

# Market Comment | Oil prices triggers volatility ahead of a busy week in monetary policy

Global Financial Markets Unit  
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- **Euro zone 3Q 2016 GDP showed stable growth, in line with expectations** (+0.3% QoQ previous). By country, France returned to growth in 3Q 2016 with GDP at +0.2% QoQ. Spain's GDP, although showing a slight deceleration, was +0.7% QoQ and continued to outperform the region. On the other hand the **euro zone HCPI flash estimate came out with a slight increase as expected in October**, (0.5% YoY, +0.4% YoY in September).
- **Financial markets remain driven by expectations about central banks' upcoming meetings.** Thus markets were in a wait-and-see mood today ahead of this week's many **central bank monetary policy meetings** (BoJ on Tuesday, FOMC on Wednesday and BoE on Thursday). Nonetheless, disagreement among OPEC countries on how to share the cut in oil production agreed last September (Iran said it would not cut its output) has brought some uncertainty back into equity markets. Moreover, investors are also cautious after the US market turned around last Friday following the FBI's announcement of the reopening of e-mail investigations into the Democratic Party candidate Hillary Clinton.
- In this context, equity volatility rose (Euro Stoxx implied volatility +11% and S&P implied VIX +4.6%). In Europe, **the main equity indices dropped across the board** (Euro Stoxx50 -0.8%, Dax -0.3%, Ibex35 -0.6%), **led by the oil and gas sector**, as lingering uncertainty on the implementation of the OPEC preliminary deal weighed on markets. The European banking sector (-1.7%) underperformed as doubts on the Italian banking sector remained (MPS -7%, UniCredit -4%). Meanwhile, in the US share prices were flat (S&P500 +0.3%).
- On the other hand, **sovereign bond yields were little changed** (10YUS -1 bps, 10YGER 0 bps) after last week's sell-off, as investors are awaiting the upcoming decisions of the main central banks this week. **In Spain, the sovereign bond yield dropped** (10YSPA -3 bps) **following the announcement that Mariano Rajoy is to be Spain's new prime minister**, confirming the end of the political deadlock in the country. Market-based inflationary expectations also remained at the same levels despite the recent steady decrease in oil prices.
- Against this backdrop, the USD appreciated (DXY -0.2%), while the EUR was weaker. However, the EM currencies showed mixed performances (MXN +0.7%, CLP -0.6%, TRY +0.3%, COP -0.5%) despite the **sharp decrease in oil prices** (3%) on the back of doubts about the OPEC agreement.

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Table 1

Debt markets (10Y, %, changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2 yr)	0.65	-0.4	0.9	11	20
US	1.84	-0.7	7.5	28	-43
UK (2 yr)	0.62	-0.2	3.5	6	27
Germany	0.16	-0.3	14.1	28	-47
France	0.47	-0.1	16.4	28	-52
Spain	1.20	-3.0	9.6	28	-57
Italy	1.66	0.7	20.7	39	6
Portugal	3.32	-2.0	16.6	1	80
Greece	8.28	-10.9	-14.0	2	0
Japan (2 yr)	0.24	-0.3	0.2	5	-23
Japan	0.05	0.3	-3.2	-31	31
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.39	-1.7	34.9	-32	512
Chile	4.18	0.0	-0.6	2	-48
Colombia	7.29	0.0	7.2	20	-137
Mexico	6.25	-0.7	17.8	24	-1
Peru	5.69	0.0	-2.7	8	-161
Poland	3.08	-3.1	12.5	19	15
Russia	8.57	-1.0	20.6	43	-98
Turkey	9.81	-4.0	21.0	38	-66
India	7.39	0.0	-0.5	13	26
Indonesia	7.24	-4.3	19.7	25	-150
Country risk (bp, changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	0.2	2.3	0	-6
Italy	150	1.0	6.6	11	53
Portugal	315	-1.7	2.5	27	127
Spain	104	-2.7	4.5	0	-11
2-yr sovereign spread vs Germany					
France	3	0.2	-0.2	2	0
Italy	62	0.4	5.1	5	31
Portugal	98	3.1	6.5	-6	53
Spain	45	-1.9	1.2	-2	10
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	272	2	16	11	-220
Chile	88	0	3	6	-38
Colombia	173	3	9	9	66
Mexico	155	6	14	6	-15
Peru	103	0	8	6	-83
Venezuela	3,766	38	234	313	-2720
Poland	75	0	0	3	3
Russia	220	-4	-5	5	-82
Turkey	249	1	6	-18	-24
China	104	0	-3	-1	-4
India	137	0	-2	-3	-11
Indonesia	152	2	3	6	-74
Risk factors					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	17	4.6	30	21	-1
VSTOXX	21	11.3	21	7	-1
EM ET volatility index	24	1.0	10	-1	3
DollarEuro volatility	7	2.6	1	9	-25
EM FX volatility index	10	4.5	5	-5	-13
Credit spread (BAA)(bps)	262	0.7	2	6	-61
US bonds volatility index	64	2.9	13	9	-5
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	77	2.4	3	-4	2
EZ	117	2.6	6	7	33
UK	100	1.0	-2	-2	22
Large Spanish	120	3.1	0	-13	-17
Medium Spanish	155	0.8	1	-3	-2
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	197	2.4	3	-4	2
EZ Non-financial	106	2.6	6	-7	33
UK Non-financial	136	0.7	0	-5	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	56.3	0.00	3.1	11.2	15.5
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,132	0.3	-0.9	-1	4
Dow Jones	18,174	0.1	-0.3	0	4
Nikkei	17,425	-0.1	1.1	4	-8
FTSE 100	6,954	0.6	0.5	1	11
EuroStoxx 50	3,056	-0.8	-1.2	2	6
IBEX	9,143	-0.6	-0.8	4	-4
DAX	10,665	-0.3	-0.9	2	-1
CAC	4,509	-0.9	-1.0	1	-3
MI6	17,125	-1.1	-1.0	5	-20
ASE Athens	591	0.4	-0.3	4	6
MSCI Latin *	76,396	0.0	0.1	5	29
Ibovespa (Brazil)	64,745	0.7	1.1	11	49
Mobtel	47,856	-0.3	-1.2	0	11
MSCI EM Europe *	4,528	0.1	0.6	2	7
Poland	1,815	-0.2	1.8	5	-2
Mico (Russia)	1,990	0.4	1.4	0	13
Ive 100 (Turkey)	70,536	0.3	-1.7	2	9
MSCI EM Asia *	715	-0.2	-1.0	-1	8
Shanghai Com (China)	3,100	-0.1	-0.9	3	-12
Jakarta (Indonesia)	5,423	0.1	-0.2	0	18
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	69.4	0.4	0.8	6	5
Ch	49.6	0.0	-0.1	8	-4
BofA	16.7	0.0	-0.5	10	-1
MS	33.7	0.7	1.1	9	6
GS	178.3	0.6	1.8	12	1
EZ banks					
BNP	84.7	-1.7	0.8	13	22
Crédit Agricole	52.8	-2.1	0.3	16	1
Crédit Agricole	9.8	-1.1	-0.3	13	-10
Deutsche Bank	13.2	-1.3	-1.5	21	-42
ING	12.0	-0.6	0.1	11	-4
Intesa	2.1	-2.5	-2.1	8	32
SG	35.6	-1.5	-0.4	15	-16
UniCredit	2.3	-3.8	-4.7	11	-56
UK banks					
HSBC	616.2	-1.3	-1.3	7	15
RBS	189.1	-2.5	0.6	7	37
Barclays	190.3	-0.5	3.7	14	-13
Lloyds	57.3	-0.8	4.2	3	-22
Large Spanish banks					
Santander	73.9	-0.5	1.7	19	-2
Santander	4.5	-0.9	-0.3	13	-2
BBVA	6.6	-0.2	3.3	23	-2
Medium Spanish banks					
CajaBanc	63.9	-0.6	-1.8	12	-22
CajaBanc	2.8	0.1	0.8	24	14
Popular	1.0	-1.2	-12.1	-8	-63
Sabadell	1.2	-0.2	-3.6	9	25
Banqueparibas	7.0	-0.5	0.1	12	7
Banqueparibas	0.8	-1.7	-1.0	12	25
Commodities (% , not for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1.10	0.2	0.7	2.3	1
GBPUSD	1.22	0.2	-0.3	5.9	-17
USDJPY	105.13	-0.4	-0.9	4.1	13
DNV	98.51	-0.2	0.3	-3.1	0
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	15.17	0.1	-0.2	1.3	-17
USDZAR (Brazil)	3.18	0.5	-2.0	2.3	20
USDCJP (China)	653.22	-0.6	0.9	0.7	8
USDCOP (Colombia)	3004	-0.5	-2.2	-3.8	5
USDMXN (Mexico)	18.86	0.7	-1.7	3.4	-10
USDPEN (Peru)	3.36	0.1	0.1	1.0	2
USDCZK	65.22	0.4	1.2	2.0	4
USDPLN (Poland)	3.94	0.4	0.8	2.6	0
USD RUB (Russia)	63.26	-0.7	-1.8	-0.4	13
USDTRY (Turkey)	3.10	0.3	0.6	3.3	6
USDCNY (China)	6.78	0.0	0.0	-1.6	-4
USDINR (India)	66.78	0.0	0.1	0.1	-1
USDOR (Indonesia)	13,048	0.0	-0.3	0.6	5
ADXY	105.8	0.0	-0.2	-1.4	-1
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
WTX	47.2	-3.1	-6.6	-1	27
Copper	2.20	0.7	5.6	1	4
Gold	1,273	-0.2	0.7	-4	20
S&P Spot commodity *	370	-1.0	-1.3	2	19
S&P Brent Spot *	431	-1.8	-3.3	2	35
S&P Metals Spot *	285	1.1	4.5	1	13
S&P Agricultural *	303	0.9	0.7	4	7

Source: Bloomberg, Datastream and Haver

\* With one day delay

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