

Market Comment | Worse-than-expected figures in US as the main market driver

Global Financial Markets Unit
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- **US manufacturing activity contracts in November, reaching the lowest level for six years.** US ISM manufacturing declined in November, surprising expectations (by 1.5 points to 48.6; consensus: 50.5). This is the first time since November 2012 that the manufacturing index has fallen into contraction territory (below the 50 level). Declines in the new orders, production and inventories sub-indices offset the rebound in the employment sub-index. The ISM prices paid sub-index also dropped unexpectedly (by 3.5 points to 35.5; consensus: 40.0). On the other hand, construction spending in October rose more than estimated (by 1.0% MoM; consensus: 0.6%).
- **Eurozone Markit manufacturing PMI final data confirmed the improvement in November** (52.8 points: previous: 52.3). By country, Germany's manufacturing PMI rose slightly (by 0.3 points to 52.9; BBVAe and consensus: 52.6) due to the increases in production and export orders. Meanwhile, in France it remained stable (at 50.6 points), and in Spain it remained unchanged, surprising expectations of a fall (at 53.1 points; consensus: 51.7). The Italian PMI rose more than estimated (by 0.8 points to 54.9; BBVAe: 54.4, consensus: 54.2). On another front, the eurozone's unemployment rate fell slightly in October (and unexpectedly, to 10.7% from 10.8%; previous in the same period in 2014: 11.5%), while Germany's unemployment rate remained stable at 4.5%. In addition, Italian GDP growth decelerated in the 3Q15, in line with the preliminary data (by 0.2%QoQ)
- **Worse than expected GDP in Brazil in 3Q15 (-1.7% QoQ, -4.5% YoY; BBVAe: -0.5%QoQ).** The ongoing recession is deeper than expected, and it is likely that GDP forecasts will be revised downward again going forward. The main drivers of the contraction were the downward adjustment in investment and private consumption. Moreover, alongside the sharper-than-expected decline in 3Q15, growth in the first half of the year was revised downwards (from -0.7% QoQ to -0.8% QoQ in 1Q15; from -1.9% QoQ to -2.1% QoQ in 2Q15). As a consequence, the carry-over effect for 2015 and 2016 is now higher.
- **China's manufacturing PMI fell slightly.** China's manufacturing PMI continued to contract in the manufacturing activity, slightly unexpectedly (by 0.2 points to 49.6; consensus: 49.8). The fall was across main components, with the new orders, production, inventory and employment sub-indices all declining.
- **The IMF announced the long-awaited decision to include the Chinese renmimbi (RMB) in the basket of currencies that underpins special drawing rights (SDR) from October 2016.** The weight in the basket will be 10.9%, situated in the third position behind the dollar and the Euro. Such a decision marks an important moment in China's long journey to achieve the internationalization of its currency. In our view, in the short run, the SDR inclusion will not be effective in reversing the depreciation trend of the RMB given strong headwinds from persistent economic slowdown, capital outflows and the Fed lift-off. ([see](#))

- **India's 3Q15 GDP grew more than expected** (by 7.4% YoY; BBVAe: 7.0%, consensus: 7.3%; 2Q15: 7.0%). The growth was driven by the increase in government consumption and firmer investment demand, offsetting the slowdown in private consumption and external demand. On another front, the Reserve Bank of India kept the repo rate unchanged at 6.75% in its meeting, after sharp cuts in interest rates last month. However, the RBI is expected to continue cutting rates. ([see](#))
- **Worse-than-expected figures in US as the main market driver.** The release of worse-than-expected confidence data in US (for manufacturing and services) was tracked by financial markets today, while the Chinese figures released last night - which were also worse than expected - and the European prints had no significant impact. The main effect was registered by US treasury yields, which dropped slightly (2Y: -2bp, 10Y: -4bp). Also the same lines, the market expectations of a rate-hike in US Fed Funds by December decreased slightly but still remain at high levels (72%). However, European safe-haven yields remained unchanged in the long term bonds, while the short term yields declined slightly waiting for the ECB's decision at its Thursday meeting (German 2Y: -2bp to -0.43%). Meanwhile, peripheral yields decreased, led by Portugal (ITA 10Y: -2bp, SPA 10Y: -3bp, POR 10Y: -6bp). European equity markets fell with the exception of the Ibex 35, which remained unchanged (Euro Stoxx: -0.4%, CAC: -0.5%, DAX: -0.7%), while US equity indices rose today (S&P 500 and Dow: +0.7%). In Asia, despite the negative PMI data from China, the markets rose across the board (Nikkei: +1.3%, Shanghai: +0.3%). On the FX markets, the USD depreciated against other major currencies (EUR: +0.4%, JPY: +0.19%). EM currencies appreciated against the dollar (CLP: +1.0%, BRL: +0.7%, COP: +0.5%, MXN: +0.3%) despite the resumed falls in oil prices (Brent: -0.8%, WTI: -0.5%), waiting for today's US API weekly oil stock report. Moreover, the weak GDP figures had a muted impact on Brazil's financial variables. On another front, the copper price increased (+1.2%) despite the Chinese data.

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Table1

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

Debt markets (changes in bpt)

US Treasury	
US 2yr	4.91 (2) (2) (18) (26)
US 5yr	4.81 (4) (6) (8) (8)
US 10yr	2.7 (4) (7) (9) (8)
Japan	
Japan 10yr	0.3 (1) (2) (4) (4) (3)
Germany	
GS 2yr	4.1 (2) (6) (4) (10) (2)
GS 5yr	4.2 (2) (4) (2) (4) (2)
GS 10yr	4.6 (1) (5) (5) (4) (2)
Belgium	
Belgium 10yr	6.77 (1) (6) (4) (4)
France	
France 10yr	5.78 (1) (6) (4) (4)
Greece	
Greece 10yr	11 (1) (2) (2) (2) (227)
India	
India 10yr	7.6 (1) (2) (1) (2) (2)
Italy	
Italy 10yr	4.12 (1) (1) (4) (4)
Netherlands	
Netherlands 10yr	5.2 (1) (2) (1) (2) (2)
Portugal	
Portugal 10yr	2.58 (4) (2) (2) (2) (4)
Spain	
Spain 10yr	1.4 (1) (2) (1) (2) (4) (2)

Emerging markets

Brazil	
Brazil 10yr	15.58 (28) (27) (31) (22)
China	
China 10yr	4.45 (2) (2) (2) (2)
Colombia	
Colombia 10yr	4.41 (4) (2) (2) (4)
Mexico	
Mexico 10yr	4.18 (3) (8) (8) (3)
Russia	
Russia 10yr	10 (2) (2) (4) (2)
Turkey	
Turkey 10yr	9.35 (4) (4) (2) (1) (9)
Indonesia	
Indonesia 10yr	7.72 (7) (2) (8) (4)
Indonesia	
Indonesia 10yr	5.84 (7) (1) (1) (2) (7)

Country risk (changes in bpt)

10yr sovereign spreads (against Germany)	
Belgium	
Belgium 10	11 (2) (2)
France 10	11 (2) (2) (4)
Greece 10	10 (2) (2) (4) (2)
Germany 10	11 (2) (2) (2)
India 10	11 (2) (2)
Italy 10	11 (2) (2) (4)
Netherlands 10	11 (2) (2)
Portugal 10	11 (2) (2) (4) (2) (2) (2)
Spain 10	12 (2) (2) (4) (2)

5yr sovereign spreads (against Germany)

Belgium	
Belgium 5	8 (1) (1) (2)
France 5	8 (1) (1) (2)
Greece 5	8 (2) (2) (2) (2) (2)
Germany 5	8 (1) (1) (2) (2)
India 5	8 (1) (1) (2)
Italy 5	8 (1) (1) (2)
Netherlands 5	8 (1) (1) (2)
Portugal 5	8 (1) (1) (2) (2) (2)
Spain 5	8 (1) (1) (2) (2)

3yr sovereign spreads (against Germany)

Belgium	
Belgium 3	8 (1) (1) (2)
France 3	8 (1) (1) (2)
Greece 3	8 (2) (2) (2) (2) (2)
Germany 3	8 (1) (1) (2) (2)
India 3	8 (1) (1) (2)
Italy 3	8 (1) (1) (2)
Netherlands 3	8 (1) (1) (2)
Portugal 3	8 (1) (1) (2) (2) (2)
Spain 3	8 (1) (1) (2) (2)

Sy sovereign spreads

Sy 10yr	
Sy 10yr	11 (2) (2) (2) (2)
Sy 5yr	
Sy 5yr	11 (2) (2) (2) (2)
Sy 3yr	
Sy 3yr	11 (2) (2) (2) (2)

Emerging markets

Sy 10yr	
Sy 10yr	11 (2) (2) (2) (2)
Sy 5yr	
Sy 5yr	11 (2) (2) (2) (2)
Sy 3yr	
Sy 3yr	11 (2) (2) (2) (2)

Comd risk

US 10yr	
US 10yr	11 (2) (2) (2) (2)
US 5yr	
US 5yr	11 (2) (2) (2) (2)
US 3yr	
US 3yr	11 (2) (2) (2) (2)

Bank risk (changes in bpt)

US banks	
US banks	11 (2) (2) (2) (2)
EU banks	
EU banks	11 (2) (2) (2) (2)
UK banks	
UK banks	11 (2) (2) (2) (2)
Large Spanish banks	
Large Spanish banks	11 (2) (2) (2) (2)
Medium Spanish banks	
Medium Spanish banks	11 (2) (2) (2) (2)
Other banks	
Other banks	11 (2) (2) (2) (2)

Commodity risk (changes in bpt)

US Non-Retail	
US Non-Retail	11 (2) (2) (2) (2)
UK Non-Retail	
UK Non-Retail	11 (2) (2) (2) (2)
Interbank markets (changes in bpt)	
US	
US 10yr	11 (2) (2) (2) (2)
US 5yr	11 (2) (2) (2) (2)
US 3yr	11 (2) (2) (2) (2)
EU	
EU 10yr	11 (2) (2) (2) (2)
EU 5yr	11 (2) (2) (2) (2)
EU 3yr	11 (2) (2) (2) (2)

Stock markets (Change in percentage)

Main equity indices	
S&P500	
S&P500	11 (2) (2) (2) (2)
Dow Jones	
Dow Jones	11 (2) (2) (2) (2)
Nikkei	
Nikkei	11 (2) (2) (2) (2)
FTSE 100	
FTSE 100	11 (2) (2) (2) (2)
Euro Stoxx 50	
Euro Stoxx 50	11 (2) (2) (2) (2)
BSE SENSEX	
BSE SENSEX	11 (2) (2) (2) (2)
CSI 300	
CSI 300	11 (2) (2) (2) (2)
ASX 200	
ASX 200	11 (2) (2) (2) (2)

Bank risk (changes in bpt)

US banks	
US banks	11 (2) (2) (2) (2)
EU banks	
EU banks	11 (2) (2) (2) (2)
UK banks	
UK banks	11 (2) (2) (2) (2)
Large Spanish banks	
Large Spanish banks	11 (2) (2) (2) (2)
Medium Spanish banks	
Medium Spanish banks	11 (2) (2) (2) (2)
Other banks	
Other banks	11 (2) (2) (2) (2)

Emerging markets

Brazil	
Brazil	11 (2) (2) (2) (2)
China	
China	11 (2) (2) (2) (2)
Colombia	
Colombia	11 (2) (2) (2) (2)
Mexico	
Mexico	11 (2) (2) (2) (2)
Russia	
Russia	11 (2) (2) (2) (2)
Turkey	
Turkey	11 (2) (2) (2) (2)
Indonesia	
Indonesia	11 (2) (2) (2) (2)

Large Spanish banks

Santander	
Santander	11 (2) (2) (2) (2)
BBVA	
BBVA	11 (2) (2) (2) (2)
Medium Spanish banks	
Medium Spanish banks	11 (2) (2) (2) (2)
Casasnovas	
Casasnovas	11 (2) (2) (2) (2)
Popular	
Popular	11 (2) (2) (2) (2)
Sabadell	
Sabadell	11 (2) (2) (2) (2)
Banque	
Banque	11 (2) (2) (2) (2)

Other banks

Bankia	
Bankia	11 (2) (2) (2) (2)
Caja Rural	
Caja Rural	11 (2) (2) (2) (2)
Caja de Pensiones	
Caja de Pensiones	11 (2) (2) (2) (2)
Caixa	
Caixa	11 (2) (2) (2) (2)
Caja de Pensiones	
Caja de Pensiones	11 (2) (2) (2) (2)
Caixa	
Caixa	11 (2) (2) (2) (2)

Commodity risk (changes in percentage)

US	
US	11 (2) (2) (2) (2)
EU	
EU	11 (2) (2) (2) (2)
UK	
UK	11 (2) (2) (2) (2)
Other	
Other	11 (2) (2) (2) (2)

Commodity risk (change in percentage)

Oil	
Oil	11 (2) (2) (2) (2)
Gold	
Gold	11 (2) (2) (2) (2)
Other	
Other	11 (2) (2) (2) (2)

Commodity risk (change in percentage)

US	
US	11 (2) (2) (2) (2)
EU	
EU	11 (2) (2) (2) (2)
UK	
UK	11 (2) (2) (2) (2)
Other	
Other	11 (2) (2) (2) (2)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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