

Market Comment | Bond prices increase amid reassessment of Fed rate rise prospects

Global Financial Markets Unit
10 Aug 2016

- **Financial markets showed a tentative trade in today's session**, while the probability of Fed interest rate hikes fell from 28% to 20%, showing that investors are re-evaluating the expected return to policy tightening this year. Moreover, investors expect central banks' officials to keep the current monetary policy stance broadly unchanged at the Jackson Hole monetary policy symposium on 26 August. Moreover, the BoJ rolled out the end of the QE, despite the current doubts about its effectiveness. However it admitted the possibility of more flexibility, setting a flexible range of government bond purchases of 70t-90t yen per year, instead of the 80t current target.
- **The expectations of loose monetary policy contributed to fuel the ongoing downward trend in yields**. Government bond yields dropped across the board (10Y US -3 bps, 10Y UK -6 bps, 10Y GER -3 bps), including EM bond yields, especially those denominated in US dollars. Peripheral yields (SPA 0.95%, ITA 1.08%) reached new historical lows. Moreover, the UK yield also reached a low (0.52%), as real money investors (pension funds and insurance companies) were not very keen on selling their long-term bonds to the BoE. Nonetheless, UK yields eased falls at the end of the session, as today's BoE's bond buyback faced higher demand (4.7x vs 2.15x yesterday).
- **The USD dollar, dragged down by the decrease in the probability of a rate hike**, especially against the G10 currencies (the DXY falls 0.5%, the EURUSD 0.51%, USDJPY 0.62%). EM currencies also appreciated against the US dollar (MXN +0.3%, CLP +0.2%, TRY +0.3%, COP +0.7%, PLN +0.5%). The Mexican peso accumulated 2.7% appreciation since August 4th.
- **Equity markets slightly fell** (S&P500 -0.3%, EuroStoxx -0.3%, Nikkei -0.2%), although the lower risk-free rate improved valuation. Nonetheless, US equities remain close to all-time highs.
- **High volatility in the oil price** amid mixed data in US oil inventories: the higher-than-expected draw in gasoline inventories, combined with bigger-than-expected crude inventories, but at the end of the session oil prices dropped significantly (-1.6%), dragged also by signs of higher global supply. Other commodities such as precious metals and industrial metals increased as the US dollar depreciation had some revaluation effect on commodity prices (Gold, +0.4%).

Update 17.45 CET 10 August, 2016
Table 1

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

Debt markets (changes in bp)

Germany	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	
5yr	0.12 (1) (2) (3) (4)
10y	0.14 (1) (2) (3) (4)
20y	0.14 (1) (2) (3) (4)
30y	0.14 (1) (2) (3) (4)
Belgium	
10y	3.11 (4) (5) (6) (7)
France	3.14 (4) (5) (6) (7)
Greece	13.42 (5) (6) (7) (8)
Ireland	3.31 (4) (5) (6) (7)
Italy	3.88 (4) (5) (6) (7)
Netherlands	4.27 (3) (4) (5) (6)
Portugal	10.27 (5) (6) (7) (8)
Spain	3.14 (4) (5) (6) (7)
Finland	
10y	1.18 (3) (4) (5) (6)
China	4.38 (3) (4) (5)
Canada	1.59 (3) (4) (5) (6)
Mexico	3.87 (2) (3) (4) (5)
Poland	3.11 (4) (5) (6) (7)
Russia	8.44 (4) (5) (6) (7)
Turkey	10.28 (2) (3) (4) (5)
India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Country risk (changes in bp)

1st sovereign spread (against Germany)	
Belgium	22 (6) (7) (8) (9)
France	27 (6) (7) (8) (9)
Greece	104 (7) (8) (9) (10)
Ireland	41 (6) (7) (8) (9)
Italy	119 (7) (8) (9) (10)
Netherlands	121 (6) (7) (8) (9)
Portugal	106 (7) (8) (9) (10)
Spain	104 (7) (8) (9) (10)
2nd sovereign spread (against Germany)	
Belgium	4 (2) (3) (4) (5)
France	12 (2) (3) (4) (5)
Greece	100 (3) (4) (5) (6)
Ireland	10 (2) (3) (4) (5)
Italy	19 (3) (4) (5) (6)
Netherlands	12 (2) (3) (4) (5)
Portugal	23 (2) (3) (4) (5)
Spain	46 (3) (4) (5) (6)
3rd sovereign spread (against Germany)	
Belgium	10 (1) (2) (3) (4)
France	7 (0) (1) (2) (3)
Greece	100 (1) (2) (3) (4)
Ireland	10 (1) (2) (3) (4)
Italy	16 (1) (2) (3) (4)
Netherlands	12 (1) (2) (3) (4)
Portugal	10 (1) (2) (3) (4)
Spain	46 (2) (3) (4) (5)
4th sovereign spread (against Germany)	
Belgium	14 (1) (2) (3) (4)
France	14 (1) (2) (3) (4)
Greece	100 (1) (2) (3) (4)
Ireland	14 (1) (2) (3) (4)
Italy	19 (1) (2) (3) (4)
Netherlands	14 (1) (2) (3) (4)
Portugal	14 (1) (2) (3) (4)
Spain	46 (1) (2) (3) (4)

Emerging Markets

1st sovereign spread (against Germany)	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	0.12 (1) (2) (3) (4)
Belgium	3.11 (4) (5) (6) (7)
France	3.14 (4) (5) (6) (7)
Greece	13.42 (5) (6) (7) (8)
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India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Credit risk

1st sovereign spread (against Germany)	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	0.12 (1) (2) (3) (4)
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India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Interbank markets (changes in bp)

1st sovereign spread (against Germany)	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	0.12 (1) (2) (3) (4)
Belgium	3.11 (4) (5) (6) (7)
France	3.14 (4) (5) (6) (7)
Greece	13.42 (5) (6) (7) (8)
Ireland	3.31 (4) (5) (6) (7)
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Turkey	10.28 (2) (3) (4) (5)
India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Stock markets (Changes in percentage)

1st sovereign spread (against Germany)	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	0.12 (1) (2) (3) (4)
Belgium	3.11 (4) (5) (6) (7)
France	3.14 (4) (5) (6) (7)
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Russia	8.44 (4) (5) (6) (7)
Turkey	10.28 (2) (3) (4) (5)
India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Currencies (in percentage, positive for dollar depreciation)

1st sovereign spread (against Germany)	
US 3m	4.89 (2) (3) (4) (5)
US 5yr	1.68 (3) (4) (5)
US 10y	1.52 (3) (4) (5) (6)
Japan	0.12 (1) (2) (3) (4)
Belgium	3.11 (4) (5) (6) (7)
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Turkey	10.28 (2) (3) (4) (5)
India	7.12 (2) (3) (4) (5)
Indonesia	6.79 (2) (3) (4) (5)

Source: Bloomberg, Bloomberg Intelligence

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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