

# Market Comment | Bond yields increase amid positive Q3 UK GDP growth

Global Financial Markets Unit  
27 Oct 2016

- **Better-than-expected GDP growth in Q3 2016 in the UK** (+0.5% QoQ, consensus +0.3% QoQ) confirmed that the UK economy slowed only slightly after the Brexit referendum. The slowdown from the previous quarter was driven mainly by the deterioration in industrial production, partly offset by the increase in services. Nonetheless, despite the strong resilience shown by the British economy, we continue to expect that it will slow down or even shrink slightly over the next few months. The BoJ's Kuroda's comments, hinting that the BoJ would not try to push down long-term government bond yields, also contributed to the bond sell-off.
- Risk asset prices remained almost unchanged today while **sovereign bond yields soared**, fuelled by the supportive Q3 GDP figures in the UK, which could allay fears about the negative impact of Brexit. In fact the bond sell-off was led by UK sovereign bonds, the yield on which recovered to pre-Brexit levels (10YUK +10 bps). EZ sovereign yields also benefited (10YGER +9 bps, 10YSPA +7 bps, 10YITA +7 bps) and the move was fuelled by increasing market expectations of a Fed interest rate hike in December (73%), ahead of the release of US GDP Q3 2016 figures tomorrow, which also pushed up yields. Yield curves steepened across the board, reflecting the brighter economic investor outlook prompted by the recent UK data.
- In the meantime, **equity prices were little changed across the board** despite the bond sell-off. The barrage of mixed corporate earnings reports did not move share prices significantly in any particular direction, either in Europe (Euro Stoxx50 +0.1%, Dax +0.1%, Ibex35 +0.3%) or the US (S&P500 +0.1%). Higher bond yields and steeper yield curves pushed bank stocks up (EZ banks 1.2%). On the other hand, Asian equities went down (Nikkei -0.3%, Shanghai -0.1%) across the board, as volatility increased (HIS,+3.3%) amid lower-than-expected growth in China's industrial profits.
- Against this backdrop, the **USD was steady**, while the EUR slightly appreciated. The GBP remained little changed, despite the encouraging GDP growth. On the other hand, EM currencies showed mixed performances (CLP +0.5%, MXN -0.7%, COP +0.3%), despite the rebound in commodity prices (copper +0.6%, Brent +1.7%).

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Table 1

Debt markets (10Y, %, changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	0.88	1.6	0.5	14	16
US	1.85	5.7	9.4	29	42
UK (2-yr)	0.62	1.4	4.1	7	28
Germany	0.17	0.5	16.7	31	46
France	0.45	8.4	17.2	29	53
Spain	1.20	6.8	9.3	30	57
Italy	1.53	7.3	16.2	32	6
Portugal	3.28	7.7	7.3	-13	77
Greece	8.39	10.7	-5.3	3	11
Japan (2-yr)	0.26	-1.0	0.6	0	25
Japan	0.05	1.3	2.2	-32	32
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.36	9.5	29.7	-38	515
Chile	4.18	0.0	1.3	-1	48
Colombia	7.26	0.6	12.3	21	-139
Mexico	6.21	5.7	14.8	17	-6
Peru	5.70	0.0	-3.4	11	-161
Poland	3.14	8.2	16.7	32	20
Russia	8.56	15.2	17.8	33	99
Turkey	9.75	5.0	21.0	29	72
India	7.39	0.3	-3.4	14	26
Indonesia	7.12	3.4	-1.1	21	-163
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	28	-0.1	0.5	-2	-8
Italy	136	-1.2	-0.5	1	39
Portugal	311	-0.8	-9.4	-43	123
Spain	103	-1.7	-7.4	-1	-12
2-yr sovereign spread vs Germany					
France	3	-1.2	-1.0	-3	0
Italy	57	1.3	2.0	1	26
Portugal	91	-0.8	-5.8	-24	46
Spain	43	1.0	-2.7	7	8
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	265	5	7	-12	-227
Chile	87	1	2	-3	-40
Colombia	169	4	2	9	70
Mexico	145	4	3	29	25
Peru	101	3	2	-11	-85
Venezuela	3,532	268	-276	-141	-251
Poland	75	1	0	3	3
Russia	224	4	-1	14	-78
Turkey	248	7	4	10	-25
China	105	0	0	0	-4
India	137	-1	-2	5	-12
Indonesia	150	2	-1	5	-76
Risk factors					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.1	3	9	-4
VSTOXX	19	0.3	9	9	-3
EM ET volatility index	21	1.8	6	1	6
DollarEuro volatility	7	-3.6	-3	4	29
EM FX volatility index	9	1.0	2	7	-17
Credit spread (BAA/10ys)	254	-5.7	5	10	69
US bonds volatility index	60	3.7	0	0	-12
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	76	0.7	2	-3	1
EZ	115	1.6	2	-11	31
UK	104	0.6	1	5	27
Large Spanish	120	-0.2	-4	-13	-17
Medium Spanish	155	-2.3	2	-2	-2
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	195	0.7	2	-3	1
EZ Non-financial	106	1.6	2	-11	31
UK Non-financial	136	-0.1	2	-4	56
Interbank markets (% , changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EDNA Index	0.35	0.00	0.0	0.0	0.2
Euro3m	0.31	0.00	0.0	0.0	0.2
EURibor 12m	0.07	0.00	0.0	0.0	0.1
Libor 3m	0.89	0.00	0.0	0.0	0.3
Libor 12m	1.58	0.00	0.0	0.0	0.4
EZ TED spread 3m	55.2	0.88	0.1	11.1	14.4
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,141	0.1	0.0	-1	5
Dow Jones	18,227	0.1	0.4	0	5
Nikkei	17,336	-0.3	0.6	4	-9
FTSE 100	6,987	0.4	0.6	3	12
EuroStoxx 50	3,085	0.1	0.3	4	6
IBEX	9,197	0.3	1.5	6	-4
DAX	10,717	0.1	0.1	3	0
CAC	4,534	0.0	-0.1	3	-2
MBI	17,426	0.8	1.7	8	-19
ASE Athens	588	-0.1	-1.2	5	7
MSCI Latin *	75,968	-0.2	0.0	6	28
Ibovespa (Brazil)	64,505	1.1	1.0	10	49
Mobiv	48,090	0.6	-0.4	1	12
MSCI EM Europe *	4,528	-0.3	0.4	1	7
Poland	1,795	0.9	2.6	4	-3
Mico (Russia)	1,980	0.3	1.2	0	12
Ive 100 (Turkey)	70,739	-0.8	0.6	2	10
MSCI EM Asia *	719	-1.0	-0.4	0	9
Shanghai Com (China)	3,112	-0.1	0.9	4	-12
Jakarta (Indonesia)	5,417	-0.4	-0.1	1	18
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	69.8	0.9	2.2	5	6
Ch	50.6	1.1	2.0	9	-2
BNA	17.1	1.1	3.0	12	1
MS	33.9	0.9	3.0	8	7
GS	178.0	0.5	2.0	9	1
EZ banks					
BNP	86.5	1.2	4.0	17	20
Crédit Agricole	53.5	1.1	4.8	18	2
Crédit Agricole	9.9	0.2	4.4	16	-9
Deutsche Bank	13.4	0.6	2.6	27	41
ING	12.1	1.0	1.9	11	3
Intesa	2.2	1.6	4.4	13	29
SG	36.5	1.6	4.8	19	-14
Unicredit	2.4	2.8	5.8	17	54
UK banks					
HSBC	76.7	2.4	3.1	10	-13
HSBC	627.5	0.8	1.0	9	17
RBS	196.4	1.4	5.4	12	35
Barclays	190.5	4.8	4.0	15	-13
Lloyds	57.5	2.9	3.5	5	-21
Large Spanish banks					
Santander	74.5	2.4	6.3	22	-1
Santander	4.5	1.8	5.9	18	0
BBVA	6.6	2.8	6.6	25	-2
Medium Spanish banks					
CajaBanc	65.3	1.6	4.7	14	-21
CajaBanc	2.7	1.0	5.3	25	15
Popular	1.1	1.8	3.2	-1	-60
Sabadell	1.3	2.3	6.0	14	21
Banquepar	7.0	0.7	2.5	13	7
Banquepar	0.8	2.9	7.4	17	24
Currencies (% , not for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1.09	-0.2	-0.3	2.9	0
GBPUSD	1.22	-0.6	-0.7	6.5	-17
USDJPY	105.22	-0.7	-1.2	4.8	12
DNV	98.89	-0.3	0.6	3.6	0
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	15.16	0.3	0.0	0.8	-17
USDZAR (Brazil)	3.15	-0.3	-0.3	2.6	20
USDCJP (China)	650.70	0.5	2.4	1.8	8
USDCOP (Colombia)	2963	0.3	-1.1	2.6	7
USDMXN (Mexico)	18.81	-0.7	-1.0	3.0	9
USDPEN (Peru)	3.37	-0.2	0.0	0.2	1
LUCI	65.55	-0.2	0.2	2.1	5
USDPLN (Poland)	3.98	-0.4	-0.7	-4.2	-1
USD RUB (Russia)	62.79	0.1	-0.6	1.4	13
USDTRY (Turkey)	3.11	-1.0	0.7	-4.6	7
USDCNY (China)	6.78	-0.2	-0.6	-1.7	-4
USDINR (India)	66.87	-0.1	-0.1	0.6	-1
USDOR (Indonesia)	13,033	-0.2	-0.2	0.6	5
ADXY	105.6	-0.3	-0.5	-1.7	-1
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
WTX	50.0	1.6	-0.9	12	35
Copper	2.15	0.6	2.9	0	1
Gold	1,268	0.1	0.2	4	19
S&P Spot commodity *	370	-0.7	-1.0	6	19
S&P Brent Spot *	434	-1.4	-2.3	10	35
S&P Metals Spot *	279	0.1	2.7	0	10
S&P Agricultural *	304	0.9	0.9	3	7



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France	0.45	8.4	17.2	29	-53	
Spain	1.20	6.8	9.3	30	-57	
Italy	1.53	7.3	16.2	32	-6	
Portugal	3.28	7.7	7.3	13	77	
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Peru	5.70	0.0	-3.4	-11	-161	
Poland	3.14	8.2	18.7	32	20	
Russia	8.56	15.2	17.8	33	-99	
Turkey	9.75	5.0	21.0	29	-72	
India	7.39	0.3	-3.4	-14	-26	
Indonesia	7.12	3.4	-1.1	21	-163	
Country risk bps, changes in bps						
Developed Markets						
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Emerging Markets						
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China	105	0	0	0	-4	
India	137	-1	-2	-5	-12	
Indonesia	150	2	-1	-5	-76	
Risk indicators						
Volatility indicators (%)						
VIX	14	-0.1	3	9	-4	
VSTOXX	19	0.3	9	9	-3	
EM EFT volatility index	21	1.8	6	1	-6	
Dolarreuro volatility	7	-3.6	-3	4	29	
EM FX volatility index	9	1.0	2	-7	-17	
Credit spread (BAA) (bps)	254	-5.7	5	-10	-69	
US bonds volatility index	60	3.7	0	0	-12	
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US	76	0.7	2	3	1	
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Large Spanish	120	-0.2	-4	-13	-17	
Medium Spanish	155	2.3	2	-2	-2	
Europe 5y CDS (bps) *						
US Non-financial	195	0.7	2	-3	1	
EZ Non-financial	106	1.6	2	-11	31	
UK Non-financial	136	-0.1	2	-4	-56	
Interbank markets (% changes in bps)						
EONIA Index	-0.35	0.00	0.0	0.0	-0.2	
Eurobor 3m	-0.31	0.00	0.0	0.0	-0.2	
Eurobor 12m	-0.07	0.00	0.0	0.0	-0.1	
Libor 3m	0.89	0.00	0.0	0.0	0.3	
Libor 12m	1.58	0.00	0.0	0.0	0.4	
EZ TED spread 3m	55.2	0.00	0.1	11.1	14.4	
Stock markets (%)						
Main indices						
S&P500	2,141	0.1	0.0	-1	5	
Dow Jones	18,227	0.1	0.4	0	5	
Nikkei	17,336	-0.3	0.6	4	-9	
FTSE 100	6,987	0.4	-0.6	3	12	
EuroStoxx 50	3,065	-0.1	0.3	4	6	
IBEX	9,197	0.3	1.5	6	-4	
DAX	10,717	0.1	0.1	3	0	
CAC	4,534	0.0	-0.1	3	-2	
MBI	17,426	0.8	1.7	8	-19	
ASE Athens	589	-0.1	-1.2	5	-7	
MSCI Latam *	75,968	-0.2	0.0	6	28	
Bovespa (Brazil)	64,505	1.1	1.0	10	49	
Mobd4	48,090	0.6	-0.4	1	12	
MSCI Europe *	4,528	-0.3	0.4	1	7	
Poland	1,795	0.9	2.6	4	3	
Mosc (Russia)	1,980	0.3	1.2	0	12	
Ise100 (Turkey)	78,739	-0.8	-0.6	2	10	
MSCI EM Asia	719	-1.0	-0.4	0	9	
Shanghai Com (China)	3,112	-0.1	0.9	4	-12	
Jakarta (Indonesia)	5,417	0.4	0.1	1	18	
Banking sector						
US banks	92.0	0.9	2.5	10	2	
JPM	69.8	0.9	2.2	5	6	
Citi	50.6	1.1	2.0	9	-2	
BoA	17.1	1.1	3.0	12	1	
MS	33.9	0.9	3.0	8	7	
GS	178.0	0.5	2.0	9	-1	
EZ banks	86.5	1.2	4.0	17	-20	
BNP	53.5	1.1	4.8	18	2	
Credit Agricole	9.9	0.2	4.4	16	9	
Deutsche Bank	13.4	0.6	2.6	27	-41	
ING	12.1	1.0	1.9	11	-3	
Intesa	2.2	1.6	4.4	13	29	
SG	36.5	1.6	4.8	19	-14	
Unicredit	2.4	2.8	5.8	17	-54	
UK banks	76.7	2.4	3.1	10	13	
HSBC	627.5	0.8	1.0	9	17	
RBS	196.4	1.4	5.4	12	-35	
Barclays	190.5	4.8	4.0	15	13	
Lloyds	57.5	2.9	3.5	5	21	
Large Spanish banks						
Santander	74.5	2.4	6.3	22	-1	
BBVA	4.5	1.8	5.9	18	0	
Caixa	6.6	2.8	6.6	25	-2	
Medium Spanish banks						
Celabank	65.3	1.6	4.7	14	21	
Populár	2.7	1.0	5.3	25	-15	
Sabadell	1.1	1.8	3.2	-1	-60	
Bankinter	1.3	2.3	6.0	14	-21	
Bankia	7.0	0.7	2.5	13	7	
Bankia	0.8	2.9	7.4	17	-24	
Currencies (% net for currency depreciation)						
Developed						
EURUSD	1.09	-0.2	-0.3	2.9	9	
GBPUSD	1.22	-0.6	-0.7	6.5	17	
USDJPY	105.22	-0.7	-1.2	-4.8	12	
DKY	98.89	-0.3	-0.6	-3.6	0	
Emerging						
USDARS (Argentina)	15.16	0.3	0.0	0.8	-17	
USDBRL (Brazil)	3.15	-0.3	-0.3	2.6	20	
USDCLP (Chile)	650.70	0.5	2.4	1.8	8	
USDCOP (Colombia)	2463	0.3	1.1	2.6	7	
USDMXN (Mexico)	18.81	-0.7	-1.0	3.0	-9	
USDPEN (Peru)	3.37	-0.2	0.0	-0.2	1	
LACI	65.55	-0.2	-0.2	2.1	5	
USDPLN (Poland)	3.98	-0.4	-0.7	-4.2	-1	
USD RUB (Russia)	62.79	0.1	-0.6	1.4	13	
USDTRY (Turkey)	3.11	-1.0	-1.7	-4.6	-7	
USDCNY (China)	6.78	-0.2	0.6	-1.7	-4	
USDINR (India)	66.87	-0.1	-0.1	-0.6	-1	
USDIDR (Indonesia)	13,033	-0.2	-0.2	-0.6	5	
ADXY	105.6	-0.3	-0.5	-1.7	-1	
Commodities (%)						
Brent	50.8	1.7	-1.1	11	36	
Wti	50.0	1.6	-0.9	12	35	
Copper	215	0.6	2.9	0	1	
Gold	1,268	0.1	0.2	-4	19	
S&P Spot commodity *	370	-0.7	-1.0	6	19	
S&P Brent Spot *	434	-1.4	-2.3	-10	-35	
S&P Metals Spot *	279	0.1	2.7	0	10	
S&P Agricultural *	304	0.9	0.9	3	7	

Source: Bloomberg, Datastream and Haver

\* With one day delay

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