

Market Comment | Oil price rebound not enough to trigger optimism in financial markets

Global Financial Markets Unit
26 Apr 2016

- **Disappointing data in the US.** In the US preliminary data on durable goods orders showed a smaller increase than the consensus forecast in March (by 0.8% MoM; consensus: 1.9%), while ex transportation dropped unexpectedly (by -0.2% MoM; consensus: 0.5%). At the same time the consumer confidence index fell in April by more than expected (by 1.9 points to 94.2; consensus: 95.8). Meanwhile, the Richmond Fed manufacturing index declined in April by less than expected (to 14 points from 22; consensus: 12). In addition, Atlanta Fed today revised 1Q GDP upwards (to 0.4% QoQ from 0.3%) ([see](#))
- **Increased pressure on BoJ to ease monetary policy ahead of Thursday's meeting.** Japanese Prime Minister Shinzo Abe's economic adviser Etsuro Honda considers that the Bank of Japan should decide to act at this week's meeting if it wants to be preemptive, avoiding with more measures the possibility of new market volatility. In addition, Etsuro Honda said that it was possible that the BoJ would further ease its monetary policy by expanding the asset purchase program-. "I want them to act in the first half of this year while I don't know if they will choose April, June or hold an emergency meeting in May if market volatility gets higher, [...] If they want to be preemptive, it's better to take action in April," he said. Meanwhile, the analysts are expecting further easing measures.
- **New gains in oil prices, close to this year's highest price, were not enough to trigger optimism in markets today.** Oil prices rose strongly ahead of the US oil inventories release, which investors are hoping will show further reductions. Behind market's performance could be the worse-than-expected macroeconomic data in the US, which somewhat dampened the positive mood early this morning. Today's FOMC - the outcome will be known tomorrow - and Thursday's BoJ - in which, according to surveys, a sizeable part of the market is expecting further easing - contributed to increasing uncertainty. Market expectations of a rate hike in the US interest rate in this week's meeting are close to zero, but the statement's wording will be a key to knowing whether a June rise in interest rates is possible, in a context in which markets are underestimating this possibility (20% probability of a June rate hike). Despite disappointing data in the US, the US treasury yield reached the highest level since March early this morning (+1.92%) while European core yields also inched up (GER 10Y: +4 bps FRA 10Y: +3 bps). Meanwhile, European peripheral yields remained almost unchanged with the exception of Portugal (POR 10Y: -8 bps). European equity markets showed a mixed performance, peripheral indices (IBEX: +1.7% and Mib: +1.6%) outperformed, boosted by the banking sector and offsetting yesterday falls, while major indices in Europe remained almost unchanged (Eurostoxx: +0.2% DAX: -0.2% CAC: -0.2%). Apart from this, the ECB purchased €2.5bn of EFSF bonds held by Greek banks, although the news had a minimal impact on Greek banks' performance today. The US equity indices remained unaltered, waiting for some high-weighted company results such as those of Apple (S&P: +0.1% Dow: -0.2%). In FX markets, the USD depreciated against its major peers with the exception of the Japanese yen (EUR: +0.37% GBP: +0.73% JPY: -0.04%). EM currencies appreciated against the US dollar (RUB: +0.9% BRL: +0.8% CLP: +0.3% COP: +0.8% MXN: +0.9%) underpinned by the rebound in oil prices (Brent: +2.3% Wtx: +2.5%).

Update 17.30 CET 26 April, 2016
Table 1

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

Index markets (changes in bps)

US Sp: 0.8 (21)(14)(14) 1.9
US Sp: 1.38(11)(11)(27)
US 10yr: 1.8 (1) (9) (14)

Index 10yr: 4.1 (4)(20)(17) 1.9
OECD Sp: 4.48 (7) (1) (1) 4.5
OECD Sp: 4.23 (2) (2) (2) 3.4
OECD Sp: 4.1 (1) (1) (2) 3.2

Region 10yr: 0.8 (3) (3) (3) 0.26
France 10yr: 0.84 (3) (3) (3) 0.25
Germany 10yr: 0.8 (3) (3) (3) 0.146
Italy 10yr: 0.8 (3) (3) (3) 0.18
Key 10yr: 1.4 (3) (3) (3) 1.6
Netherlands 10yr: 0.5 (3) (3) (3) 1.126
Portugal 10yr: 3.2 (4) (3) (2) 0.71
Spain 10yr: 1.4 (3) (3) (3) 1.14

Emerging Markets
Brazil 10yr: 3.7 (1) (1) (2) 2.9 (1) 2.9
China 10yr: 4.1 (1) (1) (2) 4.6
India 10yr: 5.87 (4) (3) (2) 3.26
New 10yr: 6.3 (1) (1) (1) 4.4

Russia 10yr: 3.9 (1) (1) (1) 2.1 (1) 1.5
Russia Sp: 5.3 (1) (1) (1) 1.57
Russia 10yr: 3.2 (1) (1) (1) 1.8
Turkey 10yr: 2.1 (1) (1) (1) 1.47

Index 10yr: 1.47 (1) (1) (1) 1.29
Indonesia 10yr: 7.3 (4) (2) (1) 1.12

Country risk (changes in bps)

Country risk (changes in bps)
Germany 34 (8) (4) (2)
France 34 (8) (4) (2)
China 33 (7) (1) (1) (2) 0.7
India 40 (2) (1) (1) 1.5
Key 24 (2) (2) (2) 1.5
Netherlands 2 (8) (2) (1) 0.5
Portugal 25 (1) (1) (1) 1.154
Spain 14 (4) (1) (1) 2.0

Country risk (changes in bps)
Germany 7 (8) (4) (2)
France 10 (8) (4) (2)
China 10 (2) (1) (1) 1.2
India 12 (1) (1) (1) 1.2
Key 12 (1) (1) (1) 1.1
Netherlands 2 (8) (2) (1) 0.5
Portugal 25 (1) (1) (1) 1.154
Spain 14 (4) (1) (1) 2.0

Country risk (changes in bps)
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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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