

# Market Comment | Markets react to Draghi's dovish tone

Global Financial Markets Unit  
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- **The ECB strikes a dovish tone as it revises down its GDP and inflation outlook.** The Governing Council did not change its monetary policy stance, as expected (policy rate at 0.05%) but it increased the amount of any one issue that it could buy within its asset-buying programme (to 33% from 25%). Mr Draghi reiterated the Council's commitment to a full implementation of the Asset Purchase Programme (APP), stressing the ECB's willingness and ability to take further action if needed. Mr Draghi clarified that there was no discussion at today's meeting on expanding the APP, yet he highlighted the Council's discretionary power to potentially adjust the size, composition and duration of APP purchases. In addition to announcing a downward revision to the outlook, the Council stated that additional downside risks (related to EM and oil prices) have emerged. Despite the above, Draghi confirmed earlier rumours that the ECB had lowered the ceiling of the Emergency Liquidity Assistance from EUR89.7bn to EUR89.1bn.
- **Mixed data in the US.** On the labour markets, jobless claims surged more than estimated in the week ended 29 August (by 12K to 282K; consensus: 275K), whereas continuing claims for the week ended 22 August dropped less than expectations (by 9K to 2,257K; consensus: 2,253K). On the other hand, the Markit services PMI rose unexpectedly in August (by 0.9 points to 56.1; consensus: 55.0), while the ISM non-manufacturing composite index dropped less than estimates (by 1.3 to 59.0 points; consensus: 58.2). Meanwhile, US trade balance deficit in July diminished more than expectations (by USD3.34bn to -USD41.86bn; consensus: -USD42.20bn).
- **Higher-than-expected PMI and sales readings for the eurozone as a whole.** Eurozone retail sales rose in July less than estimated (by 0.4% MoM; BBVAe: 0.6%, consensus: 0.5%), while retail sales YoY increased more than expectations (by 2.7% YoY; consensus: 2.0%). On the other hand, the eurozone Markit composite PMI rose in August, against estimates of remaining unchanged (by 0.2 to 54.3; BBVAe and consensus: 54.1), and the Markit services PMI increased against expectations of remaining unchanged (by 0.1 points to 54.4; BBVAe and consensus: 54.3). By country, the German Markit composite PMI rose unexpectedly (by 1.0 points to 55.0; BBVAe and consensus: 54.0), and the Markit services PMI also increased unexpectedly (by 1.3 points to 54.9; BBVAe and consensus: 53.6), whereas in France the Markit composite PMI dropped against forecasts of remaining unchanged (by 1.1 points to 50.2; BBVAe and consensus: 51.3), and the Markit services PMI decreased unexpectedly (by 1.2 points to 50.6; BBVAe and consensus: 51.8). The Italian Markit composite PMI rose against estimates of decreasing (by 1.5 points to 55.0; consensus: 53.1), while the Markit services PMI surged more than estimated (by 2.6 points to 54.6; consensus: 52.5). Meanwhile, the Spanish Markit composite PMI increased of the expected fall (by 0.5 to 58.8 points; consensus: 57.9) and the services PMI fell less than estimated (by 0.1 to 59.6 points; consensus: 59.3).
- **Markets react to the ECB's dovish tone.** Although most analysts expected a dovish message from the ECB, the tone was even more so. In this context, European equities intensified their previous gains, with

major indexes surging by around 2% (Euro Stoxx: +2.6 %, CAC: +2.6%, Ibex-35: +1.4%, DAX: +3.0%). These upturns in European equities and the absence of any relevant news from China (because of the official holiday) enabled an increase in US equity markets (S&P 500 and Dow Jones: +1.1%) Bond markets were also affected by the ECB's soft message. European yields dropped (GER 10Y: -4bp, FRA 10Y: -5bp, SPA 10Y: -2bp, ITA 10Y: +5bp, POR 10Y: -9bp, GRE 10Y: -30bp), as US Treasuries are remaining broadly unchanged. The EUR depreciated against the USD (-1.18%, falling to 1.11). Other major currencies remained steady against the USD (JPY: +0.03%, GBP: -0.46%). EM currencies are having a mixed performance. While some currencies depreciated against the USD (TRY: -0.7%, BRL: -0.6%, MLY: -0.89%), several commodity-linked currencies appreciated (COP: +1.8%, RUB: +0.9%, CLP: +0.5%) on the back of a slight recovery in commodity prices (Brent: +3.4% WTI: +4.2% and copper: +2.9%).

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Table1

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

**Debt markets (changes in bp)**

**US Treasury**

US 2yr 0.7 (0) (2) (3)  
 US 5yr 1.5 (1) (0) (1) (1) (1)  
 US 10yr 2.8 (0) (0) (4) (1)

**Japan**

Japan 10yr 0.4 (1) (1) (1) (1)

**Germany**

GER 2yr 0.2 (1) (1) (1) (1) (1)  
 GER 5yr 0.7 (0) (1) (1) (1) (1)  
 GER 10yr 1.2 (0) (1) (1) (1) (1)

**France**

France 10yr 1.08 (4) (2) (1) (1) (1)  
 France 10yr 1.08 (2) (2) (1) (1) (1)  
 France 10yr 1.08 (2) (2) (1) (1) (1) (1)  
 France 10yr 1.42 (1) (1) (1) (1)  
 May 10 yr 1.5 (1) (1) (1) (1) (1)  
 Netherlands 10yr 1.5 (1) (1) (1) (1) (1)  
 Portugal 10yr 2.58 (4) (4) (1) (1) (1)  
 Spain 10yr 2.1 (1) (1) (1) (1) (1)

**Emerging Markets**

Brazil 10yr 14.9 (18) (18) (17) (17) (17)  
 China 10yr 6.9 (2) (2) (2) (2) (2)  
 Colombia 10yr 8.9 (2) (2) (1) (1) (1) (1)  
 Mexico 10yr 6.4 (1) (1) (1) (1) (1)  
 Peru 10yr 6.8 (1) (1) (1) (1) (1)

Poland 10yr 2.8 (1) (1) (1) (1) (1)  
 Russia 10yr 11.7 (7) (7) (7) (7) (7)  
 Russia 10yr 11.6 (1) (1) (1) (1) (1)  
 Turkey 10yr 18.2 (1) (1) (1) (1) (1)

India 10yr 7.9 (1) (1) (1) (1) (1)  
 Indonesia 10yr 8.9 (1) (1) (1) (1) (1)

**Country risk (changes in bp)**

**Very low-risk countries (against Germany)**

Belgium 34 (1) (2) (1) (1)  
 France 34 (1) (2) (1) (1)  
 Greece 102 (1) (1) (1) (1) (1)  
 Ireland 80 (2) (1) (1) (1) (1)  
 Italy 121 (1) (1) (1) (1)  
 Netherlands 19 (1) (1) (1) (1) (1)  
 Portugal 184 (1) (1) (1) (1) (1)  
 Spain 137 (2) (1) (1) (1)

**Very low-risk countries (against Germany)**

Belgium 14 (1) (2) (1) (1) (1)  
 France 14 (1) (2) (1) (1) (1)  
 Greece 108 (1) (1) (1) (1) (1)  
 Ireland 31 (1) (1) (1) (1) (1)  
 Italy 21 (1) (1) (1) (1) (1)  
 Netherlands 1 (1) (1) (1) (1) (1)  
 Portugal 121 (1) (1) (1) (1) (1)  
 Spain 16 (1) (1) (1) (1)

**Very low-risk countries (against Germany)**

Belgium 6 (1) (1) (1) (1) (1)  
 France 6 (1) (1) (1) (1) (1)  
 Ireland 16 (1) (1) (1) (1) (1)  
 Italy 37 (1) (1) (1) (1) (1)  
 Netherlands 1 (1) (1) (1) (1) (1)  
 Portugal 83 (1) (1) (1) (1) (1)  
 Spain 20 (1) (1) (1) (1) (1)

**Very low-risk CDS**

EUR CDS Belgium 46 (1) (1) (1) (1)  
 EUR CDS France 30 (1) (1) (1) (1) (1)  
 EUR CDS Germany 16 (1) (1) (1) (1) (1)  
 EUR CDS Greece 198 (2) (1) (1) (1) (1)  
 EUR CDS Ireland 11 (1) (1) (1) (1) (1)  
 EUR CDS Italy 138 (1) (1) (1) (1) (1)  
 EUR CDS Netherlands 11 (1) (1) (1) (1) (1)  
 EUR CDS Portugal 172 (1) (1) (1) (1) (1)  
 EUR CDS Spain 101 (1) (1) (1) (1) (1)  
 EUR CDS US 17 (1) (1) (1) (1) (1)  
 EUR CDS US 16 (1) (1) (1) (1) (1)

**Very low-risk CDS**

EUR CDS Brazil 374 (1) (1) (1) (1) (1)  
 EUR CDS China 128 (1) (1) (1) (1) (1)  
 EUR CDS Colombia 227 (1) (1) (1) (1) (1)  
 EUR CDS France 151 (1) (1) (1) (1) (1)  
 EUR CDS Peru 191 (1) (1) (1) (1) (1)  
 EUR CDS Venezuela 883 (1) (1) (1) (1) (1) (1)

EUR CDS Poland 7 (1) (1) (1) (1) (1)  
 EUR CDS Russia 20 (1) (1) (1) (1) (1)  
 EUR CDS Turkey 278 (1) (1) (1) (1) (1)

EUR CDS China 114 (1) (1) (1) (1) (1)  
 EUR CDS India 107 (1) (1) (1) (1) (1)  
 EUR CDS Indonesia 239 (1) (1) (1) (1) (1)

**Credit risk**

100-1000000 (changes in percentage points for CAA spreads, bp)

UK 24 (2) (1) (1) (1) (1) (1)  
 US 20 (2) (1) (1) (1) (1) (1)  
 EU EFT equity index 31 (1) (1) (1) (1) (1)  
 Dailymove volatility 11 (1) (1) (1) (1) (1) (1)  
 EUR F equity index 22 (1) (1) (1) (1) (1)  
 Credit spread (AAA) 345 (1) (1) (1) (1) (1) (1)  
 US equity volatility index 31 (1) (1) (1) (1) (1)

**Bank CDS changes in bp**

EUR banks CDS 94 (2) (1) (1) (1) (1)  
 EUR banks CDS 95 (1) (1) (1) (1) (1)  
 EUR banks CDS 95 (1) (1) (1) (1) (1)

**Large Spanish banks CDS**

EUR Spanish banks CDS 117 (1) (1) (1) (1) (1)  
 Italian Spanish banks CDS 168 (1) (1) (1) (1) (1)

**Other banks CDS**

Other banks CDS 287 (1) (1) (1) (1) (1)  
 Russian banks CDS 505 (1) (1) (1) (1) (1)

**Commodity prices (change in bp)**

Oil benchmark CDS 245 (4) (4) (4) (4) (4) (4)  
 ERM benchmark CDS 13 (1) (1) (1) (1) (1)  
 Oil benchmark CDS 14 (1) (1) (1) (1) (1)

**Interbank markets (changes in bp)**

EUR CDS spread 10 (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1)

US CDS spread 3m 12 (1) (1) (1) (1) (1)  
 US CDS spread 12m 48 (1) (1) (1) (1) (1)  
 US CDS spread 2m 31 (1) (1) (1) (1) (1)

Spain Fed Spread 3m 4 (1) (1) (1) (1) (1)

ECB via index 4.13 (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1)

Libor 3m 5.31 (1) (1) (1) (1) (1)  
 Libor 12m 5.18 (1) (1) (1) (1) (1)

**Stock markets (Change in percentage)**

**Asian equity indices**

Japan 287 (1) (1) (1) (1) (1) (1)  
 Dow Jones 162 (1) (1) (1) (1) (1) (1)  
 Nikkei 186 (1) (1) (1) (1) (1) (1)  
 FTSE 100 99 (1) (1) (1) (1) (1) (1)  
 Hang Seng 100 (1) (1) (1) (1) (1) (1)  
 BELX20 2 (1) (1) (1) (1) (1) (1)  
 DAX 124 (1) (1) (1) (1) (1) (1)  
 CAC40 16 (1) (1) (1) (1) (1) (1)  
 IBEX35 2 (1) (1) (1) (1) (1) (1)  
 AEX index 44 (1) (1) (1) (1) (1) (1)

**Latin America**

US banks 94 (1) (1) (1) (1) (1) (1)  
 BR 24 (1) (1) (1) (1) (1) (1)  
 CH 24 (1) (1) (1) (1) (1) (1)  
 CL 17 (1) (1) (1) (1) (1) (1)  
 MS 3 (1) (1) (1) (1) (1) (1)  
 BR 16 (1) (1) (1) (1) (1) (1)

**UK banks**

UK banks 118 (1) (1) (1) (1) (1) (1)  
 HSBC 164 (1) (1) (1) (1) (1) (1)  
 RBS 118 (1) (1) (1) (1) (1) (1)  
 Barclays 107 (1) (1) (1) (1) (1) (1)  
 Lloyds 77 (1) (1) (1) (1) (1) (1)

EUR banks 118 (1) (1) (1) (1) (1) (1)  
 BNP 164 (1) (1) (1) (1) (1) (1)  
 Credit Agricole 12 (1) (1) (1) (1) (1) (1)  
 Natixis 20 (1) (1) (1) (1) (1) (1)  
 BNP 17 (1) (1) (1) (1) (1) (1)  
 Intesa 13 (1) (1) (1) (1) (1) (1)  
 SO 15 (1) (1) (1) (1) (1) (1)  
 Unicredit 13 (1) (1) (1) (1) (1) (1)

**Large Spanish banks**

BBVA 13 (1) (1) (1) (1) (1) (1)  
 Santander 14 (1) (1) (1) (1) (1) (1)  
 BBVA 13 (1) (1) (1) (1) (1) (1)

**Other European banks**

Commerzbank 161 (1) (1) (1) (1) (1) (1)  
 Citigroup 27 (1) (1) (1) (1) (1) (1)  
 HSBC 164 (1) (1) (1) (1) (1) (1)  
 Natixis 13 (1) (1) (1) (1) (1) (1)  
 BNP 17 (1) (1) (1) (1) (1) (1)  
 Intesa 13 (1) (1) (1) (1) (1) (1)

**Other banks**

Intesa 13 (1) (1) (1) (1) (1) (1)  
 Natixis 13 (1) (1) (1) (1) (1) (1)  
 BNP 17 (1) (1) (1) (1) (1) (1)

**Commodity prices (change in percentage)**

EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)

US CDS spread 3m 12 (1) (1) (1) (1) (1) (1)  
 US CDS spread 12m 48 (1) (1) (1) (1) (1) (1)  
 US CDS spread 2m 31 (1) (1) (1) (1) (1) (1)

Spain Fed Spread 3m 4 (1) (1) (1) (1) (1) (1)

ECB via index 4.13 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)

Libor 3m 5.31 (1) (1) (1) (1) (1) (1)  
 Libor 12m 5.18 (1) (1) (1) (1) (1) (1)

**Commodity prices (percentage points for oil or depreciation)**

EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)

US CDS spread 3m 12 (1) (1) (1) (1) (1) (1)  
 US CDS spread 12m 48 (1) (1) (1) (1) (1) (1)  
 US CDS spread 2m 31 (1) (1) (1) (1) (1) (1)

Spain Fed Spread 3m 4 (1) (1) (1) (1) (1) (1)

ECB via index 4.13 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)

Libor 3m 5.31 (1) (1) (1) (1) (1) (1)  
 Libor 12m 5.18 (1) (1) (1) (1) (1) (1)

**Commodity prices (change in percentage)**

EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)  
 EUR CDS spread 10 (1) (1) (1) (1) (1) (1)

US CDS spread 3m 12 (1) (1) (1) (1) (1) (1)  
 US CDS spread 12m 48 (1) (1) (1) (1) (1) (1)  
 US CDS spread 2m 31 (1) (1) (1) (1) (1) (1)

Spain Fed Spread 3m 4 (1) (1) (1) (1) (1) (1)

ECB via index 4.13 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)  
 Euro 12m 4.16 (1) (1) (1) (1) (1) (1)

Libor 3m 5.31 (1) (1) (1) (1) (1) (1)  
 Libor 12m 5.18 (1) (1) (1) (1) (1) (1)

\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

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