

Market Comment | Quiet markets ahead of Jackson Hole symposium

Global Financial Markets Unit
22 Aug 2016

- No significant movements were shown in financial markets ahead of **an important week for monetary policy**, with special focus on the Fed's stance, as the Jackson Hole symposium ("Designing Resilient Monetary Policy Frameworks for the Future") will begin this Thursday. Last week, Fed officials' early hawkish comments pushed up expectations of an interest rate hike this year, but lately more dovish FOMC's minutes lowered expectations. However, today the odds of a rate hike this year strengthened again as the Fed's Fischer said that U.S. economy was close to hitting the central bank's targets. Amid this reassessment of expectations, financial markets will focus on **Yellen's Jackson Hole speech this Friday**, which could be used as an opportunity to dispel doubts and signal a more or less aggressive policy stance from the Fed.
- **Equity markets slightly dropped across the board** (S&P500 -0.2%, Euro Stoxx50 -0.4%, Dax -0.5%), dragged down by the oil price slump today. US equities hovered around historical high levels, supported by historical high dividends and low interest rates.
- Bond markets showed **lower government bond yields across the board** (10YUS -4 bps, 10YGER -6 bps), with the **exception of Portugal** (10Y POR +2 bps), while Fitch Ratings kept its sovereign rating on Portugal unchanged at BB+, after the warning of DBRS on Portugal sovereign debt last week. On the other hand, **Fitch maintained Turkey's BBB- investment grade rating**, but cut its outlook to negative from stable.
- The USD remained mainly stable against its main peers (EUR -0.09%, JPY -0.07%). The possibility that the **UK could trigger Article 50 by April** (according to some media) added further pressure on the GBP (+0.42% vs USD). Meanwhile, **oil prices fell significantly** (-2.9%), thereby halting the recent recovery. Signs of oil production recovery in US - as the oil rig count rose by 10 to 406 - along with soaring exports of refined product from China weighed on oil prices.
- On the economic side, **Mexico's GDP contracted** by 0.2% QoQ in 2Q16 (slightly above consensus forecast, -0.3% consensus forecast), thus registering a sharp deceleration in the YoY rate to 1.5% from 2.5% in 1Q16. According to INEGI estimates, activity contracted for both primary and secondary sector activity (by 0.3% and 1.5%, respectively), meanwhile the tertiary sector registered positive growth (+0.1%).

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Table 1

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

Debt markets (changes in bp)

US 2yr 4.14 (1.01) (21)
 US 5yr 1.64 (0.04) (42)
 US 10yr 1.84 (4.21) (22) (78)

Japan 5yr 0.83 (0.03) (16) (33)
 GER 5yr 0.62 (1.11) (1) (26)
 GER 5yr 0.52 (3.03) (3) (48)
 GER 5yr 0.68 (6.52) (1) (72)

Belgium 10yr 0.12 (6.13) (1) (81)
 France 5yr 0.54 (0.01) (11) (85)
 Greece 15yr 0.84 (1.19) (0) (24)
 Ireland 5yr 0.42 (0.01) (9)

Italy 5yr 1.11 (3.03) (1) (54) (48)
 Indonesia 5yr 0.55 (0.15) (1) (17)
 Portugal 10yr 0.22 (0.17) (1) (31)
 Spain 5yr 0.54 (2.02) (1) (52)

Finland 1yr 1.82 (7)
 China 10yr 4.38 (0.01) (1) (28)
 Canada 5yr 2.28 (1.15) (1) (130)
 Mexico 5yr 3.85 (2.01) (1) (42)
 New Zealand 1yr 0.05 (0.01) (28)

Poland 10yr 2.88 (1.01) (2) (28)
 Russia 5yr 0.33 (0.11) (1) (24)
 Russia 10yr 0.13 (0.11) (2) (142)
 Turkey 5yr 1.64 (2.02) (1) (8) (48)

India 10yr 7.46 (0.01) (1) (40)
 Indonesia 10yr 6.59 (1.16) (1) (8) (180)

Country risk (changes in bp)

1yr sovereign spreads (against Germany)
 Belgium 21 (0) (1) (1) (1)
 France 21 (0) (1) (1) (1)
 Greece 81 (0) (1) (2) (48)
 Ireland 81 (0) (1) (2) (1)

Italy 10 (0) (1) (2) (1)
 Netherlands 11 (0) (1) (1) (1)
 Portugal 11 (0) (1) (1) (1)
 Spain 10 (0) (1) (1) (1)

5yr sovereign spreads (against Germany)
 Belgium 6 (0) (1) (1) (1)
 France 11 (0) (1) (1) (1)
 Greece 18 (0) (1) (2) (48)
 Ireland 18 (0) (1) (2) (1)

Italy 15 (1) (1) (2) (1)
 Netherlands 15 (1) (1) (2) (1)
 Portugal 24 (1) (1) (2) (1)
 Spain 15 (1) (1) (2) (1)

2yr sovereign spreads (against Germany)
 Belgium 11 (0) (1) (1) (1)
 France 6 (1) (1) (1) (1)
 Ireland 5 (1) (1) (1) (1)
 Italy 5 (1) (1) (1) (1)
 Netherlands 6 (1) (1) (1) (1)
 Portugal 10 (1) (1) (1) (1)
 Spain 6 (1) (1) (1) (1)

1yr sovereign CDS
 Sfr CDS Belgium 36 (0) (0) (1) (1)
 Sfr CDS France 29 (0) (0) (1) (1)
 Sfr CDS Germany 17 (0) (0) (1) (1)
 Sfr CDS Greece 502 (246) (21) (171)
 Sfr CDS Ireland 81 (2) (0) (0) (1)

Sfr CDS Italy 103 (2) (0) (1)
 Sfr CDS Netherlands 20 (0) (1) (1) (1)
 Sfr CDS Portugal 34 (0) (1) (1) (1)
 Sfr CDS Spain 81 (2) (1) (1) (1)
 Sfr CDS UK 103 (0) (1) (1) (1)
 Sfr CDS US 27 (0) (1) (1) (1)

Emerging Markets

Sfr CDS Argentina 288 (7) (4) (0) (1920)
 Sfr CDS Brazil 354 (4) (4) (3) (1)
 Sfr CDS China 70 (1) (2) (1) (17)
 Sfr CDS Colombia 161 (1) (1) (1) (1)
 Sfr CDS Mexico 102 (1) (1) (1) (1)
 Sfr CDS Peru 102 (1) (1) (1) (1)
 Sfr CDS Venezuela 207 (2) (1) (1) (1830)

Sfr CDS Russia 114 (4) (1) (1)
 Sfr CDS Russia 220 (1) (1) (1) (1)
 Sfr CDS Turkey 246 (1) (1) (1) (1)
 Sfr CDS China 102 (1) (1) (1) (1)
 Sfr CDS India 101 (1) (1) (1) (1)
 Sfr CDS Indonesia 104 (2) (1) (1) (1) (1)

Credit risk

10yr CDS spreads (changes in percentage points for BAA issuers, bp)
 VIG 12 (1) (1) (1) (1)
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 EM FT 12 12 (1) (1) (1) (1)
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Bank risk (changes in bp)

US banks CDS 14 (1) (1) (1) (1)
 EM banks CDS 115 (0) (1) (1) (1)
 UK banks CDS 34 (0) (1) (1) (1)
 Large Spanish banks CDS 24 (0) (1) (1) (1)
 Medium Spanish banks CDS 15 (0) (1) (1) (1)
 Greek banks CDS 115 (0) (1) (1) (1)
 Russian banks CDS 115 (0) (1) (1) (1)

Corporate risk (changes in bp)

EMR Non-financial CDS 8 (0) (1) (1) (1) (1)
 UK Non-financial CDS 6 (0) (1) (1) (1) (1)

Interbank markets (changes in bp)

LIBOR 3m spread 2m 10 (0) (1) (1)
 LIBOR 6m spread 2m 30 (0) (1) (1)
 LIBOR 12m spread 2m 40 (0) (1) (1) (1)

US 05b spread 3m 38 (1) (1) (1) (1)
 US 05b spread 6m 39 (0) (1) (1) (1)
 US 05b spread 9m 40 (0) (1) (1) (1)
 US 05b spread 12m 41 (0) (1) (1) (1)

Spain Td Spread 3m 3 (0) (1) (1) (1)
 ERM bank 14 (0) (1) (1) (1) (1)
 ERM bank 41 (0) (1) (1) (1) (1)
 ERM bank 48 (0) (1) (1) (1) (1)

Stock markets (Changes in percentage)

Major world indices

S&P500 2716 (4) (1) (1) (1) (1)
 Dow Jones 1066 (1) (1) (1) (1) (1)
 Nikkei 1006 (2) (1) (1) (1) (1) (1)
 FTSE 100 985 (1) (1) (1) (1) (1) (1)
 Eurostoxx 2457 (1) (1) (1) (1) (1) (1)
 HSI 481 (1) (1) (1) (1) (1) (1)
 Dow 1066 (1) (1) (1) (1) (1) (1)
 Nikkei 1006 (1) (1) (1) (1) (1) (1)
 AEX 1006 (1) (1) (1) (1) (1) (1)

Bank stocks

JPB 64 (1) (1) (1) (1) (1)
 Cit 41 (1) (1) (1) (1) (1)
 BNP 112 (1) (1) (1) (1) (1)
 MS 38 (1) (1) (1) (1) (1) (1)
 CIB 102 (1) (1) (1) (1) (1) (1)

EM bank stocks

HSBC 139 (1) (1) (1) (1) (1) (1)
 RBS 187 (0) (1) (1) (1) (1) (1)
 Citibank 103 (1) (1) (1) (1) (1) (1)
 Lloyds 25 (0) (1) (1) (1) (1) (1)
 Citibank 103 (1) (1) (1) (1) (1) (1)
 BNP 112 (1) (1) (1) (1) (1) (1)
 Citibank 103 (1) (1) (1) (1) (1) (1)
 Deutsche Bank 10 (1) (1) (1) (1) (1) (1)
 ING 10 (1) (1) (1) (1) (1) (1)
 Intesa 10 (1) (1) (1) (1) (1) (1)
 SO 10 (1) (1) (1) (1) (1) (1)
 Unibank 2 (1) (1) (1) (1) (1) (1)
 Large Spanish banks 48 (0) (1) (1) (1) (1) (1)
 Santander 3 (1) (1) (1) (1) (1) (1)
 Citibank 1 (1) (1) (1) (1) (1) (1)

Medium Spanish banks

Caixa 2 (1) (1) (1) (1) (1) (1)
 Pegasus 1 (1) (1) (1) (1) (1) (1)
 Sabadell 2 (1) (1) (1) (1) (1) (1)
 Bankia 2 (1) (1) (1) (1) (1) (1)
 Bankia 2 (1) (1) (1) (1) (1) (1)

Greek banks

Alpha Bank 2 (1) (1) (1) (1) (1) (1)
 Attica 1 (1) (1) (1) (1) (1) (1)
 Piraeus 1 (1) (1) (1) (1) (1) (1)
 National Central Bank 1 (1) (1) (1) (1) (1) (1)
 Eurobank Ergasias 4 (1) (1) (1) (1) (1) (1)

Asian stocks

NIFTY 7149 (1) (1) (1) (1) (1) (1)
 Bombay 1000 (1) (1) (1) (1) (1) (1)
 Nikkei 1006 (1) (1) (1) (1) (1) (1)
 MSCI EM Europe 462 (1) (1) (1) (1) (1) (1)
 Poland 100 (1) (1) (1) (1) (1) (1)
 Moscow 100 (1) (1) (1) (1) (1) (1)
 Nikkei 1006 (1) (1) (1) (1) (1) (1)
 Nikkei 1006 (1) (1) (1) (1) (1) (1)
 Nikkei 1006 (1) (1) (1) (1) (1) (1)

Bank stocks

Turkish bank 81 (0) (1) (1) (1) (1) (1)
 Allianz 1 (1) (1) (1) (1) (1) (1)
 Allianz 1 (1) (1) (1) (1) (1) (1)
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Currencies (in percentage, positive for dollar depreciation)

EURUSD 1.03 (1) (1) (1) (1) (1) (1)
 GBPUSD 1.39 (0) (1) (1) (1) (1) (1)
 USDJPY 102 (0) (1) (1) (1) (1) (1)
 CHF 0.84 (1) (1) (1) (1) (1) (1)

Commodities (change in percentage)

Oil 39 (1) (1) (1) (1) (1) (1)
 Copper 214 (1) (1) (1) (1) (1) (1)
 Gold 128 (1) (1) (1) (1) (1) (1)
 Bank 100 (1) (1) (1) (1) (1) (1)
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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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