

Market Comment | Steady markets, while the ECB keeps the monetary policy unchanged

Global Financial Markets Unit
21 Jul 2016

- **European financial markets were broadly flat during the main part of the session**, waiting for the result of the ECB meeting. **Finally, as expected, the ECB decided to maintain its key interest rates unchanged**, waiting for more information on the Brexit impact before taking any additional actions. Nonetheless, the ECB left the door open to further action in September if needed. Mario Draghi said they may adjust the PSPP to address the bond scarcity problems using the flexibility provided by the current programme rules, but the board did not discuss changes in its quantitative programme (changes in the capital key of the APP).
- Mario Draghi also pointed out the problem of NPL of Italian banks, stating that the problem in the European banking sector is not one of solvency, but of profitability, suggesting that additional cuts in the depo rate are less likely. **Mr Draghi saw the need to address the problem and he backs the idea of a public backstop for banks under exceptional circumstances**, but he added it “should be agreed with the commission according to existing rules,” These remarks from the ECB president boosted European banking sector stocks (+0.7%), especially Italian banks (Unicredito, +2.1%). However, **stock prices remained flat across the board (Eurostoxx 50, +0.1%), including US equities (S&P500, -0.2%)**, where encouraging economic data in the form of better-than-expected jobless claims (253K, consensus 265K, previous 254K) and June’s existing home sales (5.57M, consensus 5.48M, previous 5.51M) did not have a marked effect on share prices.
- Against this backdrop, **fixed-income prices did not have significant movements in the across the board** in core 10Y Government bonds yields (USA, -1 bp; GER, -1 bp), and in the European periphery (Spain, -2 bps; Italy, +1 bps).
- On Turkey, Mr. Draghi said that the dramatic events are unlikely to have a significant impact on the euro zone recovery. **Turkish assets continued under pressure**, with the yield of the 10Y Government bond rising (+17 bps), the equity market falling (BIST100, -4.42%), however Turkey’s currency did not move significantly (+0.4%) after reaching a historical low yesterday (3.083), following the downgrade of the country’s sovereign rating by S&P (to BB with negative outlook from BB+).
- **The Japanese yen bucked its recent downward trend and appreciated today against the USD** (+0.85%), after BoJ’s Governor ruled out helicopter money but left the door open to changes in the quantity and quality of assets purchased, or going further into negative interest rates. Nonetheless, **prospects of fiscal stimulus in Japan firmed**, after government sources told the media that the fiscal package will have a figure of at least 20tr yen (\$186bn), close to 4% of the GDP, which is likely to be spread over several years. On the other hand, the USD dollar appreciated against the British pound (+0.06%) and the euro (+0.04%), while the EM currencies appreciated across the board against the USD (MXN +0.4%, CLP +0.1%, PLN +0.5%). Oil prices went down (-1.2%), as concerns about a global supply glut remain, with inventories at historically high levels for this time of the year, according to the EIA.

Update 17.45 CET 21 July, 2016
Table 1

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.