	3	7	-84
Turkey	246	-6	-21	6	-27
China	105	0	0	0	-3
India	137	-3	-3	7	-11
Indonesia	140	-2	2	6	-70
<b>Risk factors</b>					
Volatility indicators (%)					
VIX	13	3.4	-4	12	5
VSTOXX	19	-1.4	-4	0	3
EM ETI volatility index	23	2.1	3	17	0
DollarEuro volatility	8	12.4	18	4	-18
EM FX volatility index	10	-1.5	-2	7	-11
Credit spread (BAA/10yr)	265	-1.1	-2	0	-58
US bonds volatility index	61	0.8	6	-1	-8
Banking 5y CDS (bps) *					
US	81	-1.4	1	8	6
EZ	119	-2.2	5	12	36
UK	105	-1.1	3	22	28
Large Spanish	130	-3.0	-3	18	-7
Medium Spanish	160	-2.4	2	14	3
Corporate 5y CDS (bps) *					
US Non-financial	197	-1.4	1	8	6
EZ Non-financial	109	-2.2	-5	12	36
UK Non-financial	139	-0.1	-2	5	54
<b>Interbank markets (% , changes in bp)</b>					
EDNA Index					
EDNA Index	0.34	0.00	0.0	0.0	0.2
Euro3m	0.30	0.00	0.0	0.0	0.2
Euro6m	0.06	0.00	0.0	0.0	0.1
Libor 3m	0.87	0.00	0.0	0.0	0.3
Libor 12m	1.57	0.00	0.0	0.0	0.4
EZ TED spread 3m	50.0	-0.00	4.9	-0.4	9.2
<b>Stock markets (%)</b>					
Main indices					
S&P500	2,155	-0.2	0.2	-1	5
Dow Jones	18,251	-0.2	0.6	-2	5
Nikkei	16,899	0.5	1.2	-1	-11
FTSE 100	7,013	-0.3	1.4	3	12
EuroStoxx 50	3,031	0.1	1.3	-1	-7
IBEX	8,780	0.0	-0.2	-1	-8
DAX	10,595	0.1	1.8	-1	-1
CAC	4,494	0.1	1.1	-1	-3
MBX	16,534	0.3	1.2	-3	-23
ASE Athens	574	-0.2	1.3	-1	-9
MSCI Latin *	73,240	1.0	0.5	0	23
Ibovespa (Brazil)	60,208	-0.1	3.2	0	39
Mobix	47,927	-0.4	0.5	1	12
MSCI EM Europe *	4,484	0.0	3.7	-1	5
Poland	1,762	0.0	1.8	-2	-5
Mico (Russia)	1,981	0.3	-0.7	-3	12
Ise 100 (Turkey)	77,895	0.1	1.1	0	9
MSCI EM Asia *	728	0.1	0.7	1	10
Shanghai Com (China)	3,005	0.0	0.2	-3	-15
Jakarta (Indonesia)	5,409	-1.2	0.3	1	18
Banking sector					
US banks					
JPM	67.0	-0.5	5.1	1	-7
JPM	67.2	-0.7	2.4	0	2
Ch	48.6	-0.2	6.0	3	6
BNA	16.1	-0.1	6.1	2	4
MS	32.3	-0.9	4.0	2	1
GS	185.3	-0.7	4.0	2	8
EZ banks					
BNP	79.2	1.7	5.9	0	-27
BNP	48.8	2.5	7.5	4	-7
Crédit Agricole	9.1	0.7	5.1	7	-16
Deutsche Bank	12.1	0.0	11.0	6	-46
ING	11.3	1.7	4.3	0	-9
Intesa	2.0	1.2	3.7	6	35
SG	32.7	2.6	6.2	2	-23
Unicredit	2.2	3.0	5.8	7	-58
UK banks					
HSBC	72.8	0.9	3.3	1	-17
HSBC	694.0	0.5	4.4	6	13
RBS	185.9	1.1	5.0	5	38
Barclays	174.9	1.4	4.5	3	20
Lloyds	55.2	0.9	-0.5	5	-24
Large Spanish banks					
Santander	64.0	1.4	2.8	-1	-15
Santander	4.1	1.4	3.0	0	-11
BBVA	5.5	1.3	2.6	-2	-19
Medium Spanish banks					
CajaBanc	60.2	0.9	5.2	-2	-27
CajaBanc	2.4	2.5	7.1	-1	-26
Popular	1.1	-0.5	3.5	-7	-59
Sabadell	69.9	1.3	2.6	2	-19
Banque	1.2	1.2	4.5	-3	-27
Banque	6.5	0.2	4.9	0	0
<b>Currencies (% , net for currency depreciation)</b>					
Developed					
EURUSD	1.11	-0.5	-0.7	1.0	3
GBPUSD	1.27	-0.8	-2.4	-5.9	-14
USDJPY	104.08	-0.6	-3.0	2.0	13
DNV	96.95	-0.4	1.1	-1.8	2
Emerging					
USDARS (Argentina)	15.25	-0.4	0.8	-1.5	-18
USDBRL (Brazil)	3.23	-0.3	0.9	-1.1	18
USDCJP (Chia)	666.94	-0.3	-1.4	-0.6	6
USDCOP (Colombia)	2930	0.0	-1.3	-2.2	8
USDMXN (Mexico)	19.22	-0.1	1.5	-5.2	12
USDPEN (Peru)	3.41	-0.2	-0.8	-1.3	0
LUCL	64.32	-0.2	0.6	-2.1	3
USDPLN (Poland)	3.84	-0.1	-0.2	0.2	2
USD RUB (Russia)	62.23	0.1	1.3	3.6	14
USDTRY (Turkey)	3.95	0.0	1.7	-4.4	5
USDCNY (China)	6.67	0.0	-0.1	0.0	-3
USDINR (India)	66.70	-0.3	0.2	0.3	-1
USDOR (Indonesia)	12.967	0.1	-0.1	1.1	6
ADXY	106.8	-0.2	-0.5	-1.0	0
<b>Commodities (%)</b>					
Brent					
WTX	52.4	1.0	6.4	11	41
WTX	50.3	0.9	5.1	12	36
Copper	2.14	-0.7	-1.8	3	1
Gold	1,255	-0.9	-4.9	-7	18
S&P Spot commodity *	372	1.2	2.3	7	19
S&P Brent Spot *	441	1.9	4.1	10	38
S&P Metals Spot *	280	-0.2	-0.7	4	11
S&P Agricultural *	299	0.6	2.1	4	5

Source: Bloomberg, Datastream and Haver

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