

Market Comment | Bond rally continues as risk aversion persists in financial markets

Global Financial Markets Unit
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- **Market volatility continued for one more day (VIX 16.2% VSTOXX 28.3%) due to concerns about global economic growth.** The defensive mood persisted in financial markets across the board, and continued yesterday's main trends: demand for safe-haven assets increased: gold registered a 2-year high (+0.8%) and the Japanese yen appreciated (+0.6%). Meanwhile prices of risk assets dropped further, led by equity indices and commodities. The Brexit referendum outcome triggered risk aversion in financial markets, but the punishment was focused on European assets, and particularly the UK. In this context, central banks (such as BoE) seem to be ready to maintain expansive monetary policies. The GBP continued its downward spiral, registering record lows (1.29 GBPUSD), as did sovereign yields (10Y: 0.729%).
- In this regard, Sweden's central bank postponed future interest rate rises while showing its determination to make monetary policy even more expansionary if necessary, in line with Poland's central bank decision to hold rates at record lows. **The accommodative stance could be followed by major central banks:** according to Bloomberg, 90% of analysts are expecting further easing by the ECB, while markets place the Fed's next rate-hike in 2018. Against this backdrop, **fixed income markets registered new record lows in 10Y bond yields:** UK (0.729%), Germany (-0.205%), Japan (-0.282%), US (1.318%), Switzerland (-0.629%), France (0.1%), Sweden (0.075%) and Denmark (-0.006%). Peripheral countries followed the downward trend in yields, even in Portugal and Spain, despite the European Commission's concluding that these countries had failed to take effective action to reduce their public deficits, putting both countries on a path to penalties that could include fines or a partial suspension of EU regional funds.
- Prices of risk assets continued in their downward spiral today, with **falls in the main equity indices** (Euro Stoxx 50 -1.8%, IBEX35 -1.8%, Dax -1.7%, S&P 0% and Nikkei -1.9%). European Banks led the slide, hampered by the health of the Italian banking sector. (Some of them showed worrisome Texas ratios - bad loans as a proportion of capital and reserves). **Commodity prices - as risky assets - registered a new drop** (Wtx: 0.1% Brent: -0.1% Copper: -1.4%). However EM currencies registered mixed performances after yesterday's substantial fall (MXN +0.4%, BRL -0.6%, TRY -0.4%, COP -0.6%, CLP -0.2%).

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Table 1

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

Libor markets (changes in bp)

Overnight

US 2y 8.50 (21) 62 (147)
US 3y 8.60 (21) 61 (146)
US 6m 8.30 (19) 59 (139)
Euro 3m 4.75 (15) 64 (161) (43)
QE 2y -0.60 (6) 12 (146) (34)
QE 3y -0.81 (6) 11 (146) (35)
QE 6m 4.17 (15) 63 (161) (41)

Belgian 10y 8.18 (11) 61 (152) (41)
France 10y 7.70 (10) 62 (153) (40)
Greece 10y 7.85 (12) 62 (153) (40)
Ireland 10y 6.40 (10) 63 (154)
Italy 10y 8.24 (12) 61 (152) (41)
Netherlands 10y 6.51 (10) 63 (154) (39)
Portugal 10y 7.10 (12) 64 (161) (40)
Spain 10y 7.12 (12) 62 (154) (40)

Forward Interest

Amer 10y 4.29 (23) 62 (154) (40)
Cdn 4y 4.32 (23) 61 (153) (40)
Cte mex 3y 2.98 (44) 52 (110)
Mexico 5y 4.39 (23) 61 (153) (40)
New 10y 3.94 (21) 62 (154) (40)
Poland 10y 2.89 (41) 63 (155)
Russia 5y 2.91 (41) 60 (152)
Russia 10y 5.33 (21) 62 (154) (39)
Turkey 10y 6.89 (20) 63 (155) (40)
India 10y 7.38 (11) 61 (152) (41)
Indonesia 10y 7.38 (11) 61 (152) (41)

Country risk (changes in bp)

5-year sovereign spreads (against Germany)

Belgium 34 (21) 64 (161)
France 31 (15) 62 (154)
Greece 812 (40) 100 (163)
Ireland 80 (24) 63 (154)
Italy 142 (24) 64 (161)
Netherlands 21 (15) 62 (154)
Portugal 82 (20) 61 (153) (40)
Spain 136 (23) 61 (152) (41)

5-year sovereign spreads (against Germany)

Belgium 21 (15) 62 (154)
France 20 (15) 62 (154)
Greece 180 (8) 20 (16)
Ireland 80 (24) 63 (154)
Italy 142 (24) 64 (161)
Netherlands 21 (15) 62 (154)
Portugal 82 (20) 61 (153) (40)
Spain 136 (23) 61 (152) (41)

2-year sovereign spreads (against Germany)

Belgium 11 (6) 61 (153)
France 7 (1) 64 (161) (41)
Ireland 30 (15) 63 (154)
Italy 61 (11) 62 (153)
Netherlands 21 (15) 62 (154)
Portugal 131 (23) 63 (154)
Spain 41 (6) 63 (154)

5-year sovereign CDS

Syr CDS Belgium 53 (18) 170 (21)
Syr CDS France 46 (8) 61 (153)
Syr CDS Germany 8 (1) 61 (153)
Syr CDS Greece 82 (20) 170 (21)
Syr CDS Ireland 71 (21) 62 (154)
Syr CDS Italy 145 (20) 62 (153)
Syr CDS Netherlands 20 (14) 61 (153)
Syr CDS Portugal 81 (11) 61 (152)
Syr CDS Spain 102 (11) 62 (154)
Syr CDS UK 41 (21) 61 (153)
Syr CDS US 28 (1) 61 (153)

Emerging Markets

Syr CDS Argentina 424 (41) 51 (102)
Syr CDS Brazil 314 (18) 161 (20)
Syr CDS China 89 (12) 61 (153)
Syr CDS Colombia 69 (16) 61 (153)
Syr CDS Mexico 95 (11) 61 (153)
Syr CDS Peru 108 (16) 61 (153)
Syr CDS Venezuela 494 (27) 173 (21) (48)

Syr CDS Russia 21 (7) 61 (153)
Syr CDS Russia 208 (12) 61 (153)
Syr CDS Turkey 24 (11) 61 (153)
Syr CDS China 122 (11) 61 (153)
Syr CDS India 171 (12) 61 (153)
Syr CDS Indonesia 62 (11) 61 (153)

Country risk

US 18 (1) 61 (153)
VET 20 (1) 61 (153)
VET 20 (1) 61 (153)
EU 5y weekly index 20 (1) 61 (153)
Chickens weekly 2 (1) 61 (153)
EU 5y weekly index 20 (1) 61 (153)
Credit event index 200 (1) 61 (153)
EU 5y weekly index 20 (1) 61 (153)

Bank risk (changes in bp)

US banks CDS 90 (1) 61 (153)
EU banks CDS 141 (1) 61 (153)
UK banks CDS 137 (1) 61 (153)
Large Spanish banks CDS 100 (1) 61 (153)
Medium Spanish banks CDS 201 (1) 61 (153)

Bank risk

Greek banks CDS 140 (1) 61 (153)
Spanish banks CDS 141 (1) 61 (153)
UK banks CDS 137 (1) 61 (153)
Large Spanish banks CDS 100 (1) 61 (153)
Medium Spanish banks CDS 201 (1) 61 (153)

Commodity risk (changes in bp)

EU 5y Non-Agriculture CDS 121 (1) 61 (153)
UK Non-Agriculture CDS 137 (1) 61 (153)
EU 5y Commodity CDS 121 (1) 61 (153)

Interest rate markets (changes in bp)

US 2y swap 121 (1) 61 (153)
US 3y swap 121 (1) 61 (153)
US 5y swap 121 (1) 61 (153)
US 7y swap 121 (1) 61 (153)
US 10y swap 121 (1) 61 (153)

US 10y swap 121 (1) 61 (153)
US 7y swap 121 (1) 61 (153)
US 5y swap 121 (1) 61 (153)
US 3y swap 121 (1) 61 (153)
US 2y swap 121 (1) 61 (153)

Spain 10y swap 121 (1) 61 (153)
Spain 7y swap 121 (1) 61 (153)
Spain 5y swap 121 (1) 61 (153)
Spain 3y swap 121 (1) 61 (153)
Spain 2y swap 121 (1) 61 (153)

EURO Index 121 (1) 61 (153)
Euro Stoxx 121 (1) 61 (153)
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Libor 3m 121 (1) 61 (153)
Libor 6m 121 (1) 61 (153)
Libor 9m 121 (1) 61 (153)
Libor 12m 121 (1) 61 (153)

Stock markets (changes in percentage)

Major equity indices

S&P 500 121 (1) 61 (153)
Nikkei 121 (1) 61 (153)
DAX 121 (1) 61 (153)
FTSE 100 121 (1) 61 (153)
EURO STOXX 121 (1) 61 (153)
MSCI EM 121 (1) 61 (153)
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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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