

# Market Comment | Doubts about US economy added further pressure to risk assets

Global Financial Markets Unit  
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- **Mixed data in the US.** US ADP employment decreased in January less than expected (by 62K to 205K; consensus: 195K). Meanwhile, the ISM non-manufacturing composite dropped more than estimated (by 2.3 to 53.5; consensus: 55.1), led by declines in business activity, new orders and employment, although levels continued to indicate expansion of service activities.
- **William Dudley of the Federal Reserve of NY showed concern about the health of the US economy.** He said that the weakening outlook for the global economy and further appreciation of the US dollar could have "significant consequences" for the US economy. The NY Fed president said that the considerable tightening since December is a fact and added that: "So if those financial conditions were to remain in place by the time we get to the March meeting, we would have to take that into consideration in terms of that monetary policy decision".
- **Doubts about US economy added further pressure to risk assets.** The negative dynamic on financial markets continued across the board. The better-than-expected confidence indicators in the Eurozone's services sector and employment data in the US (ADP survey) were largely offset by weaker-than-expected US ISM services. Furthermore, William Dudley's interview, pointing out his personal worries about the consequences of further tightening of the monetary stance on the US economy, fueled the ongoing uncertainty and reduced market expectations of a March rate hike in the US (currently below 5%), and even for a rise in June (around 15% today). Mr. Dudley's remarks also had a dramatic impact on the FX markets, with the USD depreciating sharply against other major currencies, breaking the EURUSD 1.10 barrier (EUR: +1.22%, JPY: +1.67%, GBP: +1.17%). EM currencies also appreciated against the US dollar (RUB: +2.1%, BRL: +1.1%, COP: +0.4%, CLP: +0.9%, MXN: +0.4%), boosted mainly by the rebound in oil prices (Brent: +4.9%, WTI: +5.4%). Cyclical risk premia continued to drag the equity markets down, with European stocks falling sharply during the whole session, led by the banking sector again, although renewed rumours of a possible cut in oil output helped to trim some of the losses at the end of the session (Euro Stoxx: -1.9%, DAX: -1.6%, IBEX: -2.4%, CAC: -1.3%), in line with the Asian markets (Nikkei: -3.15%, Shanghai: -0.38%). Meanwhile, US indices were showing a mixed performance at the time of writing (S&P: -0.6%, Dow: +0.1%), amid worse-than-expected quarterly corporate results. Despite Mr. Dudley's comment, US treasury yields remained unchanged after yesterday's slump, while European yields dropped across the board (GER 10Y: -3bp, FRA 10Y: -3bp, ITA 10Y: -4bp, SPA 10Y: -3bp, POR 10Y: -5bp).

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Table1

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

**Libor markets (changes in bp)**

**3 months**  
 US 3m 8.71 (4.01) (33) (34)  
 US 3m 1.24 (2.32) (11) (42)  
 US 15m 1.58 (0.16) (44) (45)  
 Japan 3m 0.71 (0.11) (0.11) (0.01)  
 GB 3m 0.5 (0.14) (0.14) (0.14)  
 GB 6m 0.38 (0.13) (0.13) (0.13)  
 Belgium 3m 0.74 (0.14) (0.14) (0.14)  
 France 3m 0.71 (0.14) (0.14) (0.14)  
 Greece 3m 0.32 (0.14) (0.14) (0.14)  
 Korea 3m 0.5 (0.14) (0.14) (0.14)  
 Malaysia 3m 0.5 (0.14) (0.14) (0.14)  
 Netherlands 3m 0.5 (0.14) (0.14) (0.14)  
 Portugal 3m 0.5 (0.14) (0.14) (0.14)  
 Spain 3m 0.5 (0.14) (0.14) (0.14)  
**6 months**  
 France 3m 0.5 (0.14) (0.14) (0.14)  
 Greece 3m 0.32 (0.14) (0.14) (0.14)  
 Korea 3m 0.5 (0.14) (0.14) (0.14)  
 Malaysia 3m 0.5 (0.14) (0.14) (0.14)  
 Netherlands 3m 0.5 (0.14) (0.14) (0.14)  
 Portugal 3m 0.5 (0.14) (0.14) (0.14)  
 Spain 3m 0.5 (0.14) (0.14) (0.14)  
**1 year**  
 France 3m 0.5 (0.14) (0.14) (0.14)  
 Greece 3m 0.32 (0.14) (0.14) (0.14)  
 Korea 3m 0.5 (0.14) (0.14) (0.14)  
 Malaysia 3m 0.5 (0.14) (0.14) (0.14)  
 Netherlands 3m 0.5 (0.14) (0.14) (0.14)  
 Portugal 3m 0.5 (0.14) (0.14) (0.14)  
 Spain 3m 0.5 (0.14) (0.14) (0.14)

**Country risk (changes in bp)**

**1 yr sovereign spreads (against Germany)**  
 Belgium 40 (2) (1) (2)  
 France 13 (1) (1) (2)  
 Greece 304 (2) (1) (43)  
 Ireland 27 (2) (1) (3)  
 Italy 116 (2) (1) (20)  
 Netherlands 13 (1) (1) (2)  
 Portugal 205 (2) (1) (3)  
 Spain 132 (1) (1) (2)  
**5 yr sovereign spreads (against Germany)**  
 Belgium 6 (1) (1) (2)  
 France 11 (1) (1) (2)  
 Greece 103 (1) (1) (2)  
 Ireland 5 (1) (1) (2)  
 Italy 41 (1) (1) (2)  
 Netherlands 11 (1) (1) (2)  
 Portugal 102 (1) (1) (2)  
 Spain 12 (1) (1) (2)  
**2 yr sovereign spreads (against Germany)**  
 Belgium 8 (1) (1) (2)  
 France 6 (1) (1) (2)  
 Greece 8 (1) (1) (2)  
 Ireland 6 (1) (1) (2)  
 Italy 41 (1) (1) (2)  
 Netherlands 11 (1) (1) (2)  
 Portugal 98 (1) (1) (2)  
 Spain 8 (1) (1) (2)

**1 yr sovereign CDS**

US CDS Belgium 38 (2) (1) (4)  
 US CDS France 28 (2) (1) (4)  
 US CDS Germany 8 (2) (1) (1)  
 US CDS Greece 208 (4) (2) (26) (19)  
 US CDS Ireland 47 (2) (1) (5)  
 US CDS Italy 105 (2) (1) (26)  
 US CDS Netherlands 11 (2) (1) (1)  
 US CDS Portugal 102 (4) (2) (14) (14)  
 US CDS Spain 96 (1) (1) (1)  
 US CDS UK 28 (1) (1) (1)  
 US CDS US 22 (1) (1) (1)

**1 yr sovereign CDS**

US CDS China 402 (1) (1) (1) (1)  
 US CDS China 138 (1) (1) (1) (1)  
 US CDS Canada 297 (1) (1) (1) (1)  
 US CDS Mexico 205 (1) (1) (1) (1)  
 US CDS Peru 110 (1) (1) (1) (1)  
 US CDS Venezuela 869 (1) (1) (1) (1)  
 US CDS Argentina 41 (1) (1) (1)  
 US CDS Russia 34 (1) (1) (1) (1)  
 US CDS Turkey 208 (1) (1) (1) (1)  
 US CDS China 102 (1) (1) (1) (1)  
 US CDS India 174 (1) (1) (1) (1)  
 US CDS Indonesia 57 (1) (1) (1) (1)

**Credit risk**

**Default probability (changes in percentage point) for AAA agencies**  
 US 22 (1) (1) (1) (1)  
 US 2007 21 (1) (1) (1) (1)  
 EU 1 yr maturity 32 (1) (1) (1) (1)  
 Citigroup maturity 14 (1) (1) (1) (1)  
 EU FX maturity 12 (1) (1) (1) (1)  
 Credit spread Baa 31 (1) (1) (1) (1)  
 US 10 yr maturity 77 (1) (1) (1) (1)

**Bank credit ratings**

US banks CDS 31 (1) (1) (1) (1)  
 EU banks CDS 125 (1) (1) (1) (1)  
 UK banks CDS 109 (1) (1) (1) (1)

Large Spanish banks CDS 102 (1) (1) (1) (1)  
 Medium Spanish banks CDS 210 (1) (1) (1) (1)  
 Greek banks CDS 105 (1) (1) (1) (1)  
 Korean banks CDS 103 (1) (1) (1) (1)

**Country risk (changes in bp)**

US Non-Russia CDS 8 (1) (1) (1) (1)  
 EU Non-Russia CDS 8 (1) (1) (1) (1)  
 UK Non-Russia CDS 8 (1) (1) (1) (1)

**Libor and swap rates (changes in bp)**

US 1M 0.05 spread 3m 14 (1) (1) (1) (1)  
 US 1M 0.05 spread 6m 41 (1) (1) (1) (1)  
 US 1M 1D spread 3m 27 (1) (1) (1) (1)

**US 0.05 spread 3m**

US 0.05 spread 3m 27 (1) (1) (1) (1)  
 US 0.05 spread 6m 41 (1) (1) (1) (1)  
 US 1M 1D spread 3m 27 (1) (1) (1) (1)

**Spain 1M spread 3m**

Spain 1M spread 3m 15 (1) (1) (1) (1)  
 Korea Index 0.22 (1) (1) (1) (1)  
 Eurobar 0.48 (1) (1) (1) (1)  
 Eurobar Ctr 0.41 (1) (1) (1) (1)

**Libor 3m**

Libor 3m 0.62 (1) (1) (1) (1)  
 Libor 1M 1.5 (1) (1) (1) (1)

**Stock markets (changes in percentage)**

**Most equity indices**  
 S&P500 1891.2 (4.6) (4) (4) (1)  
 Dow Jones 10714.5 (1.1) (1) (1) (1)  
 Nikkei 17711.1 (2.3) (2) (2) (2)  
 FTSE 100 5028.7 (4) (4) (4) (4)  
 Euro Stoxx 50 2005.1 (4) (4) (4) (4)  
 MSCI Asia 124 (4) (4) (4) (4)  
 CAC 40 211 (1) (1) (1) (1)  
 ASI 1928.8 (2.1) (1) (1) (1)  
 ASI Athens 122.7 (4) (4) (4) (4)

**Bank equities**

US banks 1416.2 (2.1) (2) (2) (2)  
 JP 241 (1) (1) (1) (1)  
 Cit 38 (1) (1) (1) (1)  
 Baa 128 (1) (1) (1) (1)  
 MS 24 (1) (1) (1) (1)  
 GS 102 (1) (1) (1) (1)

**US banks**

US banks 1416.2 (2.1) (2) (2) (2)  
 WDC 184 (1) (1) (1) (1)  
 RBS 202 (1) (1) (1) (1)  
 Citigroup 101 (1) (1) (1) (1)  
 Lloyds 88 (1) (1) (1) (1)

**EU banks**

EU banks 14 (1) (1) (1) (1)  
 BNP 108 (1) (1) (1) (1)  
 CMB 4 (1) (1) (1) (1)  
 Deutsche Bank 14 (1) (1) (1) (1)  
 HSBC 91 (1) (1) (1) (1)  
 BBVA 11 (1) (1) (1) (1)  
 Breda 11 (1) (1) (1) (1)

**Large Spanish banks**

Large Spanish banks 10.2 (1) (1) (1) (1)  
 Santander 1.5 (1) (1) (1) (1)  
 BBVA 1.5 (1) (1) (1) (1)

**Medium Spanish banks**

Medium Spanish banks 68.2 (1) (1) (1) (1)  
 Caixabank 2.2 (1) (1) (1) (1)  
 Pousada 2.2 (1) (1) (1) (1)  
 Banco 7.4 (1) (1) (1) (1)  
 Bankinter 6 (1) (1) (1) (1)  
 Bankia 1.8 (1) (1) (1) (1)

**Greek banks**

Greek banks 2.9 (1) (1) (1) (1)  
 Alfa Bank 1.2 (1) (1) (1) (1)  
 Piraeus Bank 2.4 (1) (1) (1) (1)  
 Eurobank Ergasys 7 (1) (1) (1) (1)

**Most equity indices**

MSCI Latin 5030 (1) (1) (1) (1)  
 Nikkei 17711.1 (2.3) (2) (2) (2)  
 Nikkei 17711.1 (2.3) (2) (2) (2)  
 MSCI E & S 4000 (1) (1) (1) (1)  
 France 1730 (1) (1) (1) (1)  
 Korea 1100 (1) (1) (1) (1)  
 MSCI Asia 124 (1) (1) (1) (1)  
 Singapore Composite 2738 (1) (1) (1) (1)  
 Nikkei Composite 496 (1) (1) (1) (1)

**Bank equities**

Turkish banks 70 (1) (1) (1) (1)  
 Allianz 7.0 (1) (1) (1) (1)  
 Swire 1 (1) (1) (1) (1)  
 Turkish Airlines 11 (1) (1) (1) (1)  
 Russian banks 135 (1) (1) (1) (1)  
 Citigroup 101 (1) (1) (1) (1)  
 VTB Bank 11 (1) (1) (1) (1)

**US banks (in percentage points) for dollar depreciation**

US banks 1.00 (1) (1) (1) (1)  
 US banks 1.00 (1) (1) (1) (1)  
 US banks 1.00 (1) (1) (1) (1)  
 US banks 1.00 (1) (1) (1) (1)

**Country risk**

US CDS Argentina 14 (1) (1) (1) (1)  
 US CDS Brazil 11 (1) (1) (1) (1)  
 US CDS Canada 297 (1) (1) (1) (1)  
 US CDS China 402 (1) (1) (1) (1)  
 US CDS Mexico 205 (1) (1) (1) (1)  
 US CDS Peru 110 (1) (1) (1) (1)  
 US CDS Venezuela 869 (1) (1) (1) (1)  
 LAC 102 (1) (1) (1) (1)

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

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

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