

## Market Comment | Market's positive reaction to BoE's decision

Global Financial Markets Unit 04 Aug 2016

- In today's BoE meeting, the committee responded to Brexit with a wide-ranging stimulus package, including: (i) lower interest rate to 0.25% for first time since 2009 (unanimously), (ii) increasing the Asset Purchase Programme up to GBP 435bn (with 3 members against), (iii) launching corporate bond purchases up to 10bn (with only 1 member against). Additionally they included a new Term Funding Scheme to offset the hit to banks' margins from the cut and to facilitate the flow of credit to the real economy. This scheme would provide up to GBP 100bn to banks from central reserves. The committee also admitted that they had scope to do more if needed. (see)
- Even though the market had expected a timely response from the BoE to mitigate the Brexit damage (the
  market implied probability of a interest rate cut was close to 100% before the decision was announced),
  the whole package of measures approved was above expectations according to financial markets
  reaction: GBP dropped sharply against its main peers (EUR 1.36%, USD 1.44%), as did UK's 10Y
  Government bond, which reached an all-time low in today's session.
- Bond markets reacted strongly to the BoE decision with higher prices and consequently with a huge drop in sovereign yield curves across the board, led by British bonds (10Y UK -16bps, 10Y GER -6bps, 10Y FRA -6bps, 10Y ITA -7bps, 10Y US -5 bps). Tomorrow's release of employment data in the US could be a key to predicting the Fed's route after the new easing by the BoE. European corporate bonds also benefited, led by UK's corporates.
- Equity markets rose across the board (Euro Stoxx +0.6%, Dax +0.5%), led by the UK (FTSE 100 +1.6%). The banking sector outperformed (EMU +1.3%), continuing the rebound for a third day in a row, after the sell-off experienced on Monday, especially the British banks (HSBC +2.6%, Standard Chartered +5.16%), which warmly welcomed the new Term Funding Scheme. Meanwhile, **Brent oil rose** (Brent +0.6%, WTx +1.3%), with EM currencies appreciating (COP +0.9%, TRY +0.1%, MXN +0.1%, CLP +0%).

Update 17.45 CET 04 August, 2016 Table 1



## (Current level and changes at daily, w Debt markets (changes in bp) Eventpool flations US 2-ys 64 (-3) (0) (0) (-40) US 5-ys 103 (-5) (-6) (-7) US 70-ys 15 (-5) (-1) (2) (-7) Jupan 16-yr -0.08 (1) (9) (17) (-34) Japan 10-yr - 0.88 (1) (19) (17) (34) GER 2-yr - 4.6 (12) (10) (127) GER 5-yr - 4.6 (12) (10) (10) (10) GER 70-yr - 0.096 (16) (11) (17) Delgium 10-yr - 16, (16) (11) (11) (17) Delgium 10-yr - 16, (16) (11) (11) (16) Gerce - 16-yr - 3.7 (16) (16) (16) (16) Gerce - 16-yr - 3.7 (16) (16) (16) (16) Gerce - 16-yr - 3.7 (12) (20) (17) (17) Johnson 10-yr - 17 (16) (12) (16) Johnson 10-yr - 17 (16) (17) (17) Johnson 10-yr - 17 (16) (17) (17) Spain 10-yr - 1.52 (17) (17) (17) India 10-yr 7.17 (-2) (-2) (-22) (-59) Indonesia 10-yr 6.91 (1) (-6) (-47) (-184) 2-yr sovereign spreads (egainst Ger Belgum 9 (0) (\*1) (2) (5) Fance 7 (0) (4.1) (\*1) (4) Instand 20 (0) (1) (4) (6) Insty 54 (\*1) (3) (\*7) (22) Netherlands 3 (0) (\*1) (3) (5) Portugal (3) (3) (4) (4) (28) (5) Spain 44 (1) (.3) (.9) (5) Spain 44 (1) (2) (9) (9) Symmonsip (22) Symmonsip (22) Symmonsip (23) Symmonsip (24) Symm Efficient state-of-Syr convolute CDS Syr convolute CDS (45) (5) (4) (41) (10094) Syr cDS Augustian 410 (5) (4) (21) (210 Syr cDS Basel 251 (4) (4) (4) (4) Syr cDS Basel 251 (4) (5) (4) (4) (4) 5-yr CDS Poland87 (1) (0) (-8) (15) 5-yr CDS Russia 234 (-3) (-2) (7) (-67) 5-yr CDS Turkey 267 (3) (-5) (31) (-6) 5-yr CDS China 112 (1) (0) (-7) (4) 5-yr CDS India 153 (0) (1) (-16) (5) 5-yr CDS Indonesia 160 (-2) (-6) (-17) (-67) Syst CDD indexesses 188 (2.2) (4.7) (4.9) CPGRET 1588 Size Associates (Debugge or percentage except for DA Viol. 187 (2.3) (1.3) (1.9) (4.1) EM ETT violatility foliage (1.3) (1.9) (4.1) EM ETT violatility foliage (2.2) (2.1) (1.9) (4.2) EM ETT violatility foliage (2.2) (2.1) (1.9) (4.2) EM ETT violatility foliage (2.2) (2.1) (1.9) (4.2) EM ETT violatility foliage (2.2) (2.2) (1.9) (4.2) Confet speed (2.4) (2.3) (2.3) (4.2) Elevant violatility foliage (3.2) (2.2) (4.2) Elevant violatility foliage (3.2) Elevant violatility fo Large Spanish banks CDS 134 (-1) (-2) (-28) (-3) Medium Spanish banks CDS 163 (4) (5) (-23) (5) Greek banks CDS 1677 (-61) (-55) (-360) (-575) Rossian banks CDS 388 (5) (1) (-11) (-41) Corporate risk (changes in bps) EMU Nen financial CDS 197 (f) (1) (-10) (-65) UK Non-financial CDS 157 (0) (-1) (-10) (-35) US OIS spread 3m 37 (0) (2) (9) (14) US OIS spread 12m 99 (1) (5) (14) (43) US TED spread 3m 52 (1) (0) (11) (7) US 1ED spread 3m 4 (0) (0.5) (2) (-1) Spain Ted Spread 3m 4 (0) (0.5) (2) (-1) EONA index -0.33 (0) (0.3) (-1) (-21) Euriber 3m -0.3 (0) (0.2) (-1) (-11) Euriber 12m -0.05 (0) (0) (1) (-11) Libor 3m 0.78 (8) (2) (12) (16) Libor 12m 1.45 (8) (7) (22) (28) Gas Tata (4.0) (1.10) (11-10) RBS 112 1 (0.0) (1.2) (2.12) (2.0) RBS 112 1 (0.0) (2.2) (2.12) (30) RBS 112 1 (0.0) (2.2) (2.12) (30) RBS 112 1 (0.0) (2.12) (30) RBS 124 1 (0.0) (2.12) (30) RBS 124 1 (0.0) (2.12) (30) RBS 124 1 (0.0) (3.12) (30) RBS 124 1 (0.0) (3.12) (3.12) RBS 124 1 (0.0) (3.12) RBS 124 Large Spanish banks 57.1 (2.4) (-2.5) (2.2) (-24 Santander 3.6 (2.6) (-3.4) (6) (-21) 68VA 4.9 (2.3) (-1.5) (-0.7) (-27) Greek banks: 2.7 (3.8) (1.2) (5) (40) Alpha Bank1.8 (1.5) (5.4) (28.7) (30) Phress Bank1.9 (1.5) (4.4) (28.7) (30) National Central Bank0.2 (4.7) (1.1) (5.9) (48) Eurobank Erganises 4. 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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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