

Market Comment | The delay in FOMC rate hike expectations supports markets

Global Financial Markets Unit
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- Investors continued **reassessing the path of the Fed's interest rate increase**, after yesterday's disappointing US service sector activity data, despite the hawkish comments made yesterday by the Fed's Williams ("An increase is on the table", he said). The probability of an interest rate hike fell once again (from 24% to 22% for September), providing some support to risk assets and emerging USD-denominated sovereign bonds. Gold prices also rose significantly as markets quelled expectations of an early Fed rate hike (1.24% since yesterday).
- **European equities markets climbed** (Eurostoxx50 +0.7%, Dax +0.6%), shored up by lower US interest rate expectations and yesterday's rise in US equities. Meanwhile, US equities remained flat (S&P500 -0.2%), hovering around historical high levels.
- In this environment, **sovereign bond yields mainly inched down** (10YGER -1 bps, 10YFRA -1 bps), dragged down by the fact that the interest rate hike prospect cooled once again, and ahead of tomorrow's ECB meeting. The markets are focused on whether the ECB will extend the current purchase programme - which is more likely due to lower inflation expectations (5Y5Y inflation swap: 1.28%) - and fine tuning changes are also on the table. On the other hand, EM's sovereign bonds, denominated in USD showed significant drops in yields (10YMexico -4 bps, 10YBrazil -7 bps, 10YColombia -9 bps), although local currency EM bonds remained stable.
- Against this backdrop, steady USD (DXY, -0.2%) and EUR (Euro Index, -0.12%), while the GBP (-0.8%) depreciated, halting the recent upward trend, having shown Brexit resilience. The BoE's Governor Mark Carney said he was "absolutely serene" about the way the central bank prepared for a possible Brexit hit to Britain's economy. On the other hand, oil prices inched rose (+1.3%) as focus shifted to US supply data, to be published tomorrow. In this environment, EM currencies showed mixed performance (TRY -0.6%, COP +0.9%, MXN -0.5%, PLN +0.1%, CLP +0.2%).

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Table 1

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

Debt markets (changes in bp)

US 2yr	4.17 (0.4) (1) (1)
US 3yr	1.12 (0.1) (3) (4)
US 5yr	1.81 (0.1) (1) (1)
Japan 10yr	1.41 (0.2) (1) (1)
GER 3yr	0.47 (0.4) (4) (3)
GER 5yr	0.51 (0.4) (4) (3)
GER 10yr	0.11 (0.1) (1) (1)
Belgium 10yr	3.11 (0.4) (4) (7)
France 10yr	1.11 (0.1) (1) (1)
Greece 10yr	4.22 (0.1) (1) (1)
Ireland 10yr	0.51 (0.4) (4) (3)
Italy 10yr	1.81 (0.1) (1) (1)
Netherlands 10yr	4.01 (0.1) (1) (1)
Portugal 10yr	2.18 (0.1) (1) (1)
Spain 10yr	1.51 (0.1) (1) (1)
Finland 10yr	1.11 (0.1) (1) (1)
China 10yr	4.38 (0.1) (1) (1)
Canada 10yr	2.22 (0.1) (1) (1)
Mexico 10yr	3.76 (0.1) (1) (1)
India 10yr	7.96 (0.1) (1) (1)
Brazil 10yr	8.24 (0.1) (1) (1)
Russia 10yr	8.11 (0.1) (1) (1)
Taiwan 10yr	5.11 (0.1) (1) (1)
India 10yr	7.96 (0.1) (1) (1)
Indonesia 10yr	6.88 (0.1) (1) (1)

Country risk (changes in bp)

Belgium	22 (1) (2) (1) (2)
France	20 (0) (1) (1)
Greece	43 (1) (1) (1) (1)
Ireland	40 (1) (1) (1)
Italy	10 (0) (1) (1)
Netherlands	11 (0) (1) (1)
Portugal	19 (1) (1) (1) (1)
Spain	10 (1) (1) (1) (1)

3 yr overnight overnight (changes in bp)

Belgium	4.01 (1) (1) (1)
France	1.20 (0) (1) (1)
Greece	1.11 (1) (1) (1)
Spain	1.11 (1) (1) (1)
Italy	1.11 (1) (1) (1)
Netherlands	2.11 (1) (1) (1)
Portugal	2.11 (1) (1) (1)
Spain	1.11 (1) (1) (1)

2 yr overnight overnight (changes in bp)

Belgium	1.11 (1) (1) (1)
France	1.11 (1) (1) (1)
Spain	1.11 (1) (1) (1)
Italy	1.11 (1) (1) (1)
Netherlands	1.11 (1) (1) (1)
Portugal	1.11 (1) (1) (1)
Spain	1.11 (1) (1) (1)

3 yr overnight 30 day (changes in bp)

Spr CDS Belgium	33 (1) (1) (1) (1)
Spr CDS France	28 (0) (1) (1) (1)
Spr CDS Germany	14 (0) (1) (1) (1)
Spr CDS Greece	112 (1) (1) (1) (1)
Spr CDS Ireland	37 (1) (1) (1) (1)
Spr CDS Italy	142 (1) (1) (1) (1)
Spr CDS Netherlands	24 (0) (1) (1) (1)
Spr CDS Portugal	11 (0) (1) (1) (1)
Spr CDS Spain	15 (0) (1) (1) (1)
Spr CDS US	26 (0) (1) (1) (1)

Emerging Markets

Spr CDS Argentina	365 (0) (1) (1) (1)
Spr CDS Brazil	243 (0) (1) (1) (1)
Spr CDS China	73 (1) (1) (1) (1)
Spr CDS Colombia	141 (0) (1) (1) (1)
Spr CDS Mexico	123 (0) (1) (1) (1)
Spr CDS Peru	111 (0) (1) (1) (1)
Spr CDS Venezuela	221 (0) (1) (1) (1)
Spr CDS Russia	114 (0) (1) (1) (1)
Spr CDS Taiwan	208 (1) (1) (1) (1)
Spr CDS Korea	215 (0) (1) (1) (1)
Spr CDS India	95 (0) (1) (1) (1)
Spr CDS India	125 (0) (1) (1) (1)
Spr CDS Indonesia	128 (0) (1) (1) (1)

Credit risk

VIX	12.11 (1) (1) (1) (1)
VIX30	18.21 (1) (1) (1) (1)
EDF	11.11 (1) (1) (1) (1)
EDF30	11.11 (1) (1) (1) (1)
EDF7	11.11 (1) (1) (1) (1)
EDF30	11.11 (1) (1) (1) (1)
EDF7	11.11 (1) (1) (1) (1)
EDF30	11.11 (1) (1) (1) (1)

Bank risk (changes in bp)

US banks CDS	71 (0) (1) (1) (1)
EMU banks CDS	101 (0) (1) (1) (1)
UK banks CDS	83 (0) (1) (1) (1)
Large Spanish bank CDS	111 (0) (1) (1) (1)
Medium Spanish bank CDS	147 (1) (1) (1) (1)
Greek bank CDS	177 (1) (1) (1) (1)
Russian bank CDS	101 (0) (1) (1) (1)

Corporate risk (changes in bp)

EMU Non-financial CDS	181 (1) (1) (1) (1)
UK Non-financial CDS	143 (0) (1) (1) (1)

Interbank markets (changes in bp)

LIBOR 6M spread 3m	11 (0) (1) (1) (1)
LIBOR 6M spread 6m	11 (0) (1) (1) (1)
LIBOR 6M spread 12m	11 (0) (1) (1) (1)
US OIS spread 3m	41 (0) (1) (1) (1)
US OIS spread 6m	101 (0) (1) (1) (1)
US TED spread 3m	11 (0) (1) (1) (1)
Spain 1M spread 3m	8 (0) (1) (1) (1)
EDM spread 3m	11 (0) (1) (1) (1)
EDM spread 6m	11 (0) (1) (1) (1)
EDM spread 12m	11 (0) (1) (1) (1)

Stock markets (Changes in percentage)

Main equity indices

S&P500	2112 (1) (1) (1) (1)
DAX	11111 (1) (1) (1) (1)
Nikkei	11111 (1) (1) (1) (1)
FTSE 100	11111 (1) (1) (1) (1)
Euro Stoxx 50	11111 (1) (1) (1) (1)
HK Hang Seng	11111 (1) (1) (1) (1)
CSI 300	11111 (1) (1) (1) (1)
ASX All Ordinaries	11111 (1) (1) (1) (1)

Bank stocks

JP Morgan	111 (1) (1) (1) (1)
Wells Fargo	111 (1) (1) (1) (1)
Bank of America	111 (1) (1) (1) (1)
Citigroup	111 (1) (1) (1) (1)
HSBC	111 (1) (1) (1) (1)
Barclays	111 (1) (1) (1) (1)
Deutsche Bank	111 (1) (1) (1) (1)
BNP Paribas	111 (1) (1) (1) (1)
Crédit Agricole	111 (1) (1) (1) (1)
CaixaBank	111 (1) (1) (1) (1)
Santander	111 (1) (1) (1) (1)
Industria	111 (1) (1) (1) (1)
Bankia	111 (1) (1) (1) (1)
Bank of Spain	111 (1) (1) (1) (1)
Bank of Greece	111 (1) (1) (1) (1)
Bank of Russia	111 (1) (1) (1) (1)
Bank of China	111 (1) (1) (1) (1)

Other stocks

Apple	111 (1) (1) (1) (1)
Microsoft	111 (1) (1) (1) (1)
Amazon	111 (1) (1) (1) (1)
Google	111 (1) (1) (1) (1)
Facebook	111 (1) (1) (1) (1)
Twitter	111 (1) (1) (1) (1)
LinkedIn	111 (1) (1) (1) (1)
Slack	111 (1) (1) (1) (1)
Dropbox	111 (1) (1) (1) (1)
Zoom	111 (1) (1) (1) (1)
Twilio	111 (1) (1) (1) (1)
Paycom Software	111 (1) (1) (1) (1)
Workday	111 (1) (1) (1) (1)
Salesforce	111 (1) (1) (1) (1)
Oracle	111 (1) (1) (1) (1)
IBM	111 (1) (1) (1) (1)
Microsoft	111 (1) (1) (1) (1)
Apple	111 (1) (1) (1) (1)
Amazon	111 (1) (1) (1) (1)
Google	111 (1) (1) (1) (1)
Facebook	111 (1) (1) (1) (1)
Twitter	111 (1) (1) (1) (1)
LinkedIn	111 (1) (1) (1) (1)
Slack	111 (1) (1) (1) (1)
Dropbox	111 (1) (1) (1) (1)
Zoom	111 (1) (1) (1) (1)
Twilio	111 (1) (1) (1) (1)
Paycom Software	111 (1) (1) (1) (1)
Workday	111 (1) (1) (1) (1)
Salesforce	111 (1) (1) (1) (1)
Oracle	111 (1) (1) (1) (1)
IBM	111 (1) (1) (1) (1)

Currencies (in percentage, positive for dollar depreciation)

EUR/USD	1.11 (1) (1) (1) (1)
GBP/USD	1.11 (1) (1) (1) (1)
USD/JPY	1.11 (1) (1) (1) (1)
USD/CHF	1.11 (1) (1) (1) (1)
USD/CAD	1.11 (1) (1) (1) (1)

Commodities (change in percentage)

Oil	1.11 (1) (1) (1) (1)
Gold	1.11 (1) (1) (1) (1)
Copper	1.11 (1) (1) (1) (1)
Iron	1.11 (1) (1) (1) (1)
Wheat	1.11 (1) (1) (1) (1)
Soybean	1.11 (1) (1) (1) (1)
Corn	1.11 (1) (1) (1) (1)
Rice	1.11 (1) (1) (1) (1)
Sugar	1.11 (1) (1) (1) (1)
Cocoa	1.11 (1) (1) (1) (1)
Aluminum	1.11 (1) (1) (1) (1)
Zinc	1.11 (1) (1) (1) (1)
Nickel	1.11 (1) (1) (1) (1)
Palladium	1.11 (1) (1) (1) (1)
Platinum	1.11 (1) (1) (1) (1)
Silver	1.11 (1) (1) (1) (1)
Lead	1.11 (1) (1) (1) (1)
Mercury	1.11 (1) (1) (1) (1)
Uranium	1.11 (1) (1) (1) (1)
Antimony	1.11 (1) (1) (1) (1)
Arsenic	1.11 (1) (1) (1) (1)
Bismuth	1.11 (1) (1) (1) (1)
Chromium	1.11 (1) (1) (1) (1)
Cobalt	1.11 (1) (1) (1) (1)
Indium	1.11 (1) (1) (1) (1)
Iron	1.11 (1) (1) (1) (1)
Lithium	1.11 (1) (1) (1) (1)
Magnesium	1.11 (1) (1) (1) (1)
Manganese	1.11 (1) (1) (1) (1)
Molybdenum	1.11 (1) (1) (1) (1)
Niobium	1.11 (1) (1) (1) (1)
Vanadium	1.11 (1) (1) (1) (1)
Zirconium	1.11 (1) (1) (1) (1)

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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