

Market Comment | Oil prices are the main support as markets rebound

Global Financial Markets Unit
22 Feb 2016

- **Mixed data in the US.** According to preliminary data, February's US manufacturing PMI fell, contrary to estimates of its remaining unchanged (by 1.4 points to 51.0). On another front, the Chicago Fed national activity index surged in January above expectations (to 0.28 points from -0.34; consensus: -0.05)
- **The PMIs suggest that the economy is suffering more than expected.** In February Eurozone composite PMI preliminary data dropped more than expected (by 0.9 points to 52.7; BBVAe and consensus: 53.3), dragged down by the decrease in services and a manufacturing PMI below estimates. By country, Germany's composite PMI deteriorated more than expected (by 0.7 points to 53.8; consensus: 54.1) due to the plunge in manufacturing and despite the unexpected increase in services. Meanwhile, the French composite PMI unexpectedly broke the benchmark of 50 points (falling to 49.8 from 50.2) after being hampered by contraction in service activity. ([see](#))
- **The Brexit is emerging as the key issue for the euro and the European markets** after London Mayor, Boris Johnson, led the campaign for Britain to leave the EU. Although last weekend, EU and UK leaders struck a deal to give the UK a special status in the European Union, Mr Johnson's initiative keeps alive the uncertainty ahead of the June 23 referendum. According to the media, the number of Conservative members backing a "Brexit" is growing. On the other hand, the media also reported that 50 of the 100 firms in the FTS-100 would prefer Britain to stay in the EU. All in all, the position ahead of the June referendum will be very polarized. The British pound has mirrored these uncertainties and has depreciated around 2% against the USD and 1% against the euro. The UK equity markets have been in a positive mood, in line with global markets, but have underperformed the eurozone markets. Lastly, UK gilt slightly underperformed European bonds.
- **Oil prices remain the main support of the rebound in risky asset prices, despite the worse-than-expected macroeconomic data in Europe and the intensification of the Brexit issue.** Oil prices continued the upward trend of last week but volatility seems to be here to stay amid negotiations between the major exporters. Recent developments are giving a boost to oil price-related assets but, even though Iran and Iraq have shown a willingness to support coordinated action, it seems unlikely that they are willing to freeze production. Also, the International Energy Agency in its "Medium-Term Oil Market Report 2016" pointed to downward pressure on oil prices in the short term and forecast the end of the rebalancing process (when supply will catch up with demand) in 2017. There is likely to be an abrupt rebound in oil prices at the end of the forecast period (2021) due to a slowdown in investment. Against this backdrop, European equity markets began the week by rising (Eurostoxx: +2.1% IBEX: +2.3% DAX: +2.0% CAC: +1.7%) boosted by the financial and energy sectors. The US indices had also risen at the time of writing (S&P: +1.3% Dow: +1.2%). The Asian markets continued last week's positive trend (Nikkei: +0.9% Shanghai: +2.35%). On the bond markets, US treasury yields remained almost unchanged (2Y and 10Y: +1bp). European yields declined across the board with the exception of Portugal (GER 10Y: -3bp FRA 10Y: -4bp ITA 10Y: -4bp SPA 10Y: -5bp POR 10Y: +1bp). On FX, the USD appreciated

against the other major currencies (EUR: -0.97% GBP: -1.82% JPY: -0.38%), with the GBP in front due to doubts about a potential Brexit. EM currencies have appreciated against the US dollar (RUB: +2.3% BRL: +2.0% MXN: +0.9% CLP: +1.2%), underpinned by improvements in commodity prices, mainly in oil markets (Brent: +5.6% Wtx: +7.1% Copper: +2.1%). The Colombian peso (COP: +1.3%) was also helped by the Colombian Central Bank's movement. BanRep increased its interest rate by 25bp to 6.25% in line with expectations. Like Banxico last week, BanRep highlighted the relevance of coordinating monetary and fiscal policy to prevent FX passthrough ([see](#)).

Update 17.30 CET 22 February, 2015

Table1

Current level and changes at daily, weekly, monthly and annual frequencies

Debt markets (changes in bp)

US 2yr 374 (14)(14)(29)
 US 5yr 124(13)(21)(42)
 US 10yr 176 (8) (1) (27)(149)

Japan 10yr 231 (21)(26)(124)
 OIS 2yr -2.54 (4)(1)(6)(14)
 OIS 5yr -2.34 (1)(1)(1)(28)
 OIS 10yr -1.9 (2)(1)(6)(27)(46)

Region 10yr 0.65 (2)(1)(4)(26)(124)
 France 10yr 0.52 (4)(1)(6)(25)(146)
 Germany 10yr 0.62 (2)(1)(6)(25)(146)
 Health 10yr 0.60 (2)(1)(6)(25)(146)
 Italy 10yr 0.52 (4)(1)(6)(25)(146)
 Netherlands 10yr 0.71 (2)(1)(6)(25)(146)
 Portugal 10yr 0.45 (1)(1)(6)(25)(146)
 Spain 10yr 0.61 (4)(1)(6)(25)(146)

Emerging Markets

Brazil 10yr 4.89 (2)(1)(6)(25)(146)
 China 10yr 4.45 (2)(1)(6)(25)(146)
 Colombia 8yr 4.1 (2)(1)(6)(25)(146)
 Mexico 5yr 6.57 (4)(1)(6)(25)(146)
 Peru 10yr 5.5 (1)(1)(6)(25)(146)

Forward 10yr 2.81 (2)(1)(6)(25)(146)
 Russia 5yr 5.89 (2)(1)(6)(25)(146)
 Russia 10yr 3.88 (1)(1)(6)(25)(146)
 Turkey 10yr 18.52 (4)(1)(6)(25)(146)

India 10yr 17.1 (2)(1)(6)(25)(146)
 Indonesia 10yr 6.16 (1)(1)(6)(25)(146)

Country risk (changes in bp)

1yr sovereign spreads (against Germany)

Belgium 40.1 (4)(1)(1)(1)
 France 35 (2)(1)(2)(1)
 Germany 106.1 (1)(4)(1)(2)(1)
 Ireland 80 (4)(1)(2)(1)
 Italy 24 (2)(1)(2)(1)
 Netherlands 1 (1)(1)(1)(1)
 Portugal 37.7 (2)(1)(2)(1)
 Spain 140 (2)(1)(2)(1)

5yr sovereign spreads (against Germany)

Belgium 9 (1)(2)(1)(1)
 France 16 (1)(1)(1)(1)
 Germany 106 (1)(1)(1)(1)
 Ireland 42 (1)(1)(1)(1)
 Italy 42 (1)(1)(1)(1)
 Netherlands 2 (1)(1)(1)(1)
 Portugal 28 (2)(1)(1)(1)
 Spain 82 (2)(1)(1)(1)

3yr sovereign spreads (against Germany)

Belgium 12 (1)(1)(1)(1)
 France 17 (1)(1)(1)(1)
 Germany 106 (1)(1)(1)(1)
 Ireland 42 (1)(1)(1)(1)
 Italy 42 (1)(1)(1)(1)
 Netherlands 1 (1)(1)(1)(1)
 Portugal 19 (2)(1)(1)(1)
 Spain 64 (2)(1)(1)(1)

1yr CDS index

Spr CDS Belgium 41 (1)(1)(1)(1)
 Spr CDS China 31 (1)(1)(1)(1)
 Spr CDS Germany 21 (1)(1)(1)(1)
 Spr CDS France 121 (1)(1)(1)(1)
 Spr CDS Ireland 98 (1)(1)(1)(1)
 Spr CDS Italy 165 (1)(1)(1)(1)
 Spr CDS Netherlands 23 (1)(1)(1)(1)
 Spr CDS Portugal 140 (1)(1)(1)(1)
 Spr CDS Spain 119 (2)(1)(1)(1)
 Spr CDS Turkey 34 (1)(1)(1)(1)
 Spr CDS US 21 (1)(1)(1)(1)

5yr CDS index

Spr CDS Belgium 41 (1)(1)(1)(1)
 Spr CDS China 24 (1)(1)(1)(1)
 Spr CDS Colombia 280 (1)(1)(1)(1)
 Spr CDS Mexico 199 (4)(1)(1)(1)
 Spr CDS Peru 201 (1)(1)(1)(1)
 Spr CDS Venezuela 1752 (1)(1)(1)(1)

1yr CDS spreads (bp)

Spr CDS Brazil 81 (4)(1)(1)(1)
 Spr CDS Russia 206 (4)(1)(1)(1)
 Spr CDS Turkey 20 (1)(1)(1)(1)

**Spr CDS China 136 (1)(1)(1)(1)
 Spr CDS India 169 (2)(1)(1)(1)
 Spr CDS Indonesia 239 (1)(1)(1)(1)**

Commodity (changes in percentage, positive for dollar depreciation)

UK 16.4 (5.3) (2.6) (1.2) (3.1)
 WTI 2019 4.2 (1.1) (1.4) (1.9)
 E8 FT commodity index 21 (4)(2)(1)(1)
 Brent commodity index 12.2 (2)(1)(1)(1)
 E8 FT volatility index 13 (1)(1)(1)(1)
 CRB energy index 36.5 (1)(1)(1)(1)
 US bonds volatility index 80 (1)(1)(1)(1)

Bank & deposits (bp)

US banks CDS 115 (1)(1)(1)(1)
 EU banks CDS 140 (1)(1)(1)(1)
 UK banks CDS 137 (1)(1)(1)(1)

Large Spanish banks CDS 175 (1)(1)(1)(1)
Medium Spanish banks CDS 255 (2)(1)(1)(1)

Czech banks CDS 171 (2)(1)(1)(1)
Russian banks CDS 411 (1)(1)(1)(1)

Commodity (changes in bp)

US Non-Banque CDS 87 (1)(1)(1)(1)
 EU Non-Banque CDS 213 (1)(1)(1)(1)
 UK Non-Banque CDS 213 (1)(1)(1)(1)

Interest rate markets (changes in bp)

EUR 3m spread 3m 14 (1)(1)(1)(1)
 EUR 6m spread 3m 41 (1)(1)(1)(1)
 EUR 12m spread 3m 30 (1)(1)(1)(1)

US 6M spread 3m 23 (1)(1)(1)(1)
 US 9M spread 3m 39 (1)(1)(1)(1)
 US 12M spread 3m 32 (1)(1)(1)(1)

Spain Ted Spread 3m 1.2 (4)(1)(1)(1)

EDBIA index 2.36 (1)(1)(1)(1)
 Euro Stoxx 2.2 (1)(1)(1)(1)
 ICBEX 2m 2.2 (1)(1)(1)(1)
 Labor 3m 0.62 (1)(1)(1)(1)
 Labor 12m 1.14 (1)(1)(1)(1)

Stock markets (changes in percentage)

US equity markets

S&P500 100.1 (2.1) (1.3) (1.5) (1.6)
 Dow Jones 100.0 (1.2) (1.3) (1.4) (1.5)
 Nikkei 101.1 (1.3) (1.4) (1.5) (1.6)
 FTSE 100 101.1 (1.3) (1.4) (1.5) (1.6)
 Euro Stoxx 100 101.1 (1.3) (1.4) (1.5) (1.6)
 MSCI EAFE 101.1 (1.3) (1.4) (1.5) (1.6)
 MIB 100 101.1 (1.3) (1.4) (1.5) (1.6)
 Nikkei 101.1 (1.3) (1.4) (1.5) (1.6)
 Nikkei 225 101.1 (1.3) (1.4) (1.5) (1.6)
 Nikkei 225 101.1 (1.3) (1.4) (1.5) (1.6)
 Nikkei 225 101.1 (1.3) (1.4) (1.5) (1.6)

Bank stocks

US banks 75.3 (1)(1)(1)(1)
 JPM 58.9 (1)(1)(1)(1)
 Cit 58.9 (1)(1)(1)(1)
 BofA 58.9 (1)(1)(1)(1)
 WFC 58.9 (1)(1)(1)(1)

EU banks 75.3 (1)(1)(1)(1)
 HSBC 44.6 (1)(1)(1)(1)
 BNP 44.6 (1)(1)(1)(1)
 Santander 44.6 (1)(1)(1)(1)
 Deutsche 44.6 (1)(1)(1)(1)

EM banks 75.3 (1)(1)(1)(1)
 Citigroup 44.6 (1)(1)(1)(1)
 Citigroup 44.6 (1)(1)(1)(1)
 Citigroup 44.6 (1)(1)(1)(1)
 Citigroup 44.6 (1)(1)(1)(1)

Large Spanish banks 62.7 (1)(1)(1)(1)
Medium Spanish banks 62.7 (1)(1)(1)(1)

Russian banks 62.7 (1)(1)(1)(1)
Chinese banks 62.7 (1)(1)(1)(1)

Other banks 62.7 (1)(1)(1)(1)
Other banks 62.7 (1)(1)(1)(1)

Other banks 62.7 (1)(1)(1)(1)
Other banks 62.7 (1)(1)(1)(1)

Commodity (changes in percentage, positive for dollar depreciation)

EURUSD 1.40 (4)(1)(1)(1)
 GBPUSD 1.40 (4)(1)(1)(1)
 USDJPY 113.86 (4)(1)(1)(1)
 DXY 41.48 (1)(1)(1)(1)

US equity markets

USDCX Argentina 15.14 (1)(1)(1)(1)
 USDCX Brazil 15.14 (1)(1)(1)(1)
 USDCX China 15.14 (1)(1)(1)(1)
 USDCX France 15.14 (1)(1)(1)(1)
 USDCX Germany 15.14 (1)(1)(1)(1)
 USDCX India 15.14 (1)(1)(1)(1)
 USDCX Japan 15.14 (1)(1)(1)(1)
 USDCX Korea 15.14 (1)(1)(1)(1)
 USDCX Mexico 15.14 (1)(1)(1)(1)
 USDCX Russia 15.14 (1)(1)(1)(1)
 USDCX Turkey 15.14 (1)(1)(1)(1)
 USDCX UK 15.14 (1)(1)(1)(1)

Commodity (changes in percentage)

Wheat 3.48 (1)(1)(1)(1)
 WTI 2.14 (1)(1)(1)(1)
 Copper 21.19 (1)(1)(1)(1)
 Gold 101.1 (1)(1)(1)(1)
 Brent 101.1 (1)(1)(1)(1)
 S&P 500 101.1 (1)(1)(1)(1)
 S&P 500 101.1 (1)(1)(1)(1)
 S&P 500 101.1 (1)(1)(1)(1)
 S&P 500 101.1 (1)(1)(1)(1)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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