Market Comment | Positive mood remains in markets despite BoE's leaving rates on hold.

Global Financial Markets Unit 14 Jul 2016

BBVA Research

- BOE unexpectedly leaves interest rates on hold. The BoE decided today to maintain interest rates unchanged (only one of the nine members voted to cut interest rates) and (unanimously) to maintain the stock of purchased assets unchanged at £375 billion. No new measures were announced, but the Committee expect to loosen monetary policy in August, considering the economic outlook with available economic activity data after the Brexit outcome. They agreed that although economic confidence had weakened in the near term, the resilience of the UK financial system cushioned the consequences of the potential slowdown triggered by Brexit (see).
- Positive mood remains in markets despite BoE's leaving rates on hold. The unexpected outcome of today's BoE meeting was not enough to diminish the recent optimism in financial markets. The consensus was expecting the implementation of easing measures to offset the spillover from the Brexit vote, but finally the BoE remained on hold despite hinting at a looser monetary policy in upcoming meetings. UK assets were the most volatile during today's session, and once the decision was released, the GBP appreciated sharply, while yields rebounded to 2.5%, although the former effect moderated slightly as the session went by.
- Against this backdrop and ahead of tomorrow's Chinese 2QGDP release, global equity indices continued their upward trend and most of them are hovering around pre-Brexit levels, led by the US and EM.□
 Today's purchases were led by European indices (Euro Stoxx50, +1.4%; Dax, +1.5%; Ibex35, +1%), showing the continuation of the current risk-on mood. Financials (Euro Stoxx banks: +3.4%) behaved especially bullishly, favoured by the upturn in yields (from historically lowest levels). In the same line, US indices again rose to fresh all-time highs, supported, among other things, by better-than-expected 2Q16 quarterly earnings (S&P: +0.6%)
- The bond markets reflected a reduction in demand for bonds triggered by the BoE's decision. The biggest rise was that of UK 10Y Gilt (+5 bps) and US 10Y Government Bond (+5 bps) while yields of European sovereign bonds inched up (SPA +3 bps, ITA +1 bps, POR +2 bps).
- The unexpected decision of BoE led to a **substantial appreciation of the GBP against its main peers** (+1.54% against the USD and +1.28% against the EUR), while the JPY continued on its downward trend (-0.98%) as talks on both more monetary and fiscal stimulus in Japan are underway. EM currencies (COP +0.4%, MXN +0.3%, CLP +1%, PLN +0.1%, TRY +0.6%) supported the oil price rebound (2.5%) which partially offset yesterday's sharp falls caused by US oil inventories.

Update 17.45 CET 14 July, 2016 Table 1



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