

Market Comment | Oil prices drove the market mood in the wake of the OPEC decision

Global Financial Markets Unit
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- Financial markets slightly recovered positive sentiment, driven by yesterday's sharp rebound in oil prices, after the **OPEC struck a deal on oil production in the informal meeting in Algiers**. Although oil prices rose sharply (6%) immediately following the announcement, **uncertainty about the effectiveness of the deal still persists**: there is a lack of information about countries' oil quotas and the deal implies an output reduction of only around 2% (from 33.7m barrels a day to 33m). More details about this preliminary deal are expected to be released in the next OPEC official meeting in Vienna in November. Today, oil prices nearly maintained yesterday's rebound (+1.2%), while **inflationary expectations rose slightly but remained at low levels** (US 5Y5Y 2%, EZ 5Y5Y 1.33%).
- In equity markets, investors around the world received the OPEC decision with **slight optimism**. In Asia, equity indices ended higher (Nikkei +1.39%, Hang Seng +0.51%). In Europe, indices rose, led by the energy sector, but moderated later (Euro Stoxx50 0%, Dax -0.3%, Ibex35 +0.6%), coinciding with the negative opening in the US, where stock prices had decreased at the time of publication (S&P500 -0.2%), although not by much, remaining close to historical high levels.
- Decreasing risk aversion and a slight increase in inflationary expectations weighed on sovereign bonds. **Yields of government bonds inched up across the board** (10YUS +1 bps, 10YGER +3 bps). Yield curves also slightly steepened as short-term government bond maturities were little changed. On the other hand, the Portuguese peripheral risk premium eased (POR -5 bps), despite ongoing credit rating concerns.
- Against this backdrop, the USD slightly appreciated against its main peers - due to positive US GDP Q2 data (1.4% QoQ, 1.3% QoQ consensus, 1.1% QoQ prior), especially against the JPY (JPY -0.81%), following the BoJ's Koruda's comments that the central bank still has capacity to ease policy further. The EM currencies appreciate slightly against the USD (COP +1.3%, CLP +0.6%, TRY -0.5%, MXN +0%), following the sharp appreciation seen yesterday due to yesterday's significant rebound in oil prices. Special attention was paid to the MXN's performance ahead of today's Banxico (Mexican central bank) meeting, in which it might adopt extra measures (increasing the policy rate), given the MXN's recent volatility.

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Table 1

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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