

Market Comment | Global drivers dragged down financial assets

Global Financial Markets Unit
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- **Euro zone manufacturing PMI moderates, while the US ISM manufacturing index rises and China's manufacturing PMI remains weak.** Markit euro zone manufacturing PMI final data decreased in line with expectations in May (by -0.2 points to 51.5). By country, in Germany it rose by less than expected (by 0.3 points to 52.1; consensus: 52.4), while in France it improved above estimates, although remaining in contraction (to 48.4 points from 48.0; consensus: 48.3). Meanwhile, in Spain and Italy manufacturing PMI estimates showed a decline in May (Spain by 1.7 points to 51.8; consensus: 52.5; Italy by 1.5 to 52.4; consensus: 53.0). In the US, the ISM manufacturing index unexpectedly rose in May (by 0.5 points to 51.3; consensus: 50.3), with most of the improvement coming from faster delivery times, while other components that shed light on the health of the manufacturing sector (production and new orders) declined. In China, manufacturing remain weak, with indicators showing mixed signals. China's manufacturing PMI remained unchanged in May (at 50.1 points; consensus: 50.0) while the non-manufacturing index fell (to 53.1 points from 53.5). Meanwhile, Caixin China manufacturing PMI dropped in May, staying in contraction in line with estimates (by 0.2 points to 49.2).
- **The OECD revised downward its forecasts for some countries' economic growth** - the US (to 1.8% from 2.0%), Japan (to 0.7% from 0.8%) and especially the UK GDP (to 1.7% from 2.1%), while the euro zone was increased (to 1.6% from 1.4%). The OECD focused on the impact that Brexit could have around the world "Brexit would lead to economic uncertainty and hinder trade growth, with global effects being even stronger if the British withdrawal from the EU triggers volatility in financial markets." The consequences could be not only high volatility, but other countries' growth could also be affected.
- **Global drivers dragged down financial assets.** The release of worse-than-expected confidence data in China put some extra pressure on risky assets. With recent green shoots in China fading, concerns regarding global growth and China's financial stability returned to global financial markets. The CNY/USD exchange rate is close to its lowest level since February. Furthermore, other latent sources of disruption such as the Brexit issue - on the back of increasing probabilities of Brexit in recent polls - hit global markets. In accordance with the mild increase in risk aversion, commodity prices reacted negatively and oil prices - ahead of tomorrow's OPEC meeting - dropped below US\$48 pb (Brent: -0.8% Wtx: -1.0%). Against this backdrop, in FX markets, the USD showed a mixed performance against its major peers (EUR: +0.36% JPY: +1.13% GBP: -0.51%). The British pound's implied volatility extended its increase, reaching its highest level since 2009 (to 20.50% from 16.59% last Friday) due to the publication of new polls - Guardian and ICM - which showed voters' preference for leaving the EU. The Japanese yen appreciated, after Prime Minister Abe told lawmakers to delay the consumption tax, suggesting Japan may increase its fiscal policy instead of easing monetary policy. EM currencies depreciated against the US dollar (RUB: -0.1% CLP: -0.3% COP: -0.8% MXN: -0.3%) dragged down by concerns about China, which affected the rest of the emerging economies, and also by the deterioration in commodity prices. On bond markets, core yields decreased (US 10Y: -2 bps GER 10Y: -1 bps UK 10Y: -6 bps) due to investors preferring safe-haven assets today. Therefore, European peripheral yields rose, increasing their risk

premiums (ITA 10Y: +3 bps SPA 10Y: +2 bps POR 10Y: +6 bps). Equity markets dropped across the board, mainly in Europe (Eurostoxx: -0.8% IBEX: -1.3% DAX: -0.6% CAC: -0.7% S&P: -0.1%), dragged down by the banking sector, especially by Italian banks and the basic resource sector, depressed by commodity prices.

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Table 1

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

Debt markets (changes in bp)

US Treasury

US 2yr	0.58 (2) (2) (1) 1.50
US 5yr	1.25 (2) (2) (1) 1.20
US 10yr	1.82 (2) (2) (1) 1.44

Japan

Japan 10yr	0.11 (1) (1) (1) 0.13
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Germany

GER 2yr	-0.52 (6) (1) 1.47
GER 5yr	-0.38 (1) (2) (1) 0.54
GER 10yr	-0.13 (1) (2) (1) 0.60

France

France 10yr	0.51 (5) (1) (1) 0.40
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Italy

Italy 10yr	2.47 (2) (1) (1) 1.23
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Spain

Spain 10yr	2.21 (2) (1) (1) 1.91
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UK

UK 10yr	1.8 (2) (2) (1) 1.81
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India

India 10yr	5.38 (2) (1) (1) 4.51
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China

China 10yr	3.2 (2) (1) (1) 2.81
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South Korea

South Korea 10yr	3.15 (4) (2) (1) 0.21
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Russia

Russia 5yr	5.18 (5) (2) (1) 3.71
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Turkey

Turkey 10yr	8.86 (3) (1) 7.81 (4) 1.41
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Indonesia

Indonesia 10yr	7.85 (2) (1) (1) 5.89
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Country risk (changes in bp)

US overnight swap rate (against Germany)

Japan	37 (2) (1) (1) (2)
France	34 (2) (2) (1) (2)
Germany	175 (2) (1) (1) (1) (1)
Italy	47 (2) (1) (1) (1)
UK	24 (1) (1) (1) (1)
Netherlands	1 (2) (1) (1) (1)
Poland	258 (5) (1) (1) (1) (1)
Spain	150 (1) (1) (1) (1)

US overnight swap rate (against Germany)

Japan	8 (2) (1) (1) (1)
France	19 (1) (1) (1) (1)
Germany	161 (1) (1) (1) (1) (1)
Italy	22 (1) (1) (1) (1)
UK	10 (1) (1) (1) (1)
Netherlands	4 (2) (1) (1) (1)
Poland	223 (1) (1) (1) (1) (1)
Spain	87 (2) (1) (1) (1)

US overnight swap rate (against Germany)

Japan	4 (2) (1) (1) (1)
France	8 (2) (1) (1) (1)
Germany	6 (1) (1) (1) (1)
Italy	10 (1) (1) (1) (1)
UK	10 (1) (1) (1) (1)
Netherlands	1 (2) (1) (1) (1)
Poland	181 (1) (1) (1) (1) (1)
Spain	41 (2) (1) (1) (1)

US overnight CDS

US CDS Europe	46 (1) (1) (1) (1) (1)
US CDS Europe	7 (1) (1) (1) (1) (1)
US CDS Germany	16 (1) (1) (1) (1) (1)
US CDS Germany	141 (1) (1) (1) (1) (1) (1) (1)
US CDS Ireland	49 (2) (1) (1) (1) (1)
US CDS Italy	125 (1) (1) (1) (1) (1)
US CDS Netherlands	26 (2) (1) (1) (1) (1)
US CDS France	387 (2) (1) (1) (1) (1)
US CDS Spain	86 (1) (1) (1) (1) (1)
US CDS UK	33 (2) (1) (1) (1) (1)
US CDS US	23 (2) (1) (1) (1) (1)

US overnight CDS

US CDS China	246 (1) (1) (1) (1) (1) (1)
US CDS China	109 (2) (1) (1) (1) (1) (1)
US CDS Colombia	220 (1) (1) (1) (1) (1) (1)
US CDS Mexico	171 (1) (1) (1) (1) (1) (1)
US CDS Russia	199 (1) (1) (1) (1) (1) (1)
US CDS Venezuela	347 (1) (1) (1) (1) (1) (1) (1)

US overnight swap rate (against Germany)

US CDS Brazil	20 (1) (1) (1) (1) (1)
US CDS Russia	256 (1) (1) (1) (1) (1)
US CDS Turkey	265 (1) (1) (1) (1) (1)
US CDS China	125 (2) (1) (1) (1) (1)
US CDS India	166 (1) (1) (1) (1) (1)
US CDS Indonesia	181 (2) (1) (1) (1) (1)

Comdty risk

Oil

WTI	14.52 (2) (1) (1) (1) (1)
Brent	15.12 (2) (1) (1) (1) (1)

Gold

Gold	1211.50 (1) (1) (1) (1) (1)
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US Treasury

US 2yr	0.58 (2) (2) (1) 1.50
US 5yr	1.25 (2) (2) (1) 1.20
US 10yr	1.82 (2) (2) (1) 1.44

Bank deposits (changes in percentage)

US banks

US banks CDS	89 (1) (1) (1) (1)
US banks CDS	107 (1) (1) (1) (1) (1)
US banks CDS	108 (1) (1) (1) (1) (1)

Large Spanish banks

Large Spanish banks CDS	138 (1) (1) (1) (1)
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Medium Spanish banks

Medium Spanish banks CDS	172 (1) (1) (1) (1) (1)
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Czech banks

Czech banks CDS	1237 (2) (1) (1) (1) (1) (1)
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Russian banks

Russian banks CDS	239 (1) (1) (1) (1) (1)
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Commodity risk (changes in bp)

US overnight swap rate (against Germany)

US 2yr	0.58 (2) (2) (1) 1.50
US 5yr	1.25 (2) (2) (1) 1.20
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US 5yr	1.25 (2) (2) (1) 1.20
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US 5yr	1.25 (2) (2) (1) 1.20
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Stock markets (changes in percentage)

US

S&P 500	2052.74 (1) (1) (1) (1) (1)
NASDAQ	1755.12 (1) (1) (1) (1) (1)
Russias	1052.17 (1) (1) (1) (1) (1)
FTSE 100	6081.61 (1) (1) (1) (1) (1)
Eurostoxx 50	3052.16 (1) (1) (1) (1) (1)
MSCI EAFE	1211.50 (1) (1) (1) (1) (1)
DAX	1199.42 (1) (1) (1) (1) (1)
CAC40	1211.50 (1) (1) (1) (1) (1)
NIB	1720.11 (1) (1) (1) (1) (1)
KOSPI	1461.12 (1) (1) (1) (1) (1)

Bank stocks

US banks	85.42 (1) (1) (1) (1) (1)
JPM	85.31 (1) (1) (1) (1) (1)
Ch. 45	1.61 (1) (1) (1) (1) (1)
Ban. W.	7.42 (1) (1) (1) (1) (1)
W. 2	3.12 (1) (1) (1) (1) (1)
GS	159.5 (1) (1) (1) (1) (1)

US banks

HSBC	44.3 (1) (1) (1) (1) (1)
BIS	73.2 (1) (1) (1) (1) (1)
Barclays	124.1 (1) (1) (1) (1) (1)
Wells	71.2 (1) (1) (1) (1) (1)

EU banks

EU banks	85 (1) (1) (1) (1) (1)
BNP	84.2 (1) (1) (1) (1) (1)
Crédit Agricole	8 (1) (1) (1) (1) (1) (1) (1)
ING	11 (1) (1) (1) (1) (1) (1)
Wells	3 (1) (1) (1) (1) (1) (1)
Wells	3 (1) (1) (1) (1) (1) (1)
Wells	3 (1) (1) (1) (1) (1) (1)
Wells	3 (1) (1) (1) (1) (1) (1)

Large Spanish banks

Large Spanish banks	67 (1) (1) (1) (1) (1)
Santander	1.2 (1) (1) (1) (1) (1)
Banco	1.5 (1) (1) (1) (1) (1)

Medium Spanish banks

Medium Spanish banks	48 (1) (1) (1) (1) (1)
Caixa	2 (1) (1) (1) (1) (1) (1)
Caixa	1.6 (1) (1) (1) (1) (1) (1)
Caixa	1.6 (1) (1) (1) (1) (1) (1)
Caixa	1.6 (1) (1) (1) (1) (1) (1)
Caixa	1.6 (1) (1) (1) (1) (1) (1)

Other banks

Other banks	4.3 (1) (1) (1) (1) (1)
Other banks	4.3 (1) (1) (1) (1) (1)
Other banks	4.3 (1) (1) (1) (1) (1)
Other banks	4.3 (1) (1) (1) (1) (1)

Commodity risk

US overnight swap rate (against Germany)

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US 10yr	1.82 (2) (2) (1) 1.44

Commodities (in percentage, positive for dollar depreciation)

US overnight swap rate (against Germany)

US 2yr	0.58 (2) (2) (1) 1.50
US 5yr	1.25 (2) (2) (1) 1.20
US 10yr	1.82 (2) (2) (1) 1.44

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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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