

## Market Comment | Risk assets rebounded for first time since Brexit

Global Financial Markets Unit 28 Jun 2016

- Real US GDP growth for 1Q16 was revised up to 1.1% QoQ SAAR from 0.8% in the preliminary estimate. While still sluggish, the figure paints a less gloomy picture compared to the 0.5% reading released a few months ago. Both net exports and non-residential investment (two of the main drags on growth throughout the past year) were revised upwards.
- Draghi calls for greater alignment of policies globally to mitigate the spillover risks from ultraloose monetary measures. Since the ECB president states that global factors are playing on low inflation, weak growth outlook and ultra low interest rates, monetary policies have to look beyond the country jurisdiction. Mr. Draghi considers monetary policy coordination difficult and sees alignment of policies as the better tool to address the factors and challenges that affect economic stability, meaning sharing diagnosis and common interest.
- Risk assets rebounded for first time since the United Kingdom decided to leave the European Union in an unexpected referendum outcome. The most assets that rebounded most today were those that had suffered the biggest falls in previous sessions. UK assets were among them, and the GBP appreciated against the USD (+0.65%) while gilt 10Y yields increased marginally although remaining below the 1% threshold. Although S&P and Fitch cut the UK sovereign rating, the UK yield remained unchanged today as risk-off mood prevailed in UK assets. Apart from the recent sell-off which has encouraged a rebound -, there were others factors that supported the demand for risky assets, (at least for now). Firstly the Italian banking sector was given some breathing space after Matteo Renzi confirmed the rumours of a bailout if the sector faces problems. Although Italy's Government could face some problems with this in the restrictive EU framework concerning state support for lenders, probably they could ask for flexibility after the turnoil in financial markets following the Brexit vote. "Today the rules are very difficult, nonetheless all that needs to be done to give tranquillity and confidence to citizens will be given attention by European institutions and national ones, starting with the Italian government" Renzi said. The slightly better than expected 1Q US GDP revision may also have contributed to the relief rally.
- Against this backdrop, demand for safe-haven assets decreased, while demand for risky assets such as equities increased today. Equity indices increased across the board, led by European indices (S&P: +0.8%, Euro Stoxx: +2.2%, Dax: +1.8%, IBEX:+2.5%). The European banking sector registered the first gains (+3%) after a huge sell-off in previous sessions (-20% since the Brexit outcome). Meanwhile, sovereign yields declined in accordance with a decreasing risk perception: safe-haven curves remained stable (US10Y:+2 bps, UK10Y: 0 bp, GER10Y: 0 bp) while peripheral yields decreased (SPA10Y -10 bps, ITA10Y -14 bps). Despite today's improvement in financial markets, risk measures remained high (VIX stood again below 20%).
- The USD registered mixed performances against its main peers (JPY -0.65%, EUR +0.23%) while commodity prices benefited from the current relief in financial markets in line with other cyclical assets



(WTx:+1.6%, Brent:+1.3%, copper: +2.1%). Both the calm in financial markets and the upward trend in commodity prices contributed to **EM currencies' appreciation against the USD** (MXN +1.3%, BRL +2.2%, TRY:+1.3%).

Update 17.35 CET 28 June, 201 Table 1

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(Current level and changes at daily, weekly, monthly and annual frequencies) Debt markets (changes in bp)	
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urrencies (in percentage, positive for dollar depreciation)	
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$\begin{split} & \text{SDMS} : \int_{\mathbb{T}^{2}} \log(2\pi m_{0}) & \text{SDM}(2\pi) \int_{\mathbb{T}^{2}} \log(2\pi m_{0}) & \text{SDM}(2\pi) \int_{\mathbb{T}^{2}} \log(2\pi m_{0}) & \text{SD}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) \\ & \text{SDC}(2\pi) & \text{SDC}(2\pi) \\ &$	
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(Current level and changes at daily, weekly, monthly and annual frequencies)	
Date markets (of strippe in bp)           01.3 yr 4601,044 (30)           01.3 yr 4601,044 (30)           01.5 yr 410 (01)	
GE R 2-yr - 0.65 (-1) (-0) (-14) (-33) GE R 2-yr - 0.65 (-1) (-0) (-16) (-41) GE R 1-9rr - 0.11 (-0) (-16) (-21) (-74)	
C41 Sty - 11 Data (HK)(C41 C41) March Targer Sty - 22 (C41 C41) March Targer Sty - 22 (C41 C41) March Targer Sty - 24 (C41 C41)	
Construction         Construction           Seal 169 v1 22 07 168 (51) (64) (64)         Construction         Construling         Construling         Co	
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bris 1997 745 (-1) (-5) (-2) (-3) (-1) (-1) (-1) (-1) (-1) (-1) (-1) (-1	
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Say material         Say (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)	
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Interbank markets (changes in bp)           ER HIG Spress 2m         0 (4) (4) (2) (3)           ER HIG Spress 2m         30 (4) (2) (3)           ER HIG Spress 30 (4) (2) (5)         EX	
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Russian banks 168 (1. 3) (3. 3) (3. 3) (10. 8) Sebestar 13 (2. 3) (3. (2. 3) (7. 8) UB shar 3. 1. 9, 4) (4. 25) (7. 8) <u>Currencies</u> (in percentage, positive for dollar depreciation)	
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USCENT (Family 46 (1) (4) (4) (3) (3) USDEN (644) (47 (4) (4) (1) (4) (2) USDEN (644) (47 (4) (4) (1) (4) (2) (4) USDEN (644) (4) (4) (4) (4) Commod Biss (charge in percentage)	
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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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