Market Comment | Markets little changed as ECB holds stance

Global Financial Markets Unit
20 Oct 2016

- **As expected, the ECB remained on hold.** Today's ECB meeting provided little news apart from curbing expectations of tapering. Decisions have been postponed to December, as widely expected, and no clues were provided on the discussion of QE extension or technical changes to cope with bond scarcity problems. We continue to expect the ECB to announce an extension of QE by December.

- Financial markets started the session in relatively calm mood on the back of the **US presidential debate**, which did not bring any significant modification of the expected results in next month's election. Nonetheless volatility followed **Mario Draghi press conference**. Both the 10Y German yield and the EUR surged immediately after Mr. Draghi said that an extension of QE had not been discussed. However, both declined later as the ECB president denied rumours of talk of tapering. He attributed the rumours to "a random statement by someone who doesn't have any information about what is going on at the bank" and later to "uninformed sources", suggesting that those rumours should not be heeded (the German 10Y bund -3 bps, EUR -0.4% against the USD).

- **Despite the fall in oil prices (Brent -2.3%, Wtx -2%) after yesterday's rebound, markets remained in moderately positive mood** and volatility continued its downward trend (VDAX -3.56%, VSTOXX -5%), pushing up risk asset prices. European equity markets registered a positive performance (Euro Stoxx +0.6%, Dax +0.5%, Ibex35 +1.2%) underpinned, among other things, by both lower yields and a cheaper EUR. Moreover, the banking sector (EZ banks +1.9%) outperformed once again. On another front, US stock prices were almost flat (S&P500 -0.3%), while Asian stocks rose - especially in Japan (Nikkei +1.39%).

- The slight upward trend in **sovereign bond yields** across the board in the early morning was curbed by the ECB meeting, and yields **dropped at the end of the session**, with no significant changes in sovereign risk premiums. The only exception was Portugal's yields, which increased (10YPOR +2 bps), as Draghi reminded that Portuguese government bonds would be ineligible as collateral for monetary policy operations if DBRS downgraded the country's sovereign debt rating tomorrow. The 10Y UK yield fluctuated, ahead of the conclusion of the EU summit later today, the first that Theresa May will attend, although no discussion about Brexit trade agreements is expected.

- **In FX markets, the USD appreciated against its main peers** (EUR -0.4%, JPY -0.5%, GBP -0.4%) on the back of positive economic data (both higher-than-expected Philadelphia Fed Manufacturing index and Existing Home Sales), supporting the Fed's interest rate hike probabilities of close to 70% for the December meeting. Meanwhile, oil prices lost the significant ground gained yesterday, probably in a profit-taking move after yesterday's market rally. Consequently, EM currencies depreciated (MXN -0.5%, CLP -0.3%, COP -0.6%), with the exception of the TRY, which appreciated (+0.2%) in the wake of the unexpected decision of Turkey's central bank to hold interest rates unchanged.

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Table 1

Debt markets (10Y, %, changes in bp)					
Developed Markets	**level**	**Daily**	**Week**	**Month**	**YTD**
US (2-yr)	0.81	1.6	-2.4	4	-24
US	1.74	-0.3	-0.1	5	-53
GER (2-yr)	-0.67	-0.1	-1.0	-1	-32
Germany	0.01	-2.5	-3.3	2	-62
France	0.28	-2.9	-4.7	0	-71
Spain	1.11	-0.5	-0.9	12	-66
Italy	1.37	-1.3	-0.6	12	-22
Portugal	3.22	2.1	-15.3	-9	70
Greece	8.44	0.2	5.0	-7	16
Japan (2-yr)	-0.27	0.7	-0.5	0	-26
Japan	-0.07	-0.9	-0.2	-33	-33
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
Brazil	11.08	-7.2	-33.8	-114	-543
Chile	4.21	0.0	1.1	-5	-45
Colombia	7.15	0.6	10.6	-6	-151
Mexico	6.04	1.5	-1.9	-9	-22
Peru	5.70	0.0	-6.4	-17	-160
Poland	2.95	-1.3	-7.2	9	1
Russia	8.39	2.2	-0.7	10	-117
Turkey	9.54	-14.0	-21.0	-4	-93
India	7.42	0.0	-3.9	-6	-22
Indonesia	7.13	-1.9	6.0	15	-162
Country risk (bp, changes in bp)					
Developed Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
10-yr sovereign spread vs Germany					
France	28	-0.4	-1.4	-2	-8
Italy	137	1.2	2.7	10	40
Portugal	321	4.6	-12.0	-11	132
Spain	110	2.0	2.4	10	-4
2-yr sovereign spread vs Germany					
France	4	-1.0	-0.4	-1	1
Italy	59	0.6	1.6	3	28
Portugal	97	2.4	1.0	-20	52
Spain	46	0.6	1.4	0	11
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
5-yr sovereign CDS *					
Brazil	258	-5	-2	-4	-234
Chile	85	-5	-3	0	-42
Colombia	171	-7	-3	1	-68
Mexico	142	-4	-4	-14	-28
Peru	99	-4	-3	-9	-87
Venezuela	3,808	-160	522	-623	-2235
Poland	75	-1	1	7	3
Russia	225	-6	-11	24	-77
Turkey	244	-9	-10	5	-29
China	105	-2	-2	7	-4
India	139	0	1	5	-10
Indonesia	151	-2	1	11	-76
Risk indicators					
Volatilty indicators (%)	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
VIX	15	1.0	-13	-9	-4
VSTOXX	17	-5.0	-18	-17	-5
EM EFT volatility Index	21	0.0	-14	-9	-8
Dollar/euro volatility	7	-1.9	-7	1	-25
EM FX volatility index	10	-1.4	-7	-9	-15
Credit spread (BAA) (bps)	264	0.3	4	-6	-59
US bonds volatility index	62	-2.4	-5	-10	-9
Banking 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US	74	-1.1	-5	0	-1
EZ	113	-1.6	-2	-2	30
UK	103	-2.3	-4	12	26
Large Spanish	124	-2.3	-3	4	-14
Medium Spanish	154	-3.3	-1	0	-4
Corporate 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Non-financial	198	-1.1	-5	0	-1
EZ Non-financial	107	-1.6	-2	-2	30
UK Non-financial	138	-1.8	-2	0	-54
Interbank markets (%, changes in bp)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
EONIA Index	-0.35	0.00	0.0	0.0	-0.2
Euribor 3m	-0.31	0.00	0.0	0.0	-0.2
Euribor 12m	-0.07	0.00	0.0	0.0	-0.1
Libor 3m	0.88	0.00	0.0	0.0	0.3
Libor 12m	1.56	0.00	0.0	0.0	0.4
EZ TED spread 3m	54.8	0.10	-1.0	11.6	14.0
Stock markets (%)					
Main indices	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
S&P500	2,138	-0.3	0.2	0	5
Dow Jones	18,168	-0.2	0.4	0	4
Nikkei	17,236	1.4	2.7	5	-9
FTSE 100	7,019	0.0	0.6	3	12
EuroStoxx 50	3,076	0.6	3.4	4	-6
IBEX	9,059	1.2	5.2	4	-5
DAX	10,702	0.5	2.8	3	0
CAC	4,539	0.4	3.0	3	-2
MIB	17,120	0.4	5.2	6	-20
ASE Athens	596	0.5	3.4	6	-6
MSCI Latam *	75,990	0.2	3.2	8	28
Ibovespa (Brazil)	63,558	0.1	4.0	10	47
Mexbol	48,317	-0.4	1.2	4	12
MSCI EM Europe *	4,508	0.5	0.0	1	6
Poland	1,749	0.3	1.2	0	-6
Micex (Russia)	1,960	-0.4	-0.8	-2	11
Ise 100 (Turkey)	79,252	0.1	3.2	3	10
MSCI EM Asia *	722	0.1	0.4	1	9
Shanghai Com (China)	3,084	0.0	0.8	2	-13
Jakarta (Indonesia)	5,404	-0.5	0.7	2	18
Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	89.6	0.0	3.5	5	-5
JPM	68.3	-0.1	0.8	3	3
Citi	49.5	0.0	2.1	6	-4
BoA	16.5	0.2	4.3	6	-2
MS	32.8	-0.3	3.5	4	3
GS	174.5	0.0	4.2	5	-3
EZ banks	83.2	1.9	7.8	11	-23
BNP	51.0	2.1	8.7	14	-2
Crédit Agricole	9.5	1.4	5.2	11	-13
Deutsche Bank	13.0	3.9	8.8	16	-42
ING	11.9	1.8	7.0	11	-5
Intesa	2.1	1.6	9.0	5	-32
SG	34.8	1.7	8.0	12	-18
Unicredito	2.3	0.7	9.0	11	-56
UK banks	74.4	1.3	5.9	4	-15
HSBC	620.5	-0.7	1.9	6	16
RBS	186.1	3.4	9.2	1	-38
Barclays	182.9	3.1	9.8	10	-16
Lloyds	55.5	1.1	5.6	-2	-24
Large Spanish banks	70.1	2.8	10.8	15	-7
Santander	4.3	2.2	9.3	10	-6
BBVA	6.2	3.3	12.0	19	-8
Medium Spanish banks	62.2	2.3	7.4	5	-24
Caixabank	2.6	2.5	11.7	8	-19
Popular	1.1	-0.3	4.4	-2	-61
Sabadell	79.0	3.3	12.0	19	-8
Bankinter	1.2	2.0	7.8	5	-26
Bankia	6.8	3.5	7.8	5	4
Currencies (%, red for currency depreciation)					
Developed	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
EURUSD	1.09	-0.4	-1.1	-2.0	1
GBPUSD	1.22	-0.4	-0.1	-5.7	-17
USDJPY	103.97	-0.5	-0.3	-2.2	14
DXY	98.28	-0.4	-0.8	-2.4	0
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
USDARS (Argentina)	15.18	0.0	-0.4	-0.3	-17
USDBRL (Brazil)	3.16	0.3	0.6	3.0	20
USDCLP (Chile)	667.57	-0.3	0.6	0.6	6
USDCOP (Colombia)	2936	-0.6	-0.6	-0.7	8
USDMXN (Mexico)	18.61	-0.5	1.7	6.1	-8
USDPEN (Peru)	3.39	-0.1	0.6	0.1	1
LACI	65.53	-0.1	0.7	3.1	5
USDPLN (Poland)	3.96	-0.7	-1.8	-2.5	-1
USDRUB (Russia)	62.45	-0.3	0.9	3.6	14
USDTRY (Turkey)	3.06	0.2	1.0	-2.6	-5
USDCNY (China)	6.74	-0.1	-0.3	-1.1	-4
USDINR (India)	66.81	-0.2	0.2	0.3	-1
USDIDR (Indonesia)	13,008	0.0	0.5	1.0	6
ADXY	106.2	-0.3	-0.1	-0.8	0
Commodities (%)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
Brent	51.5	-2.3	-1.1	12	38
WTx	50.6	-2.0	0.3	16	37
Copper	209	-0.5	-1.3	-3	-2
Gold	1,266	-0.2	0.7	-4	19
S&P Spot commodity *	379	1.0	1.0	8	22
S&P Brent Spot *	455	1.8	1.4	15	42
S&P Metals Spot *	274	-0.1	-1.3	0	8
S&P Agricultural *	305	0.4	1.8	2	8

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Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	89.6	0.0	3.5	5	-5
JPM	68.3	-0.1	0.8	3	3
Citi	49.5	0.0	2.1	6	-4
BoA	16.5	0.2	4.3	6	-2
MS	32.8	-0.3	3.5	4	3
GS	174.5	0.0	4.2	5	-3
EZ banks	83.2	1.9	7.8	11	-23
BNP	51.0	2.1	8.7	14	-2
Crédit Agricole	9.5	1.4	5.2	11	-13
Deutsche Bank	13.0	3.9	8.8	16	-42
ING	11.9	1.8	7.0	11	-5
Intesa	2.1	1.6	9.0	5	-32
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GBPUSD	1.22	-0.4	-0.1	-5.7	-17
USDJPY	103.97	-0.5	-0.3	-2.2	14
DXY	98.28	-0.4	-0.8	-2.4	0
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
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USDCOP (Colombia)	2936	-0.6	-0.6	-0.7	8
USDMXN (Mexico)	18.61	-0.5	1.7	6.1	-8
USDPEN (Peru)	3.39	-0.1	0.6	0.1	1
LACI	65.53	-0.1	0.7	3.1	5
USDPLN (Poland)	3.96	-0.7	-1.8	-2.5	-1
USDRUB (Russia)	62.45	-0.3	0.9	3.6	14
USDTRY (Turkey)	3.06	0.2	1.0	-2.6	-5
USDCNY (China)	6.74	-0.1	-0.3	-1.1	-4
USDINR (India)	66.81	-0.2	0.2	0.3	-1
USDIDR (Indonesia)	13,008	0.0	0.5	1.0	6
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Commodities (%)					
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Brent	51.5	-2.3	-1.1	12	38
WTx	50.6	-2.0	0.3	16	37
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* With one day delay

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