

Market Comment | Rebound in risk assets as Brexit odds fade

Global Financial Markets Unit
20 Jun 2016

- **Rebound in risk assets as Brexit odds fade.** A new round of polls regarding the Brexit referendum showed a downturn in the “leave” option, giving some breathing space to risk assets and relieving some of the pressure felt last week, when - according to the Financial Times poll tracker - the leave option was the more likely. Today the “remain” option gained some pace and brought some calm to financial markets. However, the uncertainty inherent in the narrow difference between both options could cause a renewed bout of risk aversion in financial markets during this week. In fact, markets risk measures such as the implied volatility of assets more exposed to the UK remained high, despite today’s moderation (implied volatility in the Euro Stoxx 50 34%, and the GBP/EUR 1M implied volatility 19%). Nonetheless, today’s relief rally benefited risky assets across the board, especially those closely related with the Brexit referendum: The FTS100 registered one of its biggest increases since 2011 (+3.1%), while the GBP appreciated strongly against the USD (+2.23%). The performance of the UK sovereign bond market also suggests decreasing risk aversion as demand for UK gilts faded, sending gilt yields higher (UK 10Y yield). In the same line, the positive mood in financial markets halted the demand for safe-haven assets, with the 10Y German bund returning to positive levels (JPY: -0.23% against USD, Gold: -1%, US 10Y +7 bps and GER 10Y +4 bps) while commodity prices increased (copper +1.3% and Brent: +2.5%).
- **Equity indices across the board rose confidently,** led by European indices (Euro Stoxx 3.4%, S&P 1.2%) and the cyclical sectors. In bond markets, peripheral bonds rose, sending their yields lower (Spain 10 Y -7 bps, Italy 10Y -8 bps). The results of Italian local elections - where the Five Star party won in some important cities - and the uncertainty regarding next week’s elections in Spain were offset by positive mood in market. The ECB announced the amount of corporate bond purchases during last week (€1.9 billion). This is the first time that the ECB has published a complete week’s purchases, and if the monetary authority continues at the same pace in upcoming weeks, the monthly amount under the CSPP programme could be around €8 billion.
- **In FX markets, the US dollar dropped against its main peers** with the exception of the JPY (euro +0.27%, Japanese yen -0.23%, British pound +2.23%). Meanwhile, EM currencies appreciated due to the upward trend in commodity prices coupled with today’s positive mood in financial markets (TRY: +0.8%, BRL: +0.8%, CLP: +0.6%, COP: +1.2%, MXN +1%)

Update 17.35 CET 20 June, 2016

Table 1

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

Libor markets (changes in bp)

3m Eur 8.72 (0.11) (140) (2)
 3m Eur 1.17 (0.14) (21) (48)
 12m Eur 4.67 (0.17) (7) (17) (38)
 3m Eur 15.15 (0.15) (14) (41)
 6M Eur 2.55 (0.12) (6) (24)
 6M Eur 2.47 (0.14) (11) (42)
 6M Eur 3.48 (0.11) (14) (25)
 3m Eur 8.48 (0.11) (14) (41)
 3m Eur 1.41 (0.12) (1) (56)
 6m Eur 7.78 (0.14) (12) (45)
 12m Eur 4.65 (0.15) (3)
 12m Eur 1.44 (0.12) (4) (16)
 Netherlands 15m Eur 2.14 (0.16) (50)
 Portugal 15m 2.16 (0.14) (6) (7) (28)
 Spain 15m 1.81 (0.12) (1) (18)

3m Eur 1.62 (0.14) (4) (12) (30)
 3m Eur 4.54 (0.14) (1) (12)
 3m Eur 2.86 (0.11) (6) (48)
 Mexico 15m 4.02 (0.11) (8) (24)
 Peru 15m 5.10 (0.11) (11)
 Poland 15m 3.87 (0.11) (13) (27)
 Russia 15m 3.18 (0.14) (15)
 Russia 15m 5.17 (0.18) (4) (28)
 Turkey 15m 3.12 (0.12) (2) (11) (15)
 India 15m 7.51 (0.13) (27)
 Indonesia 15m 7.43 (0.14) (12) (12)

Commodity risks (changes in \$/b)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 41 (41) (3) (1) (8)
 France 27 (41) (14) (1)
 Greece 772 (242) (41) (42) (8)
 Ireland 78 (10) (10) (24)
 Italy 130 (12) (4) (0) (41)
 Netherlands 21 (21) (1) (1) (27)
 Portugal 105 (10) (0) (7) (10) (27)
 Spain 142 (12) (4) (0) (28)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 29 (41) (10) (1)
 France 24 (41) (0) (1)
 Greece 346 (21) (1) (1) (42)
 Ireland 41 (10) (10) (22)
 Italy 151 (12) (10) (24)
 Netherlands 15 (17) (3) (2) (1) (15)
 Portugal 231 (11) (0) (2) (14)
 Spain 14 (10) (1) (0) (2)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 31 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

3m oil Brent (Agree) (Agree) (Agree) (Agree)
 Belgium 30 (41) (0) (8)
 France 13 (32) (1) (3) (10)
 Ireland 27 (10) (10) (7)
 Italy 58 (8) (1) (1) (27)
 Netherlands 1 (3) (0) (0) (0)
 Portugal 133 (14) (10) (22) (88)
 Spain 27 (41) (1) (10)

CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for

Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.