

Market Comment | Financial markets were driven by global events

Global Financial Markets Unit
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- **Mixed labour data in the US.** ADP nonfarm employment data increased slightly below estimates (by 173K; consensus: 175K). Meanwhile, US jobless claims dropped unexpectedly in the week ended 28 May (267K; consensus: 270K, previous: 268K) while continuing jobless claims rose in the week ended 21 May against estimates of a decrease (to 2,172K; consensus: 2,150K; previous: 2,160K).
- **ECB June monetary policy meeting.** As expected, at today's monetary policy meeting there were no changes in the ECB's monetary policy stance, as the central bank left the key policy rate unchanged at 0.0% and the deposit rate at -0.4%. The ECB reiterated that if warranted to achieve its objective, it will act using all the instruments in its mandate. "It is quite clear we will not hesitate to act." However, during the press conference, Mr Draghi stressed that the focus is on the implementation, on the effects of the measures taken in March. The ECB's macroeconomic projections barely changed over the forecast horizon, beyond the slight upward revision this year due to better than expected incoming data (+0.2 pp to 1.6% for GDP and +0.1 pp to 0.2% for inflation), but the balance of risks for growth has improved (still tilted to the downside). Moreover, the central bank announced today that it would start its corporate bond purchase programme (CSPP) on 8 June and would conduct its first TLTROII on 22 June.
- **Financial markets were driven by global events such as the OPEC meeting and the ECB meeting that could contribute to build the medium term environment.** Both events - as expected - ended with no significant news. Meanwhile, as regards the OPEC meeting, oil prices began the session with gains above the US\$50 pb threshold, before falling sharply in the intraday (around 2%) after the OPEC failed to reach a supply deal. Although there were low expectations for the OPEC to strike an agreement in today's meeting, markets were disappointed as the OPEC also failed to set a production target ceiling. Against this backdrop, despite the mild recovery in oil prices after the release of US oil inventories data falling less than expected, Brent crude is now priced below 50 US\$/ph. The lack of agreement on oil output ceiling weighed on energy stocks, also dragging equity indices lower. On the other hand, the ECB meeting brought no major news, and the statement was fairly balanced. Although the ECB revised its 2016 growth and inflation forecasts upwards, Mr. Draghi also pointed out that the risk remained to the downside. On equity markets, European indices showed a mixed performance (EuroStoxx: -0.1%, IBEX: +0.6% DAX: +0.1%, CAC: -0.1%). Meanwhile, US equity markets declined (S&P: -0.2%, Dow: -0.1%). In Asia, the Nikkei plunged (-2.32%), dragged down again by the Japanese yen's appreciation due to yesterday's announcement by Prime Minister Abe of a delay in increasing the consumption tax - the prospect of which was still weighing on the currency. On bond markets, US treasury yields fell in all their tenors (2Y: -2 bps, 10Y: -3 bps) with the decrease in the implied probability of a Fed rate hike in June (to 20% from 30%). Meanwhile in Europe, core yields dropped slightly and peripherals showed a mixed performance, although the ECB did not grant the Greek waiver - it will decide on a Greek waiver once prior actions are implemented - (GER 10Y: -3 bps, FRA 10Y: -1 bps, GRE 10Y: +1 bps, ITA 10Y: -1 bps, SPA 10Y: -1 bps, POR 10Y: +5 bps). In FX markets, the USD appreciated against other major currencies with the exception of Japanese yen and the British pound, especially those most linked to oil prices

(EUR: -0.27 %, JPY: +0.75%, GBP: +0.15%, NOK: -0.4%, AUD: -0.5%). EM currencies depreciated against the US dollar (RUB: -0.3%, COP: -0.1%, MXN: -0.5% TRY: -0.2%) dragged down mainly by commodity prices.

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Table 1

*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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