Market Comment | Banking sector and rebound in sovereign yields dragged equity markets

Global Financial Markets Unit 02 Aug 2016

BBVA Research

- Japan's fiscal stimulus package was officially approved, with a total amount of ¥28tn, although the current new government spending is ¥6.2tn of which ¥4.6tn (0.9% of GDP) will fall in the current fiscal year, expecting to boost the weak indicators of the Japanese economy. The yen appreciated significantly today (+1.51%) and the yield curve rose (10Y Jap +6 bps), indicating a sharp sell-off in Japanese bonds, fuelled by a shift in focus from monetary to fiscal stimulus.
- Banking sector and Japanese stimulus drove the markets. Equity markets declined today (Euro Stoxx50 -2%, S&P500 -0.7%, Dax -1.8%), led by the European banking sector due to mounting doubts about Italian banks (MDP, -16%; UniCredit, -7.5%), and weak earnings results from Commerzbank. Moreover, the news that both Deutsche Bank and Credit Suisse will leave the Stoxx Europe 50 on August 8 also contributed to the banking sector's poor performance. Unlike previous risk-off episodes, these falls in equity markets have not brought fresh flows into safe-haven bond markets. On the contrary, 10Y yields increased across the board, led by the Japanese 10Y yield, fuelled by a shift in focus from monetary to fiscal stimulus. The increase in the spread between average and marginal prices in the Japanese 10Y government auction suggested that investors might be seeing a bottom in Japanese yield. The increase in 10Y yields (+6 bps Japan, +7bps Germany and +2 bps US) also increased downward pressure on equity markets. On the other hand, the expected easing by the BoE this Thursday 97.8% market implied probability of an interest rate cut failed to provided support to financial markets today. Peripheral risk premiums inched down (ITA -3 bps, SPA -2 bps, POR -4 bps), as the rebound in the 10Y yield was higher in the German bond.
- The USD depreciated against its main peers (GBP +1.13%, JPY +1.51%, EUR +0.58%). Oil went down once again as oversupply concerns remain, with rising exports in Gulf countries, improved production in the US and doubts about demand, with EM currencies showed mixed performances (CLP +0.4%, COP -0.3%, MXN -0.3%, PLN +1.3%).

Update 17.45 CET 02 August, 2016 Table 1



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