

Market Comment | China's woes rattle global financial markets

Global Financial Markets Unit
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- **Very positive payroll data in the US.** December's non-farm payrolls surged against estimates of decreasing (by 40K to 292K; consensus: 200K), with manufacturing payrolls also increasing unexpectedly (to 8K from 2K; consensus: -2K). In addition, the unemployment rate remained unchanged in line with estimates (at 5.0%).
- **Disappointed industrial production in Europe.** Germany's industrial production dropped in November, in line with our estimates (by -0.3% MoM; BBVAe: -0.3% MoM, consensus: +0.5% MoM). On another front, French industrial production decreased after the increase in the previous month (by -0.9% MoM; BBVAe: +0.1% MoM, consensus: -0.3% MoM; previous: +0.7%). However manufacturing production rose more than estimates (by +0.4% MoM; BBVAe: 0.0% MoM, consensus: +0.1% MoM).
- **Equity and oil markets have suffered one of the worst starts of the year, triggered mainly by the uncertainties surrounding China's economy and the currency outlook.** The disappointing Chinese Manufacturing and Services PMI renewed investors' concerns about China's economic outlook, while the uncertainty about the Chinese authorities' FX intervention also rattled foreign investors. Against this background, Chinese equity markets plunged by 10% in the first week of the year. Yet the market's circuit breakers might have accelerated the falls, as investors tried to sell stocks before the prescribed market halts (when there is a 5% swing in the CSI 300 trading is halted for 15 minutes, while the equity market shuts for the rest of the day if the index moves by 7%). To help to stabilise financial markets, the Chinese government suspended the circuit breaker system, the central bank set a slightly higher yuan fix and said that state-controlled funds would buy equities. Although these measures gave a breather for the markets, the volatility in equity markets remains high, suggesting that the uncertainties have not been dispelled. But China's woes dragged commodity prices, especially oil prices, which reached levels unseen since early 2004 (USD32.8/bbl for the Brent future, USD35.5/bbl for the WTI future), also wreaking havoc on equity markets. Against this backdrop, implied volatility in equity markets surged (VIX: +29.36%, VSTOXX: +33.9%), while equity markets dropped sharply across the board (Shanghai: -10.0%, Nikkei: -7.0%, S&P 500: -4.9%, Euro Stoxx -6.7%, DAX -7.9%, IBEX-35 -6.2%, CAC: -6.1%, MSCI Latam: -5.5%). On bond markets, safe-haven bonds have been benefiting from the worries in emerging economies underpinned by China, contributing to the falls in safe-haven yields in Europe and the USA (US 10Y: -14bp, GER 10Y: -12bp, FRA 10Y: -11bp). Moreover, the falls in oil prices increased concerns about inflation expectations, dragging inflation measures implied in bond markets: the 5Y5Y inflation expectations moderated during the week (-4bp in the eurozone and -10bp in the US). Furthermore, concerns about the potential impact of the high volatility in Chinese financial markets combined with the FOMC minutes, which strengthened the message of intended gradualism, weighed on the 2Y US yield, while the probabilities of a second rate hike in April declined in the week to 43% from 49%. Meanwhile, European periphery yields showed a mixed performance (ITA 10Y: -8bp, SPA 10Y: -4bp, POR 10Y: +8bp). As a result, peripheral risk premia increased during the week, especially in Portugal (ITA: +4bp, SPA: +5bp, POR: +19.6bp). In emerging markets, the five-year sovereign CDS increased across the

board, led by Colombia (Colombia: +20bp Mexico: +10bp Russia: +19bp Turkey: +19bp China: +13bp), hampered by the impact of commodity falls. On FX markets, the USD showed a mixed performance against other major currencies, with safe-haven currencies and carry trade currencies appreciating against the USD (EUR: +0.43%, GBP: -1.42%, JPY: +2.46%), while EM currencies depreciated against the dollar over the week (RUB: -3.2%, MXN: -4.0%, COP: -3.4%, CLP: -2.7%, BRL: -2.0%) - which was caused primarily by the deterioration in commodity prices. Yet on the commodity markets themselves, safer commodities such as gold increased (+4.0%), helped by the risk-off mood in the market, while cyclical commodities slumped.

Update 17.30 CET 08 January, 2015

Table1

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

Debt markets (changes in bp)

Government bonds

US 2yr 0.94 (2.1) (1.5) (1.5)
 US 5yr 1.47 (2.0) (1.6) (1.6)
 US 10yr 2.13 (2.0) (1.4) (1.4)
 Japan 10yr 0.51 (2.0) (1.4) (1.4)
 OER 3yr 4.38 (1.4) (1.7) (1.7)
 OER 5yr 4.14 (2.1) (1.7) (1.7)
 OER 10yr 4.05 (2.1) (1.4) (1.4)

Belgium 10yr 0.86 (4.1) (1.6) (1.6)
 France 10yr 0.80 (4.1) (1.6) (1.6)
 Greece 10yr 1.02 (2.0) (1.6) (1.6)
 Ireland 10yr 1.10 (1.6) (1.6)
 Italy 10yr 1.52 (3.0) (1.6) (1.6)
 Netherlands 10yr 0.80 (1.4) (1.6) (1.6)
 Portugal 10yr 2.58 (1.4) (1.6) (1.6)
 Spain 10yr 1.74 (2.1) (1.6) (1.6)

Emerging markets

Brazil 10yr 8.51 (4.4) (1.6) (1.6)
 China 10yr 4.52 (1.4) (1.6) (1.6)
 Colombia 10yr 5.80 (1.4) (1.6) (1.6)
 Korea 10yr 4.23 (1.4) (1.6) (1.6)
 Mexico 10yr 7.41 (1.6) (1.6) (1.6)
 Poland 10yr 2.83 (1.4) (1.6) (1.6)
 Russia 5yr 3.98 (1.4) (1.6) (1.6)
 Russia 10yr 4.68 (1.6) (1.6) (1.6)
 Turkey 10yr 10.89 (7.4) (1.6) (1.6)

India 10yr 14.01 (1.6) (1.6)

Indonesia 10yr 8.81 (1.4) (1.6) (1.6)

Country risk (changes in bp)

10yr sovereign spreads (against Germany)

Belgium 35 (2.1) (1.6) (1.6)
 France 37 (1.7) (1.6) (1.6)
 Greece 110 (1.6) (1.6) (1.6)
 Ireland 40 (1.4) (1.4) (1.4)
 Italy 101 (1.6) (1.6) (1.6)
 Netherlands 35 (1.6) (1.6) (1.6)
 Portugal 108 (2.1) (1.6) (1.6)
 Spain 119 (1.6) (1.6) (1.6)

5yr sovereign spreads (against Germany)

Belgium 11 (1.6) (1.6) (1.6)
 France 17 (1.6) (1.6) (1.6)
 Greece 91 (1.6) (1.6) (1.6)
 Ireland 21 (1.6) (1.6) (1.6)
 Italy 65 (1.6) (1.6) (1.6)
 Netherlands 11 (1.6) (1.6) (1.6)
 Portugal 103 (2.1) (1.6) (1.6)
 Spain 108 (1.6) (1.6) (1.6)

3yr sovereign spreads (against Germany)

Belgium 4 (1.6) (1.6) (1.6)
 France 5 (1.6) (1.6) (1.6)
 Greece 51 (1.6) (1.6) (1.6)
 Ireland 10 (1.6) (1.6) (1.6)
 Italy 38 (1.6) (1.6) (1.6)
 Netherlands 4 (1.6) (1.6) (1.6)
 Portugal 111 (1.6) (1.6) (1.6)
 Spain 109 (1.6) (1.6) (1.6)

5yr sovereign CDS

EUR CDS Belgium 33 (1.6) (1.6) (1.6)
 EUR CDS France 36 (1.6) (1.6) (1.6)
 EUR CDS Germany 25 (1.6) (1.6) (1.6)
 EUR CDS Greece 105 (1.6) (1.6) (1.6)
 EUR CDS Ireland 41 (1.6) (1.6) (1.6)
 EUR CDS Italy 102 (1.6) (1.6) (1.6)
 EUR CDS Netherlands 16 (1.6) (1.6) (1.6)
 EUR CDS Portugal 103 (1.6) (1.6) (1.6)
 EUR CDS Spain 104 (1.6) (1.6) (1.6)
 EUR CDS UK 20 (1.6) (1.6) (1.6)
 EUR CDS US 20 (1.6) (1.6) (1.6)

5yr sovereign CDS

EUR CDS Brazil 442 (2.1) (1.6) (1.6)
 EUR CDS China 132 (1.6) (1.6) (1.6)
 EUR CDS Colombia 205 (1.6) (1.6) (1.6)
 EUR CDS Korea 102 (1.6) (1.6) (1.6)
 EUR CDS Mexico 180 (1.6) (1.6) (1.6)
 EUR CDS Russia 324 (1.6) (1.6) (1.6)
 EUR CDS Turkey 235 (1.6) (1.6) (1.6)
 EUR CDS Chile 121 (1.6) (1.6) (1.6)
 EUR CDS India 323 (1.6) (1.6) (1.6)
 EUR CDS Indonesia 248 (1.6) (1.6) (1.6)

Country risk (changes in bp)

Large Spanish banks CDS 145 (2.1) (1.6) (1.6)

Medium Spanish banks CDS 171 (1.6) (1.6) (1.6)
 UK banks CDS 82 (1.6) (1.6) (1.6)

Greek banks CDS 162 (2.1) (1.6) (1.6) (1.6)

Russian banks CDS 39 (1.6) (1.6) (1.6)

Country risk (changes in bp)

US Non-Ancora CDS 39 (1.6) (1.6) (1.6)

S&P Non-Ancora CDS 102 (1.6) (1.6) (1.6)
 UK Non-Ancora CDS 208 (1.6) (1.6) (1.6)

Interbank markets (changes in bp)

US 3m spread 3m 12 (0.1) (1.6) (1.6)
 US 6m spread 6m 26 (0.1) (1.6) (1.6)
 US 12m spread 12m 42 (0.1) (1.6) (1.6)
 US 3m spread 3m 23 (0.1) (1.6) (1.6)
 US 6m spread 6m 39 (0.1) (1.6) (1.6)
 US 12m spread 12m 42 (0.1) (1.6) (1.6)
 Spain Fed Spread 3m 8 (1.6) (1.6) (1.6)

EDMba index 4.2 (1.6) (1.6) (1.6)
 Euribor 3m 4.38 (1.6) (1.6) (1.6)
 Euribor 6m 4.51 (1.6) (1.6) (1.6)

Libor 3m 4.62 (1.6) (1.6) (1.6)
 Libor 6m 4.75 (1.6) (1.6) (1.6)

Stock markets (Changes in percentage)

Major global indexes

S&P 500 1842.81 (4.8) (1.6) (1.6)
 Dow Jones 1842.81 (4.8) (1.6) (1.6)
 Nikkei 19385.41 (2.1) (1.6) (1.6)
 FTSE 100 5002.41 (1.6) (1.6) (1.6)
 Euro Stoxx 50 3248.11 (1.6) (1.6) (1.6)
 MSCI EAFE 1621.41 (1.6) (1.6) (1.6)
 DAX 10914.81 (1.6) (1.6) (1.6)
 CAC40 1121.41 (1.6) (1.6) (1.6)
 IBEX 10914.81 (1.6) (1.6) (1.6)
 ASI 10914.81 (1.6) (1.6) (1.6)

Developing

US Banks 8.8 (1.6) (1.6) (1.6)
 JPM 16.1 (1.6) (1.6) (1.6)
 Cit 47.7 (1.6) (1.6) (1.6)
 Bank 15.1 (1.6) (1.6) (1.6)
 WFS 23.7 (1.6) (1.6) (1.6)
 GS 105.1 (1.6) (1.6) (1.6)

UK banks

HSBC 88.2 (1.6) (1.6) (1.6)
 HSBC 158.9 (1.6) (1.6) (1.6)
 HSBC 208 (1.6) (1.6) (1.6)
 Barclays 201 (1.6) (1.6) (1.6)
 Lloyds 164 (1.6) (1.6) (1.6)

EU banks

BNP 102.2 (1.6) (1.6) (1.6)
 BNP 181 (1.6) (1.6) (1.6)
 Citigroup 10 (1.6) (1.6) (1.6)
 ING 11 (1.6) (1.6) (1.6)
 Intesa 23 (1.6) (1.6) (1.6)
 SG 36 (1.6) (1.6) (1.6)
 Unicredit 47 (1.6) (1.6) (1.6)

Large Spanish banks

Banqueparibas 89.3 (1.6) (1.6) (1.6)
 BBVA 47.1 (1.6) (1.6) (1.6)
 BSN 47.1 (1.6) (1.6) (1.6)
 Wadon Spanish banks 75.1 (1.6) (1.6) (1.6)
 CaixaBank 1.0 (1.6) (1.6) (1.6)
 Pegasus 2.0 (1.6) (1.6) (1.6)
 Sabadell 1.0 (1.6) (1.6) (1.6)
 Santander 8.2 (1.6) (1.6) (1.6)
 Bankia 1.0 (1.6) (1.6) (1.6)

Greek banks

Alpha Bank 1.0 (1.6) (1.6) (1.6)
 Piraeus Bank 1.0 (1.6) (1.6) (1.6)
 National Bank 1.0 (1.6) (1.6) (1.6)
 Eurobank Ergasias 1.0 (1.6) (1.6) (1.6)

Country risk (changes in bp)

US Non-Ancora CDS 39 (1.6) (1.6) (1.6)

S&P Non-Ancora CDS 102 (1.6) (1.6) (1.6)
 UK Non-Ancora CDS 208 (1.6) (1.6) (1.6)

Country risk (change in percentage)

Brazil 32.14 (1.6) (1.6) (1.6)
 ITN 32.14 (1.6) (1.6) (1.6)
 China 20.19 (1.6) (1.6) (1.6)
 S&P 104.3 (1.6) (1.6) (1.6)
 S&P 104.3 (1.6) (1.6) (1.6)
 S&P 104.3 (1.6) (1.6) (1.6)
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Country risk (change in percentage)

Brazil 32.14 (1.6) (1.6) (1.6)
 ITN 32.14 (1.6) (1.6) (1.6)
 China 20.19 (1.6) (1.6) (1.6)
 S&P 104.3 (1.6) (1.6) (1.6)
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Stock financing (Debt and fee)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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