Market Comment | Calm markets after a high-volatility context at the beginning of the week

Global Financial Markets Unit
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- **Calm in financial markets after an early part of the week characterised by increasing volatility** (VIX drew close to June's level, at 17%) on the back of, among other things, **doubts regarding upcoming monetary policy decisions** and fears about a reversal of the bond markets. The sparse significant economic data released during the last few days contributed to focus all the market's attention on central banks, especially on the Fed's stance which, coupled with last Thursday's ECB meeting, has been leading bond markets' movements in recent sessions. Although Monday's dovish discourse by the Fed's Brainard had a limited impact on markets (it lowers the probability of an interest rate hike in September, but did not lead to any falls in yields), today financial markets moved in accordance with an assumed slight delay in the next rate hike by the Fed.

- In this regard, the implied probability for September went down to 20% from 22%, while for December it was down to 53% from 57%, with rising US stocks and lowering government yields. **The US curve dropped** (2Y -4 bps, 10Y -4 bps) **while European bonds went down across the board** (10YITA -3 bps, 10YSPA -3 bps, 10YGER -5 bps), thereby halting the recent surge in bond yields since the ECB's inaction during its last meeting. The recent mild increase in sovereign slopes, which benefited the financial sector, remained, as all tenors dropped at a similar pace as well as the peripheral risk premium, which inched up marginally.

- The equity markets momentarily halted their recent poor performance across the board. **The US indices were little changed**, with some gains in US (+0.3%) as well as the European indices (Euro Stoxx50 -0.2%, Dax +0.1%).

- The **stability of the USD** against its main peers remained (EUR +0.37%, JPY +0.13%, GBP +0.02%) while emerging currencies showed a mixed performance (TRY +0.2%, CLP +0.5%, MXN -0.8%, COP +0.9%, PLN +0.8%). The recent negative trend in oil prices, which drove the WTX to US$43.97 a barrel and Brent to US$46.22 a barrel continued (-2.1% and -1.9% respectively) despite the positive stockpile data. Against the expectations of an increase in US oil inventories, they dropped, but with no significant effect on prices. (-0.559M, consensus 3.800M, prior -14.513M).

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Table 1

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

Debt markets *(changes in bp)*
Developed Markets
US 2-yr 0.76 (-4) (2) (3) (-29)
US 5-yr 1.2 (-5) (7) (6) (-56)
US 10-yr 1.69 (-4) (15) (13) (-58)

Japan 10-yr -0.02 (-1) (3) (6) (-29)

GER 2-yr -0.65 (-2) (2) (-3) (-30)
GER 5-yr -0.49 (-3) (7) (3) (-45)
GER 10-yr 0.024 (-5) (14) (10) (-61)

Belgium 10-yr 0.25 (-5) (15) (11) (-72)
France 10-yr 0.32 (-5) (16) (18) (-67)
Greece 10-yr 8.47 (8) (23) (33) (18)
Ireland 10-yr 0.49 (-5) (13) (13)
Italy 10-yr 1.29 (-3) (21) (23) (-30)
Netherlands 10-yr 0.12 (-5) (13) (9) (-67)
Portugal 10-yr 3.27 (-3) (29) (58) (75)
Spain 10-yr 1.07 (-3) (14) (13) (-70)

Emerging Markets
Brazil 10-yr 12.4 (-6) (41) (60) (-411)
Chile 10-yr 4.26 (1) (-11) (-11) (-40)
Colombia 10-yr 7.25 (3) (26) (-27) (-141)
Mexico 10-yr 6.02 (3) (24) (20) (-24)
Peru 10-yr 5.65 (0) (0) (-6) (-166)

Poland 10-yr 2.9 (-1) (14) (28) (-4)
Russia 5-yr 8.25 (2) (6) (-31) (-163)
Russia 10-yr 8.06 (3) (6) (-23) (-149)
Turkey 10-yr 9.53 (0) (22) (11) (-94)

India 10-yr 6.87 (3) (-18) (-23) (-89)
Indonesia 10-yr 7.09 (10) (21) (28) (-165)

Country risk *(changes in bp)*
Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 23 (0) (1) (1) (-11)
France 30 (0) (1) (8) (-6)
Greece 844 (13) (9) (23) (79)
Ireland 47 (0) (-2) (3) (-4)
Italy 127 (2) (7) (14) (30)
Netherlands 10 (0) (-0.9) (-1) (-7)
Portugal 324 (2) (14.8) (48) (136)
Spain 105 (2) (0) (4) (-10)

5-yr sovereign spreads *(against Germany)*
Belgium 7 (-1) (1.1) (2) (0)
France 13 (-1) (1) (1) (0)
Greece 1652 (3) (-7) (-3) (45)
Ireland 50 (3) (-7) (-3) (24)
Italy 82 (1) (5) (9) (27)
Netherlands 9 (-1) (0.9) (1) (9)
Portugal 241 (0) (7) (33) (130)
Spain 57 (1) (1) (4) (-5)

2-yr sovereign spreads *(against Germany)*
Belgium 11 (2) (-1) (1) (7)
France 5 (-1) (0.1) (-1) (1)
Ireland 28 (-1) (0) (5) (14)
Italy 59 (1) (5) (7) (28)
Netherlands 5 (0) (0) (1) (8)
Portugal 109 (0) (-4) (10) (64)
Spain 49 (-2) (0) (5) (14)

5-yr sovereign CDS
5-yr CDS Belgium 34 (0) (0) (-3) (2)
5-yr CDS France 28 (0) (0) (-2) (3)
5-yr CDS Germany 16 (0) (-1) (-1) (3)
5-yr CDS Greece 1049 (20) (51) (33) (-9)
5-yr CDS Ireland 58 (0) (0) (-9) (18)
5-yr CDS Italy 134 (1) (1) (-1) (39)
5-yr CDS Netherlands 25 (0) (0) (-1) (10)
5-yr CDS Portugal 298 (5) (8) (20) (130)
5-yr CDS Spain 76 (0) (1) (-5) (-12)
5-yr CDS UK 33 (0) (0) (0) (13)
5-yr CDS US 26 (0) (0) (-6) (8)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 395 (22) (31) (23) (-10901)
5-yr CDS Brazil 268 (19) (21) (14) (-224)
5-yr CDS Chile 84 (9) (11) (16) (-42)
5-yr CDS Colombia 168 (10) (7) (-5) (-71)
5-yr CDS Mexico 147 (12) (15) (11) (-23)
5-yr CDS Peru 108 (8) (9) (5) (-77)
5-yr CDS Venezuela 4115 (-256) (-167) (-324) (-1929)

5-yr CDS Poland71 (0) (0) (-5) (-1)
5-yr CDS Russia 207 (2) (3) (-21) (-95)
5-yr CDS Turkey 247 (3) (10) (6) (-26)

5-yr CDS China 103 (4) (7) (-1) (-6)
5-yr CDS India 131 (1) (2) (-16) (-18)
5-yr CDS Indonesia 146 (6) (8) (4) (-80)

Credit risk
Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 17.08 (-4.3) (43) (44.6) (-1)
VSTOXX 22.21 (-2.5) (19.6) (17.9) (0)
EM EFT volatility Index 26 (-3) (31) (38) (12)
Dollar/euro volatility 7.3 (2) (0.5) (6.9) (-24)
EM FX volatility index 11 (0) (11) (6) (-7)
Credit spread (BAA) 274.3 (4) (9.2) (1) (-49)
US bonds volatility index 71 (0) (10) (11) (4)

Bank risk *(changes in bp)*
US banks CDS 76 (2) (3) (-1) (1)
EMU banks CDS 110 (-1) (5) (1) (26)
UK banks CDS 89 (0) (6) (-5) (11)

Large Spanish banks CDS 120 (0) (9) (1) (-17)
Medium Spanish banks CDS 155 (2) (8) (0) (-3)

Greek banks CDS 739 (-16) (-126) (-153) (-913)
Russian banks CDS 328 (-1) (-6) (5) (-54)

Interbank markets *(changes in bp)*
UEM OIS spread 3m 0 (0) (0) (-6) (-11)
UEM OIS spread 12m 33 (1) (-2) (-2) (0)
UEM TED spread 3m 44 (0) (-6) (-6) (3)

US OIS spread 3m 41 (0) (1) (2) (18)
US OIS spread 12m 100 (1) (0) (0) (44)
US TED spread 3m 53 (3) (3) (1) (8)

Spain Ted Spread 3m 9 (1) (0.5) (5) (4)

EONIA Index -0.35 (0) (0.8) (0) (-22)
Euribor 3m -0.3 (0) (0) (-1) (-17)
Euribor 12m -0.05 (0) (1) (0) (-11)

Libor 3m 0.85 (0) (2) (5) (24)
Libor 12m 1.55 (0) (1) (5) (38)

Stock markets *(Changes in percentage)*
Developed Markets
Main equity indices
S&P500 2132.7 (0.3) (-2.4) (-2.6) (4)
Dow Jones 18110.5 (0.2) (-2.2) (-2.8) (4)
Nikkei 16614.2 (-0.7) (-2.3) (-1.5) (-13)
FTSE 100 6685 (0.3) (-2.4) (-3.7) (7)
EuroStoxx 50 2969.5 (-0.2) (-4) (-2.5) (-9)
IBEX 8720.7 (0) (-3.3) (0) (-9)
DAX 10393.1 (0.1) (-3.3) (-3.2) (-3)
CAC4377.2 (-0.2) (-4) (-2.7) (-6)
MIB 16564 (0.1) (-4.2) (-2.6) (-23)
ASE Athens 556.1 (-0.1) (-3.3) (-3.5) (-12)

Bank stocks
JPM 66.9 (0.5) (-0.4) (1.8) (1)
Citi 47.1 (0.4) (-0.7) (1.6) (-9)
BoA 15.7 (-0.1) (0) (4.5) (-7)
MS 31.6 (0.5) (-0.2) (6.6) (-1)
GS 167 (0) (-1.6) (0.9) (-7)

HSBC 562.4 (0.6) (-0.9) (2.7) (5)
RBS 197.9 (-0.1) (0.5) (2.5) (-34)
Barclays 170.9 (0.2) (0.7) (4.5) (-22)
Lloyds 56.9 (0.8) (-1.3) (4.3) (-22)

EMU banks 77.4 (-0.3) (-2.7) (2.6) (-28)
BNP 46 (-0.1) (-2.2) (3) (-12)
Crédit Agricole 8.5 (0.6) (-0.8) (3.8) (-21)
Deutsche Bank 13 (-0.6) (0.1) (1.6) (-42)
ING 10.8 (-0.8) (-4.2) (2.4) (-13)
Intesa 2.1 (0.4) (-3.2) (5.8) (-32)
SG 31.9 (-0.7) (-1.5) (0.3) (-25)
Unicredito 2.1 (-1.2) (-8.4) (0.8) (-58)

Large Spanish banks 62.4 (-0.9) (-4.8) (2.1) (-17)
Santander 3.9 (-0.9) (-4.5) (2.6) (-13)
BBVA 5.4 (-1) (-5) (1.7) (-20)

Medium Spanish banks 60.5 (-0.6) (-2.2) (0.3) (-27)
Caixabank 2.4 (-0.1) (-0.5) (0.1) (-24)
Popular 1.2 (-1.3) (-4.3) (-6.8) (-58)
Sabadell 1.2 (-1.3) (-3.9) (-3.4) (-27)
Bankinter 6.5 (-0.4) (-1.7) (2.1) (-1)
Bankia 0.8 (-0.5) (-1.6) (5.6) (-30)

Greek banks 2.7 (0.2) (-3) (1.8) (-40)
Alpha Bank1.7 (0) (-3.5) (-3.5) (-34)
Pireus Bank0.1 (-1.5) (-12.3) (-3) (-54)
National Central Bank0.2 (-1.6) (-6.1) (0) (-46)
Eurobank Ergasias0.5 (1.4) (0) (19.3) (-50)

Emerging Markets
Main equity indices
MSCI Latam 70382 (-2.16) (-4.4) (-3.3) (18.7)
Ibovespa (Brazil) 57012 (0.3) (-5.2) (-2.2) (31.5)
Mexbol 45872 (-0.6) (-3.7) (-5.2) (6.6)

MSCI EM Europe 4465 (-0.64) (-2.5) (-0.8) (5.1)
Poland 1737 (0.5) (-3) (-6.5) (-6.6)
Micex (Russia) 2002 (-0.1) (-1.8) (1.8) (13.7)
Ise 100 (Turkey) 77054 (0) (-1.2) (-1.5) (5.3)

MSCI EM Asia 707 (0.11) (-3) (-0.5) (7)
Shanghai Composite (China) 3003 (-0.68) (-2.8) (-1.6) (-16)
Jakarta Composite (Indonesia) 5146 (-1.3) (-4.2) (-4.3) (12)

Bank stocks
Turkish banks 83 (0) (-0.4) (0.3) (13.2)
Akbank T.A.S. 8 (0) (-1.5) (-1.3) (20.1)
Garanti 8 (0) (-0.4) (2.5) (13.5)
Turkiye Is Bankasi 5 (0) (1) (0) (5)

Russian banks 193 (0.3) (-2.2) (8.6) (26.9)
Sberbank 151 (0.5) (-2.4) (7.9) (48.7)
VTB Bank 0.1 (-0.3) (-1.5) (10.2) (-6.8)

Currencies *(in percentage, positive for dollar depreciation)*
Developed Markets
EURUSD 1.126 (0.37) (0.2) (0.7) (3.7)
GBPUSD 1.32 (0.02) (-1.09) (2.5) (-10.5)
USDJPY 102.43 (0.13) (-0.68) (-1.2) (14.8)
DXY 95.29 (0.4) (-0.4) (0.4) (3.4)

Emerging Markets
USDARS (Argentina) 15.05 (-0.4) (0) (-2.6) (-16.4)
USDBRL (Brazil) 3.32 (-0.3) (-4) (-4.3) (16.1)
USDCLP (Chile) 674.83 (0.5) (-2) (-4.1) (4.8)
USDCOP (Colombia) 2948.63 (0.9) (-3.1) (-0.7) (7.1)
USDMXN (Mexico) 19.23 (-0.8) (-4.6) (-6.4) (-11.8)
USDPEN (Peru) 3.4 (0.2) (-1.1) (-2.7) (0.4)
LACI 63.68 (-0.5) (-3.3) (-4.3) (1.7)

USDPLN (Poland) 3.85 (0.8) (-0.2) (-0.9) (1.8)
USDRUB (Russia) 65.02 (0.5) (-1.3) (-1.5) (10.3)
USDTRY (Turkey) 2.98 (0.2) (-1.4) (-1.2) (-2.1)

USDCNY (China) 6.67 (0.1) (-0.2) (-0.6) (-2.8)
USDINR (India) 66.9 (0) (-0.8) (-0.1) (-1.1)
USDIDR (Indonesia) 13205 (-0.3) (-0.9) (-0.9) (4.2)
ADXY 236.57 (121.9) (119.5) (119.2) (122)

Commodities *(change in percentage)*
Brent 46.22 (-1.9) (-3.7) (-4.4) (24)
WTx 43.97 (-2.1) (-3.4) (-3.9) (18.7)
Copper 215 (2.6) (2.7) (-0.1) (1.2)
Gold 1323.22 (0.3) (-1.6) (-1.2) (24.7)
Baltic Dry Index 796 (-1) (3) (16.9) (66.5)
S&P GSCI Spot commodity index 350.595 (-1.7) (-0.5) (-2.5) (12.5)
S&P GSCI Brent Spot 404.12 (-2.3) (-1) (-2.3) (26.1)
S&P GSCI Metals Spot 266.64 (-0.3) (-1.3) (-3.8) (5.4)
S&P GSCI Agricultural Spot 286.718 (-1.4) (-1.2) (-3.1) (1.1)

Source: Bloomberg, Datastream and Haver

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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