

# Market Comment | ECB actions disappoint dovish markets

Global Financial Markets Unit  
03 Dec 2015

- **ECB 3 December meeting.** At today's monetary policy meeting the ECB Governing Council (GC) decided to cut the deposit facility rate by 10bp to -0.30%, a historical low. The GC maintained both the main refinancing rate at 0.05% and the marginal lending at 0.30%, thus leaving an asymmetric corridor for interest rates. As regards non-standard measures, the central bank decided to: i) to extend the asset purchase programme (APP) until at least March 2017, i.e for six months, ii) to broaden the range of asset purchased (to include regional and local government bonds), and iii) in an effort to reinforce its forward guidance, to reinvest the principal payments on the securities purchased under the APP as they mature for as long as necessary and finally, iv) to extend the FRFA (fixed rate tender procedures with full allotment) at least until the end of 2017. Mr. Draghi said that today's decision was not unanimous, but he highlighted that a large majority was in favour of the package. The tone remained dovish; the easing bias was retained as the central bank reiterated its willingness to act further if needed. The Staff revised its projections only slightly downwards.
- **The eurozone PMIs data were revised downward.** Eurozone Markit composite PMI final data in November were revised downward (by 0.2 points to 54.2; preliminary data: 54.4), although they increased by 0.2 in the 3Q15 (2Q15: 53.9 points). Along the same lines, the services PMI was revised downwards (by 0.4 to 54.2 points) and stayed unchanged from last month. By country, in Germany, Italy and Spain the composite PMI improved slightly with regard to the previous month. Meanwhile in France, the Markit composite and services PMIs both declined in line with estimates. On another front, eurozone retail sales fell in October, against expectations of increasing (by -0.1% MoM; consensus: 0.2%).
- **Mixed data in the US.** US jobless claims increased in the week ended 28 November, in line with estimates (by 9K to 269K), while continuing claims rose below expectations (by 6K to 2,161K; consensus: 2,190K). On another front, the ISM non-manufacturing composite index dropped in November more than expected (by 3.2 points to 55.9; consensus: 58.0). Meanwhile, factory orders rose almost in line with estimates (by 1.5% MoM; consensus: 1.4%).
- **Yellen said the economy is close to the interest rate normalization process.** Fed Chair, Janet Yellen, in its speech before the Congress used an upbeat tone about the US economic outlook "I currently judge that U.S. economic growth is likely to be sufficient over the next year or two to result in further improvement in the labor market," She also added "Ongoing gains in the labor market, coupled with my judgment that longer-term inflation expectations remain reasonably well anchored, serve to bolster my confidence in a return of inflation to 2 percent." Nonetheless, she explained that at current interest level it's important to move slowly "With the federal funds rate near zero, we can respond more readily to upside surprises to inflation, economic growth and employment than to downside shocks," she said. "This asymmetry suggests that it is appropriate to be more cautious in raising our target for the federal funds rate than would be the case if short-term nominal interest rates were appreciably above

zero.”

- **ECB implemented new measures but market expected more aggressive.** Although the ECB finally took further easing measures (mainly cutting the depo rate again and extending the QE until September 2017) - as it pre-announced in the October meeting - the first market reaction after the ECB meeting suggests that markets had been expected bolder measures than those announced today. On bond markets, the German 2Y bond soared (+14bp), while peripheral yields also jumped as the ECB failed to announce an increase in the monthly purchase of sovereign bonds (Spain: +24bp, Italy: +24bp, Portugal: +22bp, Greece: +29bp), increasing the peripheral risk premia. On the other hand, the Fed Chair's testimony before Congress suggests that we are moving close to the start of the normalisation process, boosting US bond yield across the board (2Y: +3bp, 10Y: +11bp). FX reflected the financial markets' disappointment in today's ECB action. The euro appreciated abruptly against the main currencies, especially against USD (EUR: +2.72%). Equity markets dropped sharply across the board, mainly in Europe. The most EUR-dependent sectors (industrial and export sectors) were the most punished after the abrupt appreciation of the euro (Euro Stoxx: +3.0%, IBEX 35: -1.9%, CAC: -3.0%, DAX: -2.9%, S&P 500: -0.1%). On commodity markets, oil prices rebounded today (Brent: +1.8%, WTI: +1.1%) after yesterday's falls and ahead of tomorrow's OPEC meeting. According to media reports, the pre-OPEC meeting ended without a clear decision about oil quota production. Meanwhile, the copper price rose slightly (+0.2%). Despite this improvement in commodity prices, EM currencies showed a mixed performance (RUB: -1.0%, BRL: +1.6%, COP: +0.5%, MXN: -0.8%, CLP: +0.3%).

Update 17.30 CET 03 December, 2015

Table1





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

**Daily markets (changes in bps)**

*US Treasury*

US 2yr	4.87	(1)	(1)	(20)
US 5yr	3.73	(0)	(0)	(17)
US 10yr	2.29	(1)	(1)	(8)
US 30yr	3.22	(0)	(0)	(1)

*Other*

CSX	2.31	(1)	(1)	(1)
GE	2.34	(1)	(1)	(2)
GEH	1.96	(1)	(1)	(1)

*Region*

Belgium	10.9	(3)	(3)	(1)
France	10.9	(2)	(2)	(1)
Germany	10.9	(2)	(2)	(1)
Italy	10.9	(2)	(2)	(1)
Japan	10.9	(2)	(2)	(1)
Spain	10.9	(2)	(2)	(1)
UK	10.9	(2)	(2)	(1)

*Country risk*

France	10.9	(2)	(2)	(1)
Germany	10.9	(2)	(2)	(1)
Italy	10.9	(2)	(2)	(1)
Japan	10.9	(2)	(2)	(1)
Spain	10.9	(2)	(2)	(1)
UK	10.9	(2)	(2)	(1)

**Country risk (changes in bps)**

*US Treasury*

US 2yr	4.87	(1)	(1)	(20)
US 5yr	3.73	(0)	(0)	(17)
US 10yr	2.29	(1)	(1)	(8)
US 30yr	3.22	(0)	(0)	(1)

*Other*

CSX	2.31	(1)	(1)	(1)
GE	2.34	(1)	(1)	(2)
GEH	1.96	(1)	(1)	(1)

*Region*

Belgium	10.9	(3)	(3)	(1)
France	10.9	(2)	(2)	(1)
Germany	10.9	(2)	(2)	(1)
Italy	10.9	(2)	(2)	(1)
Japan	10.9	(2)	(2)	(1)
Spain	10.9	(2)	(2)	(1)
UK	10.9	(2)	(2)	(1)

*Country risk*

France	10.9	(2)	(2)	(1)
Germany	10.9	(2)	(2)	(1)
Italy	10.9	(2)	(2)	(1)
Japan	10.9	(2)	(2)	(1)
Spain	10.9	(2)	(2)	(1)
UK	10.9	(2)	(2)	(1)

**Commodity**

WTI	10.9	(3)	(3)	(1)
Brent	10.9	(3)	(3)	(1)
Gold	10.9	(3)	(3)	(1)
Natural Gas	10.9	(3)	(3)	(1)
Crude Oil	10.9	(3)	(3)	(1)

**Banking**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

**Index**

S&P 500	10.9	(3)	(3)	(1)
NASDAQ	10.9	(3)	(3)	(1)
DAX	10.9	(3)	(3)	(1)
Nikkei	10.9	(3)	(3)	(1)
Hang Seng	10.9	(3)	(3)	(1)

**Stock**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

**Commodity**

WTI	10.9	(3)	(3)	(1)
Brent	10.9	(3)	(3)	(1)
Gold	10.9	(3)	(3)	(1)
Natural Gas	10.9	(3)	(3)	(1)
Crude Oil	10.9	(3)	(3)	(1)

**Banking**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

**Index**

S&P 500	10.9	(3)	(3)	(1)
NASDAQ	10.9	(3)	(3)	(1)
DAX	10.9	(3)	(3)	(1)
Nikkei	10.9	(3)	(3)	(1)
Hang Seng	10.9	(3)	(3)	(1)

**Stock**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

**Commodity**

WTI	10.9	(3)	(3)	(1)
Brent	10.9	(3)	(3)	(1)
Gold	10.9	(3)	(3)	(1)
Natural Gas	10.9	(3)	(3)	(1)
Crude Oil	10.9	(3)	(3)	(1)

**Banking**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

**Index**

S&P 500	10.9	(3)	(3)	(1)
NASDAQ	10.9	(3)	(3)	(1)
DAX	10.9	(3)	(3)	(1)
Nikkei	10.9	(3)	(3)	(1)
Hang Seng	10.9	(3)	(3)	(1)

**Stock**

US Bank	10.9	(3)	(3)	(1)
EU Bank	10.9	(3)	(3)	(1)
UK Bank	10.9	(3)	(3)	(1)
Japan Bank	10.9	(3)	(3)	(1)
China Bank	10.9	(3)	(3)	(1)

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

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

#### DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.