

Market Comment | The rebound in risk asset remained as oil price surged

Global Financial Markets Unit
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- **Bank of Mexico delivers surprise interest rate hike in an unexpected meeting.** Banxico increased 0.50% its key rate to 3.75% in an extraordinary meeting. Consequently, Mexican peso has appreciated strongly against USD (+3.2%). Government also announced other measures such as government cut spending this year.
- **Iran remains reluctant to freeze oil production in today's meeting.** No surprises in talks among Iran, Iraq, Venezuela and Qatar. After yesterday's provisional agreement between the two main oil exporters to freeze oil production at January's levels, attention was focused on Iran (one of the biggest producers, which has been affected by sanctions), since agreement was contingent on other major producers taking part in it. As was expected, Iran was reticent about not exceeding pre-sanctions levels of oil production.
- **Mixed data in the US.** US housing starts moderated in January, increasing by less than expected (to 1.099 million from 1.143 million; consensus: 1.173 million), while building permits remained stable almost in line with estimates (to 1.202 million from 1.204 million; consensus: 1.2 million). Meanwhile, PPI final demand rose slightly, in contrast with the estimated decrease (by 0.1% MoM; consensus: -0.2%). On another front, industrial production rose by more than expected (by 0.9%; consensus: 0.4%)
- **The rebound in risk asset remained as oil price surged.** Despite Iran's reluctance to freeze oil production and its strong defence of its right to increase it, the market welcomed the Iranian authorities' willingness to stabilise the price: Iran's oil minister said at the conclusion of the meeting that it "supports efforts by OPEC members to keep prices stable". This triggered an oil rebound at the end of the European session (Brent: +7.4% WTx: +6.5%) that contributed to maintaining this week's recovery in risky assets. However, without significant fresh macroeconomic data, demand for some safe-haven assets remained strong and continued pushing up prices (Gold: +1.0%) in expectation of the latest FOMC minutes which will be released later today. Against this backdrop, European equity markets rose today (Eurostoxx: +2.7% IBEX: +2.8% DAX: +2.7% CAC: +3.0% MIB: +2.5%) boosted by cyclical sectors - which were the most punished last week - and especially by the commodities sector. In the same vein, US indices increased (S&P: +1.4% Dow: +1.3%) also underpinned by cyclical sectors. On bond markets, US treasury yields inched up in all its tenors (2Y: +3bp 10Y: +6bp) partly offsetting last week's falls. Meanwhile, European core yields remained unchanged, while peripheral yields declined slightly (ITA 10Y: -2bp SPA 10Y: -1bp POR 10Y: -6bp). On FX markets, the USD showed a mixed performance against other major currencies, with safe-haven currencies remaining unchanged against the USD and those most linked to oil prices appreciating (CAD: +0.90% AUD: +0.51% NOK: +0.34%). EM currencies also appreciated against the US dollar (RUB: +3.7% BRL: +2.0% COP: +1.0% MXN: +3.2% TRY: +0.8% CLP: +1.2%) helped by the rebound in commodity prices, mainly in oil.

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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