

Market Comment | EUR appreciated while yields declined after ECB meeting

Global Financial Markets Unit
07 Sep 2017

- **Financial markets reacted mainly to the ECB monetary policy meeting.** Currencies showed significant variations, as did bonds yields. Nonetheless, stock prices were little changed during the session.
- The **ECB decided to leave its monetary policy stance unchanged** (see), although it marginally changed its outlook for growth and inflation (slightly higher growth and lower inflation). In the communiqué, the **ECB also left its downward bias in QE unchanged**. In the press conference, Mr Draghi confirmed that **decisions on the future of QE would be taken in the October meeting**. He also mentioned the **strong EUR as a cause of uncertainty about inflation** (see), and he did not show concern over scarcity issues related to QE.
- The **EUR**, which was trending higher after the **upward revision of EZ GDP** (see), **appreciated strongly** after Draghi confirmed that the stimulus reduction might be decided in October (see). Importantly, the EUR appreciation coincided with a **weak USD on the back of significantly higher than expected jobless claims** - partly due to Hurricane Harvey - which also moderated expectations of a US rate hike this year (see).
- **Sovereign bond yields declined sharply across the board due to a number of factors.** Firstly, the fact that the ECB did not lower the **downward bias in asset purchases**, pushed down bond yields, especially in the **European periphery**. Secondly, **weak employment data in the US** trimmed expectations of future US rate hikes, leading to a further decline in US Treasury yields, which spread to other markets. Thirdly, **Hurricane Irma created additional risk-off demand for bonds**.
- Apart from this, concerns over US debt-ceiling faded as the White House and congressional leaders agreed to **package together a \$7.85bn Hurricane Harvey relief bill**, a debt ceiling extension and a three-month continuing resolution (CR) spending bill that provides certainty until mid-December that the government will keep operating.
- **Stock prices in Europe inched up**, despite the appreciation of the EUR, led by the utilities sector. The financial sector was among the worst performers, a sector particularly sensitive to interest rate expectations. Meanwhile, in the US, share prices were almost unchanged.
- Oil prices were little changed despite a lower USD as US crude oil inventories grew above expectations. Nonetheless, **EM currencies appreciated notably on a weak USD**.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.27	-3.6	-5.9	-8	3
US	2.05	-5.9	-7.1	-22	39
GER (2-yr)	0.76	-3.1	-3.1	-10	2
Germany	0.31	-4.0	-5.4	-17	-5
France	0.61	-4.9	-4.6	-14	-20
Spain	1.50	-7.2	-6.7	-6	-8
Italy	1.92	-10.3	-12.1	-8	-5
Portugal	2.75	-9.8	-8.4	-11	-143
Greece	5.47	-0.5	-7.4	2	-142
Japan (2-yr)	0.15	0.0	1.6	-4	5
Japan	0.01	-1.1	-6.0	-5	6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.79	0.0	-18.5	-14	-162
Chile	4.32	-3.1	-4.7	-4	-1
Colombia	6.70	-2.4	-2.9	-20	-39
Mexico	6.79	-5.6	-4.2	-9	-85
Peru	5.15	1.0	-0.7	-11	-132
Poland	3.15	-4.5	-15.2	-22	-57
Russia	7.59	2.1	-16.6	-20	-85
Turkey	10.39	-8.0	-4.0	-1	-61
India	6.52	1.1	-0.7	6	14
Indonesia	6.55	1.5	-14.1	-33	-129
Country risk (bp, changes in bp)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-0.9	0.6	2	-15
Italy	162	-6.3	-6.7	9	10
Portugal	244	-5.8	-3.0	5	-110
Spain	119	-3.2	-1.3	9	-9
2-yr sovereign spread vs Germany					
France	21	0.8	0.0	-1	10
Italy	52	-1.8	-2.0	8	-9
Portugal	74	-3.6	1.0	4	-73
Spain	40	0.2	1.8	4	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	184	-2.6	-1.1	-7	-88
Chile	56	-0.3	-2	-5	-26
Colombia	116	-2.5	-9	-6	-47
Mexico	98	-1.1	-4	0	-58
Peru	71	-1.3	-3	-3	-36
Venezuela	6,199	111.8	-505	579	2294
Poland	54	0.0	-1	-4	-21
Russia	141	1.3	-2	-13	-36
Turkey	162	2.7	-3	-9	-110
China	61	0.9	3	-3	-56
India	82	1.7	0	-3	-45
Indonesia	102	0.3	0	-7	-54
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (%)					
VIX	12	0.8	11	7	0
VSTOXX	16	-7.6	-3	18	-1
EM EFT volatility Index	17	-3.2	1	6	-18
Dollar/reserve volatility	8	-5.3	-1	3	-21
EM FX volatility Index	8	-0.9	3	4	-30
Credit spread (BAA) (bps)	222	5.9	8	7	-5
US bonds volatility index	53	-0.7	3	12	-31
Banking 5y CDS (bps) *					
US	50	0.4	1	6	-14
EZ	54	0.4	-5	1	-54
UK	47	-0.1	-2	1	-43
Large Spanish	49	0.8	-6	-2	-68
Medium Spanish	84	-0.5	-9	-6	-88
Corporate 5y CDS (bps) *					
US Non-financial	138	0.4	1	6	-14
EZ Non-financial	74	0.4	-5	1	-54
UK Non-financial	105	0.2	-2	0	-19
Interbank markets (% changes in bp)	level	Daily	Weekly	Monthly	YTD
EDNA Index	-0.36	0.00	0.0	0.0	0.0
Earbar 3m	-0.33	0.00	0.0	0.0	0.0
Earbar 12m	-0.16	0.00	0.0	0.0	-0.1
Libor 3m	1.32	0.00	0.0	0.0	0.3
Libor 12m	1.31	-0.01	0.0	0.0	0.0
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
EU indices					
S&P500	2,464	0.1	0.3	0	9
Dow Jones	21,768	-0.2	0.8	-1	9
Nikkei	19,397	0.2	-1.3	-3	-1
FTSE 100	7,397	0.6	-0.5	-2	-3
EuroStoxx 50	3,448	0.4	0.8	-2	4
IBEX	10,125	-0.1	-1.7	-6	7
DAX	12,297	0.7	2.0	0	6
CAC	5,115	0.3	0.6	-2	4
MIB	21,723	-0.4	0.2	-1	11
ASE Athens	811	-0.1	-1.7	-2	23
MSCI Latam *	63,953	1.1	1.6	4	15
Ibovespa (Brazil)	73,412	0.0	3.6	8	19
Mexbol	50,463	-0.1	-1.5	-2	8
MSCI EM Europe *	5,186	0.3	-0.1	2	3
Pebest	2,492	0.8	-1.0	3	25
Micex (Russia)	2,010	-0.2	-0.6	1	-11
Ise TOI (Turkey)	109,743	0.1	-0.2	0	44
MSCI EM Asia *	862	-0.3	-0.9	0	24
Shanghai Com (China)	3,365	-0.6	0.1	3	7
Jakarta (Indonesia)	5,832	0.0	0.7	1	11
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	118.4	-2.2	-3.7	-1	-1
CB	88.4	-1.9	-2.8	-6	2
BoA	65.9	-2.2	-3.2	-4	7
Wells	22.8	-2.4	-4.4	-8	0
MS	43.9	-2.5	-3.4	-6	1
GS	215.3	-1.6	-3.8	-7	-11
EZ banks	109.3	-0.6	-2.0	-8	4
BNP	62.5	-0.1	-2.2	-9	0
Crédit Agricole	14.5	-0.5	-2.1	-7	18
Deutsche Bank	13.3	-1.2	-1.6	-14	-19
ING	14.6	-0.1	-2.0	-7	5
Intesa	2.8	-0.2	-1.1	-4	10
SG	45.9	-0.6	-2.4	-8	-5
Unicredit	16.6	-2.2	-3.2	-10	18
RBS	84.7	-0.7	-3.1	-6	4
HSBC	723.8	-0.7	-3.6	-6	8
RBC	241.2	-1.4	-4.2	-9	3
Barclays	184.0	-1.0	-3.7	-13	-22
Lloyds	63.1	0.0	-1.2	-6	-3
Large Spanish banks	84.2	-0.5	-3.2	-9	8
Santander	5.3	-0.4	-3.3	-10	5
BBVA	7.2	-0.6	-3.1	-9	11
Medium Spanish banks	76.1	-1.3	-5.4	-10	4
Cabobank	4.1	-0.4	-5.3	-9	25
Sabidell	1.7	-0.6	-0.0	-11	24
Bankinter	7.7	-1.0	-3.9	-9	2
Banque	3.9	-0.6	-5.2	-11	5
Currencies (% red for currency depreciation)	level	Daily	Weekly	Monthly	Year
Developed					
EURUSD	1.20	0.9	1.0	2.3	15
GBPUSD	1.31	0.3	1.2	0.7	6
USD JPY	108.28	0.9	1.5	-1.8	-8
DOY	91.51	-0.8	-1.2	2.3	11
Emerging					
USDARS (Argentina)	17.22	-0.1	0.7	2.8	-7
USD BRL (Brazil)	3.10	0.0	1.6	0.8	-4
USD CLP (Chile)	615.43	0.5	1.8	5.1	8
USD COP (Colombia)	2909	0.1	1.3	2.9	2
USD MXN (Mexico)	17.70	0.5	1.1	0.9	17
USDRN (Peru)	3.23	0.1	0.1	0.2	4
LACI	67.07	0.2	1.2	1.7	9
USD PLN (Poland)	3.53	0.9	0.9	2.6	15
USD RUB (Russia)	57.05	0.6	1.7	4.7	5
USD TRY (Turkey)	3.41	0.5	1.3	3.5	5
USD CNY (China)	6.49	0.6	1.6	3.3	6
USD INR (India)	64.05	0.1	-0.2	-0.6	6
USD IDR (Indonesia)	13,307	0.2	0.3	0.0	1
ADXY	108.9	0.5	0.9	1.6	5
Commodities (%)	level	Daily	Weekly	Monthly	Year
Brent					
WTI	49	0.1	4.1	0	-8
Copper	312	-0.5	1.2	6	22
Gold	1347	1.0	1.9	7	16
S&P 500 commodity *	392	0.6	1.7	2	-1
S&P Brent Spot *	461	1.5	2.5	4	-4
S&P Metals Spot *	370	0.0	0.3	5	21
S&P Agricultural *	285	0.5	1.7	-2	-5

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Peru	71	-1.3	-3	-3	-36
Venezuela	6,199	111.8	-505	579	2,294
Poland	34	0.0	-1	-4	-21
Russia	141	1.3	-2	-13	-36
Turkey	162	2.7	-3	-9	-110
China	61	0.9	3	-3	-56
India	82	1.7	0	-3	-45
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Banking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	59	0.4	1	6	114
EZ	54	0.4	-5	1	-54
UK	47	-0.1	-2	1	-43
Large Spanish	49	0.0	-6	-2	-68
Medium Spanish	84	-0.5	-9	-6	-68
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Eurbor 3m	-0.33	0.00	0.0	0.0	0.0
Eurbor 12m	-0.16	0.00	0.0	0.0	-0.1
Libor 3m	1.32	0.00	0.0	0.0	0.3
Libor 12m	1.71	-0.01	0.0	0.0	0.0
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,464	-0.1	-0.3	0	9
Dow Jones	21,368	-0.2	0.8	-1	9
Nikkei	19,397	0.2	-1.3	-3	-1
FTSE 100	7,397	0.6	-0.5	-2	3
EuroStoxx 50	3,448	0.4	0.8	-2	4
IBEX	10,125	-0.1	-1.7	6	7
DAX	12,297	0.7	2.0	0	6
CAC	5,115	0.3	0.6	-2	4
MBI	21,723	-0.4	0.2	-1	11
ASE Athens	811	-0.1	-1.7	-2	23
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Mobal	59,463	-0.1	-1.5	-2	8
MSCI EM Europe *	5,186	0.3	-0.1	2	3
Poland	2,492	-0.8	-1.0	3	25
Moscow (Russia)	2,010	-0.2	0.6	1	-11
Ise 100 (Turkey)	109,743	0.1	-0.2	0	44
MSCI EM Asia *	862	-0.3	-0.9	0	24
Shanghai Com (China)	3,365	-0.6	0.1	3	7
Jakarta (Indonesia)	5,832	-0.0	-0.7	1	11
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	88.4	-1.9	-2.8	-6	2
CB	65.9	-2.2	-3.2	-4	7
BoA	22.8	-2.4	-4.4	-8	0
MS	43.9	-2.5	-3.4	-8	1
GS	215.3	-1.6	-3.8	-7	-11
EZ banks					
BNP	109.3	-0.6	-2.0	-8	4
Crédit Agricole	14.5	-0.5	-2.1	-7	18
Deutsche Bank	13.3	-1.2	-1.6	-14	-19
ING	14.6	-0.1	-2.0	-7	5
Intesa	2.8	-0.2	-1.1	-4	10
SG	45.9	-0.6	-2.4	-8	-5
Unicredit	16.6	-2.2	-3.2	-10	10
UK banks					
HSBC	84.7	-0.7	-3.1	-8	4
HSBC	723.8	-0.7	-3.6	-6	8
RBS	241.2	-1.4	-4.2	-9	3
Barclays	184.0	-1.0	-3.7	-13	-22
Lloyds	63.1	0.0	-1.2	-6	-3
Large Spanish banks					
Santander	84.2	-0.5	-3.2	-9	8
BBVA	5.3	-0.4	-3.3	-10	5
CaixaBank	7.2	-0.6	-3.1	-9	11
Medium Spanish banks					
CajaBank	76.1	-1.3	-5.4	-10	4
Sabadell	4.1	-0.4	-5.3	-9	25
Bankinter	1.7	-0.6	-0.0	-11	24
Bankinter	7.7	-1.0	-3.9	-9	2
Bankia	3.9	-0.6	-5.2	-11	5
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.20	0.9	1.0	2.3	15
GBPUSD	1.31	0.3	1.2	0.7	6
USD JPY	108.28	0.9	1.5	-1.8	-8
USD DXY	91.51	-0.8	-1.2	2.3	11
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USDARS	17.22	-0.1	0.7	2.8	-7
USD BRL (Brazil)					
USD BRL	3.10	0.0	1.6	0.8	4
USD COP (Colombia)					
USD COP	615.43	0.5	1.8	5.1	8
USD COP (Colombia)					
USD COP	2909	0.1	1.3	2.9	2
USD MXN (Mexico)					
USD MXN	17.70	0.5	1.1	0.9	17
USD PEN (Peru)					
USD PEN	3.23	0.1	0.1	0.2	4
LACI	67.07	0.2	1.2	1.7	9
USD PLN (Poland)					
USD PLN	3.53	0.9	0.9	2.6	15
USD RUB (Russia)					
USD RUB	57.05	0.6	1.7	4.7	5
USD TRY (Turkey)					
USD TRY	3.41	0.5	1.3	3.5	5
USD CNY (China)					
USD CNY	6.49	0.6	1.6	3.3	6
USD INR (India)					
USD INR	64.05	0.1	-0.2	-0.6	6
USD IDR (Indonesia)					
USD IDR	13,307	0.2	0.3	0.0	1
ADXY	108.9	0.5	0.9	1.6	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	54.4	0.3	3.8	-4	-4
WTI	49	0.1	4.1	0	-8
Copper	312	-0.5	1.2	6	22
Gold	1347	1.0	1.9	7	16
S&P Spot commodity *	392	0.6	1.7	2	-1
S&P Brent Spot *	461	1.5	2.5	4	-4
S&P Metals Spot *	370	0.0	0.3	5	21
S&P Agricultural *	285	0.5	1.7	-2	-5

Source: Bloomberg, Datastream and Haver

* With one day delay

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