

Market Comment | Recent positive mood curbed slightly amid lowering oil prices

Global Financial Markets Unit
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- **The German Ifo Business Climate Index surprised to the upside**, rising from 109.5 pts in September to 110.5 pts in October. This improvement is due to increased confidence in both the current situation and business expectations (0.3 and 1.6 pts respectively). This is in line with the October Composite PMI figure, which also suggests that the German economy is continuing to gain traction. Also in the euro zone area, officials announced that in **today's Eurogroup meeting** they approved the disbursement of €2.8 billion in funds to Greece as part of the country's third bailout after Athens completed the required reforms.
- Nonetheless, today financial markets were slightly biased to the downside, despite better-than-expected economic indicators and the absence of negative surprises from the Eurogroup on the Greece issue. The current USD appreciation against its main peers was supported by increasing **Fed interest rate hike prospects** from 68% to 72% for the December meeting. Recent upbeat US economic data, along with hawkish remarks from key Fed officials underpinned an interest rate hike in December, putting FX markets in the spotlight. The **GBP registered very high volatility, with a 0.70% depreciation against the USD** on the back of Carney's appearance before the House of Lords, which could hint at new easing measures ("We will continue to use all the instruments at our disposal to achieve the 2% inflation target", he said).
- On another front, **EM currencies appreciated (MXN +0.4%, CLP +1.1%, TRY +0.2%)**, despite the strength of the USD and the fall in oil prices (-1.2%). Global oil prices have been under pressure in recent days amid market scepticism about the implementation of a preliminary deal by OPEC to curb production.
- **Downward trend in oil prices, uncertainty regarding the Italian banking sector and mixed earnings results contributed to curb the recent positive mood in developed global equity markets.** Europeans equity indices swung between gains and losses (Euro Stoxx50 -0.4%, Ibex35 -1%, Dax -0.1%), amid mixed earnings reports and European economic data. Moreover, extraordinarily high volatility was perceived in the Italian bank MDP, whose shares were suspended in today's trading session. MDP reported a €1.15bn loss, and announced a plan to increase net profit in the coming years. In the meantime, market volatility receded most in Asia (-1.68%), pushing up Asian risk asset prices (Nikkei +0.8%, Shanghai +0.1%). In the US, stock prices inched down (S&P500 -0.3%), amid the disappointing US consumer confidence (98.6, consensus 101) and mixed earnings reports released today.
- In these circumstances, **sovereign bond yields were little changed across the board (10YUS -2 bps, 10YGER +1 bps, 10YFRA 0 bps)**. The exception was Portugal, where bond yields rose (10YPOR +4 bps) after the significant drop following DBRS' decision to maintain the country's rating. Spanish sovereign bonds inched down (10YSPA -2 bps) for the second day in a row, underpinned by the

loosening of the political deadlock.

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Table 1

Debt markets (10Y, % change in bp)					
	Level	Daily	Weekly	Monthly	YTD
Developed Markets					
US (2-yr)	0.84	0.4	4.6	9	29
US	1.75	-1.6	1.1	13	-52
GER (2-yr)	0.65	0.3	1.7	2	-31
Germany	0.03	0.5	-0.7	11	-60
France	0.30	0.2	-1.6	9	-68
Spain	1.08	2.4	-1.7	11	-69
Italy	1.38	-1.0	0.1	17	-22
Portugal	3.19	3.8	5.5	-19	67
Greece	8.42	-0.4	-2.7	3	14
Japan (2-yr)	0.25	0.9	2.0	-4	-24
Japan	0.07	-1.5	-2.0	-33	-33
Emerging Markets					
Brazil	11.10	5.5	22.0	-77	-541
Chile	4.18	-0.6	-3.8	-7	-48
Colombia	7.22	-0.3	11.5	18	-144
Mexico	6.88	0.3	5.3	5	-19
Peru	5.70	-2.2	-0.6	-11	-161
Poland	2.99	2.6	2.4	20	5
Russia	8.42	5.6	-6.1	23	-113
Turkey	9.69	9.0	-13.0	40	-78
India	7.39	0.0	-6.0	-10	-25
Indonesia	7.06	1.6	-4.8	20	-168
Country risk (bp, change in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	28	-0.3	0.9	-2	-8
Italy	135	-1.5	0.6	6	39
Portugal	316	3.3	-4.8	-30	128
Spain	105	-2.9	-1.0	0	-9
2-yr sovereign spread vs Germany					
France	3	0.1	-0.9	-3	0
Italy	56	-0.7	2.7	1	25
Portugal	92	0.2	-1.7	-21	47
Spain	43	-1.1	-2.6	4	9
Emerging Markets					
5-yr sovereign CDS *					
Brazil	255	-1	-10	-9	-236
Chile	85	0	-7	6	-42
Colombia	163	-2	-17	-3	-76
Mexico	139	-2	-8	-18	-31
Peru	96	1	-8	-6	-90
Venezuela	3,307	-224	-324	-291	-2736
Poland	74	-1	-3	3	2
Russia	221	-3	-14	16	-80
Turkey	241	-2	-12	21	-32
China	105	-2	-3	2	-4
India	137	-2	-2	0	-11
Indonesia	149	-2	-4	6	-78
Risk indicators					
Volatility indicators (%)					
VIX	14	4.8	-11	11	-5
VSTOIX	18	3.1	-4	6	-4
EM EFT volatility index	20	3.8	-6	-2	-11
Dollar/euro volatility	7	1.5	-4	16	25
EM FX volatility index	9	0.6	-3	-9	-17
Credit spread (BAA/Baa)	261	1.6	-2	-9	-62
US bonds volatility index	57	-0.5	-10	-5	-16
Banking 5y CDS (bps) *					
US	74	0.3	-2	-2	-1
EZ	109	-1.6	-7	-9	-25
UK	100	-1.6	-7	5	23
Large Spanish	116	-4.4	-11	-10	-21
Medium Spanish	153	-0.8	-5	6	-4
Corporate 5y CDS (bps) *					
US Non-financial	197	0.3	-2	-2	-1
EZ Non-financial	106	-1.6	-7	-9	-25
UK Non-financial	137	0.2	-4	-2	-55
Interbank markets (% change in bp)					
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	1.57	0.00	0.0	0.0	0.4
EZ TED spread 3m	55.2	1.20	0.5	11.2	14.4
Stock markets (%)					
Biano indices					
S&P500	2,144	-0.3	0.2	1.1	5
Dow Jones	18,188	-0.2	0.1	0	4
Nikkei	17,365	0.8	2.4	4	-9
FTSE 100	7,009	0.3	0.1	1	12
EuroStoxx 50	3,091	0.4	1.1	2	6
BEX	9,121	-1.0	2.9	3	-4
DAX	10,746	0.1	1.1	1	0
CAC	4,530	-0.5	0.5	1	-2
IBV	17,202	0.6	1.4	5	20
ASE Athens	589	-0.7	-0.8	3	-7
MSCI Latam *	76,317	0.0	2.2	5	29
Bovespa (Brazil)	63,437	-1.0	-0.5	8	46
MoBI	48,299	-0.3	0.4	1	12
MSCIEM Europe *	4,533	0.8	1.7	-1	7
Poland	17,986	0.2	3.7	-1	-4
Mircex (Russia)	1,979	0.8	0.5	-2	12
Ise 100 (Turkey)	79,433	-0.6	1.4	0	11
MSCIEM Asia *	727	0.6	2.0	0	10
Shanghai Com (China)	3,132	0.1	1.6	3	-12
Jakarta Indonesia)	5,398	-0.2	-0.2	0	18
Banking sector					
US banks					
JPM	90.3	-0.1	2.1	6	-4
Citi	68.6	-0.4	1.3	2	4
BofA	49.6	-0.1	1.1	5	-4
MS	16.7	-0.2	3.0	8	-1
GS	33.2	-0.5	2.8	4	4
US	175.6	0.2	1.7	6	-3
EZ banks					
BNP	85.0	-0.5	4.9	10	-21
Credit Agricole	52.7	0.0	6.8	12	1
Deutsche Bank	9.9	0.2	4.9	11	-9
ING	13.1	-1.8	5.4	15	-42
Intesa	11.9	-0.4	3.6	8	-4
SG	2.1	-0.4	4.5	8	-30
Unicredit	35.7	0.0	5.1	12	-16
UK banks					
RSC	2.3	-3.4	3.6	7	-55
HSC	75.1	0.7	3.5	5	-14
RBS	62.4	0.5	0.7	9	17
Lloyds	192.6	2.4	8.4	5	-36
Bancparibas	183.9	0.2	5.7	7	-16
Large Spanish banks					
Santander	55.2	0.4	2.3	-1	-24
BBVA	71.7	-1.3	2.8	13	5
Cajabank	4.4	-1.5	8.1	12	-3
Populär	6.3	-1.1	6.8	15	-7
Medium Spanish banks					
Caixa	64.2	-1.5	6.2	10	-22
CaixaBank	2.7	-1.1	7.8	20	-16
Bankia	1.1	-2.3	4.7	-4	-59
Sabadell	1.2	-2.1	7.3	9	-23
Banque	6.9	-1.3	5.6	8	5
Banque	0.8	-1.2	5.1	13	-26
Currencies (% net for currency depreciation)					
Emerging					
EURUSD	1.09	0.1	-0.0	-3.0	0
GBPUSD	1.22	-0.7	-1.1	-6.2	-17
USDJPY	104.37	-0.2	-0.5	-3.3	13
DOY	98.72	0.0	-0.8	-3.4	0
Emerging					
USDARS (Argentina)	15.19	0.3	0.1	-0.1	-17
USDZAR (Brazil)	3.11	0.3	2.3	4.0	21
USDCLP (Chile)	652.06	1.1	2.4	1.4	8
USDCOP (Colombia)	2941	0.0	-1.2	-0.8	7
USDMXN (Mexico)	18.49	0.4	0.7	6.6	-7
USDPEN (Peru)	3.36	0.0	0.6	-0.2	2
LAK	66.21	0.3	1.3	3.7	6
USDPLN (Poland)	3.97	0.0	-0.9	-3.5	-1
USDTRY (Turkey)	62.15	0.1	0.6	3.0	14
USDTRY (Russia)	3.07	0.2	0.7	-3.5	-5
USDCNY (China)	6.78	-0.1	0.6	-1.7	-4
USDINR (India)	66.83	0.0	-0.1	-0.3	-1
USDIDR (Indonesia)	13,005	0.1	0.2	0.6	6
ADXY	106.1	0.1	-0.3	-1.1	0
Commodities (%)					
Brent					
WTI	50.8	-1.2	-1.7	11	36
Copper	50.0	-1.0	-0.6	12	35
Gold	214	2.5	2.0	-2	1
S&P Spot commodity *	1,273	0.7	0.8	-5	20
S&P Brent Spot *	375	-0.2	-0.2	7	20
S&P Metals Spot *	446	-0.5	0.0	13	39
S&P Agricultural *	273	0.6	0.4	-2	8
S&P Agricultural *	301	-0.3	-1.0	2	6

Source: Bloomberg, Datastream and Haver

* With one day delay

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