BBVA Research

Market Comment | Rebound in European equity market after yesterday’s Wall Street gains

Global Financial Markets Unit
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- **Financial markets turmoil increases expectations of G-20 meeting,** which will take place in Shanghai on February 26-27. Ahead of the meeting the IMF has published a report in which it warns that the risk of economic recovery being derailed has increased, and it has urged broad-based and internationally coordinated policy response. The IMF recommends keeping accommodative monetary policies and giving fiscal policy more space in DMs. Fiscal buffers and exchange rate flexibility might be used by EMs to smooth the slowdown (see). US and Chinese economic leaders also support an expansion of monetary policy. However, disparate economic realities and a dysfunctional international financial system will limit the scope of commitments that can be achieved in Shanghai (see)

- **Positive durable goods orders in the US.** Durable goods orders surged in January (by 4.9% MoM; consensus: 2.9%), the improvement also was shown without transportation, increasing by 1.8% MoM (consensus: 0.3%). On the other hand, US jobless claims rose more than expected in the week ended 20 February (by 10K to 272K; consensus: 270K).

- **Dovish mood rules in Fed’s members’ tone. Robert Kaplan, head of the Dallas Federal Reserve**, warned about interest rate rises in a context of increasing external risks. He argued that the Fed could maintain the rates on hold for longer. The USD appreciation is also an important source of concern: “We have to be sensitive to the fact that the dollar, all things being equal, is going to tend to be stronger. We are going to have to be sensitive to the impact we have on that.” In the same line, **St. Louis Fed President James Bullard** focused on the lack of inflation, saying "I regard it as unwise to continue a normalization strategy in an environment of declining market-based inflation expectations," and adding that the current 5y inflation break-even level "represents an erosion of central bank credibility with respect to the inflation target," **Dennis Lockhart, Atlanta Fed’s president**, also pointed out that the FOMC will be dependent on data to continue with the process of interest rate normalization, while low energy prices and concerns about China outlook increase the complexity of decision making. He also warned about the health of the banking system in a context of increasing interest rates: “Rising rates will create challenges in managing net interest margins and risks.”

- **Eurozone CPI final data in January was revised down unexpectedly**, increasing by 0.3% YoY (BBVAe and consensus: 0.4%) Household credit stood at 1.9% YoY in January, while non-financial corporate credit increased in January (0.4% YoY, previous 0% YoY). On another front, Spanish GDP 4Q15 final data confirmed growth of 0.8% QoQ.

- **Rebound in European equity market after yesterday’s Wall Street gains.** Despite the new slump in China’s equity market (Shanghai: -6.4% Shenzhen: -7.3%), the European equity markets were able to recover a large part of yesterday’s slump, underpinned by yesterday’s rebound in US market at the end of the session - led by the rise in oil prices to a level close to US$35 per barrel for Brent, on the back of EIA weekly data. The positive US new orders figures released today, and the dovish tone of Fed officials also encouraged the rebound in European equity indices (Eurostoxx: +1.9% IBEX: +2.4% DAX: +1.7% CAC: +2.2%). Nonetheless, yesterday's rally in the US equity market has faded today as the sharp fall in the Chinese equity market renewed concerns about the global outlook and financial stability (S&P and DJ: +0.1%). On bond markets, US treasury yields continued decreasing (2Y: -3bp 10Y: -5bp) helped by the dovish tone of some Fed members. Meanwhile, European yields remained almost unchanged across the board with the exception of Portugal (POR 10Y: -14bp), which declined, favoured by yesterday's approval of the 2016 budget. In FX markets, the USD showed a mixed performance against the other major currencies, (EUR: +0.18% GBP: +0.13% JPY: -0.36%). EM currencies appreciated against the US dollar, showing some rebound on Fed members' dovish comments (BRL: +0.5% MXN: +0.2% COP: +0.8% CLP: +0.6%), with the exception of Russian rouble (RUB: -0.5%), which was undermined by oil prices (Brent: -1.6% Wtx: -2.3%).

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Table1

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

Debt markets *(changes in bp)*

Developed Markets

US 2-yr 0,72 (-3) (3) (-12) (-33)
US 5-yr 1,16 (-6) (-4) (-27) (-60)
US 10-yr 1,7 (-5) (-4) (-29) (-57)

Japan 10-yr -0,07 (-1) (-9) (-29) (-33)

GER 2-yr -0,54 (-2) (-2) (-8) (-19)
GER 5-yr -0,36 (-3) (-4) (-11) (-31)
GER 10-yr 0,13 (-2) (-9) (-31) (-50)

Belgium 10-yr 0,63 (-2) (-7) (-25) (-34)
France 10-yr 0,51 (-2) (-8) (-24) (-48)
Greece 10-yr 10,66 (-1) (17) (96) (237)
Ireland 10-yr 0,91 (-8) (-4) (-11)
Italy 10-yr 1,51 (-3) (-5) (0) (-9)
Netherlands 10-yr 0,29 (-2) (-6) (-26) (-51)
Portugal 10-yr 3,33 (-14) (-7) (34) (81)
Spain 10-yr 1,6 (-2) (-10) (-4) (-17)

Emerging Markets

Brazil 10-yr 15,96 (6) (-9) (-63) (-55)
Chile 10-yr 4,45 (0) (0) (-15) (-21)
Colombia 10-yr 9,05 (0) (-10) (-3) (39)
Mexico 10-yr 6,03 (-4) (-4) (-19) (-23)
Peru 10-yr 7,53 (2) (0) (9) (22)

Poland 10-yr 2,89 (0) (-7) (-18) (-5)
Russia 5-yr 9,79 (-19) (-24) (-70) (-9)
Russia 10-yr 9,67 (-19) (-22) (-72) (12)
Turkey 10-yr 10,46 (-9) (-12) (-33) (-1)

India 10-yr 7,88 (5) (14) (7) (12)
Indonesia 10-yr 8,28 (0) (24) (-20) (-46)

Country risk *(changes in bp)*

Developed Markets

10-yr sovereign spreads *(against Germany)*

Belgium 50 (0) (2) (6) (16)
France 37 (1) (1) (7) (1)
Greece 1053 (1) (25) (128) (287)
Ireland 78 (-5) (4) (20) (26)
Italy 137 (-1) (4) (31) (41)
Netherlands 16 (0) (2,2) (5) (-1)
Portugal 320 (-12) (1,1) (66) (131)
Spain 147 (0) (-1) (28) (33)

5-yr sovereign spreads *(against Germany)*

Belgium 9 (0) (-0,7) (-3) (1)
France 17 (1) (0) (-1) (4)
Greece 1638 (3) (4) (11) (31)
Ireland 44 (-4) (4) (16) (18)
Italy 85 (1) (1) (11) (30)
Netherlands 1 (0) (0,6) (-3) (1)
Portugal 268 (-6) (-8) (85) (157)
Spain 92 (3) (1) (14) (21)

2-yr sovereign spreads *(against Germany)*

Belgium 8 (1) (1) (4) (4)
France 12 (0) (0,3) (4) (8)
Ireland 31 (-1) (0) (17) (17)
Italy 57 (1) (1) (11) (25)
Netherlands 7 (2) (3) (4) (9)
Portugal 145 (0) (-32) (61) (100)
Spain 62 (1) (9) (17) (27)

5-yr sovereign CDS

5-yr CDS Belgium 50 (0) (2) (10) (18)
5-yr CDS France 38 (3) (-1) (9) (12)
5-yr CDS Germany 23 (2) (-1) (8) (11)
5-yr CDS Greece 1360 (10) (2) (89) (301)
5-yr CDS Ireland 72 (0) (7) (20) (32)
5-yr CDS Italy 152 (6) (-3) (33) (56)
5-yr CDS Netherlands 27 (4) (1) (6) (13)
5-yr CDS Portugal 329 (-4) (-22) (147) (161)
5-yr CDS Spain 120 (5) (-6) (20) (31)
5-yr CDS UK 35 (-1) (2) (6) (15)
5-yr CDS US 20 (-1) (0) (0) (2)

Emerging Markets

5-yr sovereign CDS

5-yr CDS Brazil 438 (-13) (-27) (-50) (-53)
5-yr CDS Chile 119 (-1) (-7) (-26) (-8)
5-yr CDS Colombia 270 (-6) (-20) (-27) (31)
5-yr CDS Mexico 195 (-2) (-5) (-12) (25)
5-yr CDS Peru 193 (-2) (-6) (-28) (8)
5-yr CDS Venezuela 7076 (-121) (-1159) (-2067) (1033)

5-yr CDS Poland95 (2) (-1) (5) (23)
5-yr CDS Russia 335 (7) (4) (-11) (33)
5-yr CDS Turkey 300 (8) (3) (13) (27)

5-yr CDS China 135 (-1) (2) (5) (27)
5-yr CDS India 175 (2) (5) (1) (27)
5-yr CDS Indonesia 237 (1) (4) (-15) (10)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*

VIX 20,77 (0,2) (-4) (-7,7) (3)
VSTOXX 31,03 (-6,3) (0,4) (10,4) (9)
EM EFT volatility Index 30 (2) (-5) (-4) (33)
Dollar/euro volatility 11,2 (-7,1) (-6,7) (26,8) (16)
EM FX volatility index 12 (0) (-2) (4) (8)
Credit spread (BAA) 360,8 (4,6) (-2,2) (8,6) (38)
US bonds volatility index 85 (0) (-1) (13) (25)

Bank risk *(changes in bp)*

US banks CDS 108 (1) (1) (16) (33)
EMU banks CDS 152 (9) (16) (51) (68)
UK banks CDS 150 (6) (24) (54) (73)

Large Spanish banks CDS 174 (7) (10) (20) (37)
Medium Spanish banks CDS 226 (-3) (3) (31) (69)

Greek banks CDS 1666 (0) (-50) (107) (14)
Russian banks CDS 421 (7) (-53) (-27) (39)

Corporate risk *(changes in bps)*

US Non-financial CDS 494 (-134) (-94) (92) (113)
EMU Non-financial CDS 201 (6) (0) (14) (29)
UK Non-financial CDS 214 (8) (-2) (-12) (22)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 15 (1) (0) (1) (4)
UEM OIS spread 12m 41 (1) (0) (1) (8)
UEM TED spread 3m 42 (0) (10,4) (9) (1)

US OIS spread 3m 23 (0) (0) (1) (1)
US OIS spread 12m 71 (2) (-1) (5) (15)
US TED spread 3m 31 (1) (-1) (0) (-14)

Spain Ted Spread 3m -1 (1) (-4,2) (-8) (-5)

EONIA Index -0,25 (0) (-0,3) (-1) (-12)
Euribor 3m -0,2 (0) (-0,6) (-4) (-7)
Euribor 12m -0,02 (0) (0) (-4) (-8)

Libor 3m 0,63 (0) (2) (1) (2)
Libor 12m 1,15 (0) (1) (0) (-2)

Stock markets *(Changes in percentage)*

Developed Markets

Main equity indices

S&P500 1932,2 (0,1) (0,7) (1,5) (-5)
Dow Jones 16506,6 (0,1) (0,6) (2,1) (-5)
Nikkei 16140,3 (1,4) (-0,3) (-3,4) (-15)
FTSE 100 6013,9 (2,5) (0,7) (1,7) (-4)
EuroStoxx 50 2874,4 (1,9) (-0,7) (-5,2) (-12)
IBEX8207,8 (2,4) (-1,1) (-5,6) (-14)
DAX 9325,8 (1,7) (-1,5) (-5,1) (-13)
CAC4245,2 (2,2) (0,1) (-2,6) (-8)
MIB 17094,6 (2,2) (-0,1) (-9,7) (-20)
ASE Athens 484 (2) (-2,8) (-11,4) (-23)

Bank stocks

US banks 73,4 (0,7) (-1,1) (-4,9) (-22)
JPM 56,4 (0,4) (-2,5) (-1,3) (-15)
Citi 38,2 (0,4) (-1,7) (-5,6) (-26)
BoA 12,2 (0,2) (-0,7) (-8,7) (-28)
MS 24,2 (2,2) (1,1) (-4,9) (-24)
GS 146,7 (0,8) (-0,7) (-5) (-19)

UK banks 74,1 (7,2) (3,5) (-2,7) (-16)
HSBC 448,2 (3,3) (-0,2) (-5,6) (-16)
RBS 244,5 (5,3) (-2,9) (-6,3) (-19)
Barclays 164,8 (5,1) (1,9) (-10) (-25)
Lloyds 70,6 (13,5) (13) (9) (-3)

EMU banks 81,5 (2,6) (-1,1) (-9,1) (-25)
BNP 41,5 (3,8) (1,2) (-5,9) (-21)
Crédit Agricole 9,1 (1,9) (-2,5) (-1,9) (-16)
Deutsche Bank 15 (2,7) (-3,1) (-12,2) (-33)
ING 10,4 (2,8) (-0,3) (-2,5) (-16)
Intesa 2,3 (1,3) (-3,6) (-14,4) (-26)
SG 30,9 (3,2) (-0,1) (-13,6) (-27)
Unicredito 3,4 (2,5) (1,4) (-13,6) (-35)

Large Spanish banks 59,8 (2,1) (-3,3) (-9,6) (-21)
Santander 3,5 (2,4) (-2,6) (-11,8) (-23)
BBVA 5,4 (1,9) (-3,7) (-7,9) (-19)

Medium Spanish banks 64,4 (1) (-2,5) (-11,2) (-22)
Caixabank 2,5 (1) (-2,7) (-11,1) (-23)
Popular 2,1 (0,5) (-3,1) (-12,1) (-33)
Sabadell 1,4 (0,7) (-2,2) (-5,7) (-14)
Bankinter 5,9 (2,1) (-0,6) (-7,3) (-10)
Bankia 0,7 (0,1) (-5) (-20,9) (-32)

Greek banks 2,2 (5,2) (-11,6) (-35,1) (-52)
Alpha Bank1,3 (4,8) (-11,4) (-30,2) (-47)
Pireus Bank0,1 (0,8) (-5,4) (-28,5) (-56)
National Central Bank0,2 (7,1) (-8,3) (-36,8) (-52)
Eurobank Ergasias0,4 (6) (-13,6) (-45,1) (-61)

Emerging Markets

Main equity indices

MSCI Latam 58807 (-0,66) (-0,2) (7,5) (-0,8)
Ibovespa (Brazil) 41768 (-0,8) (0,7) (11,4) (-3,6)
Mexbol 43055 (-0,3) (-1,1) (2,7) (0,2)

MSCI EM Europe 4122 (-1,93) (-0,2) (2,9) (-3)
Poland 1838 (1,1) (-0,8) (7,3) (-1,1)
Micex (Russia) 1804 (0,4) (-0,2) (5,8) (2,4)
Ise 100 (Turkey) 75202 (1,5) (2,4) (4,7) (4,8)

MSCI EM Asia 616 (-0,71) (0,7) (0,9) (-6,7)
Shanghai Composite (China) 2741 (-6,41) (-4,2) (-0,3) (-22,5)
Jakarta Composite (Indonesia) 4658 (0) (-2,5) (3,3) (1)

Bank stocks

Turkish banks 77 (1,2) (1,8) (1,1) (3,9)
Akbank T.A.S. 7 (1,2) (2,3) (5,1) (10,6)
Garanti 7 (1) (2,1) (-0,7) (3,4)
Turkiye Is Bankasi 4 (1,4) (0,9) (-1,5) (-3,3)

Russian banks 148 (1,1) (-0,2) (10,6) (-2,4)
Sberbank 104 (1,9) (1,3) (13,7) (2,8)
VTB Bank 0,1 (-0,4) (-2,9) (5,6) (-10,4)

Currencies *(in percentage, positive for dollar depreciation)*

Developed Markets

EURUSD 1,103 (0,18) (-0,67) (1,5) (1,6)
GBPUSD 1,39 (0,13) (-2,73) (-2,8) (-5,4)
USDJPY 112,58 (-0,36) (0,58) (4,9) (6,4)
DXY 97,42 (0) (-0,5) (1,7) (1,2)

Emerging Markets

USDARS (Argentina) 15,32 (0,2) (-1,7) (-10,6) (-18,5)
USDBRL (Brazil) 3,94 (0,5) (2,3) (2,8) (0,6)
USDCLP (Chile) 692,02 (0,6) (1,5) (3,6) (2,3)
USDCOP (Colombia) 3314,72 (0,8) (0,9) (1,5) (-4,4)
USDMXN (Mexico) 18,17 (0,2) (0,7) (1,6) (-5,6)
USDPEN (Peru) 3,53 (-0,1) (-0,7) (-2) (-3,4)
LACI 60,47 (0,3) (1) (0,8) (-3,4)

USDPLN (Poland) 3,95 (0,5) (0,1) (3,4) (-0,8)
USDRUB (Russia) 76,12 (-0,5) (0,4) (3,4) (-5)
USDTRY (Turkey) 2,93 (0,2) (1,3) (2,6) (-0,5)

USDCNY (China) 6,53 (0) (-0,2) (0,7) (-0,6)
USDINR (India) 68,71 (-0,2) (-0,4) (-1,3) (-3,9)
USDIDR (Indonesia) 13413 (0) (0,7) (3,4) (2,7)
ADXY 105,39 (-0,1) (-0,3) (0) (-1,1)

Commodities *(change in percentage)*

Brent 33,86 (-1,6) (-1,2) (6,5) (-9,2)
WTx 31,41 (-2,3) (2,1) (-0,1) (-15,2)
Copper 208,2 (-0,6) (0,5) (2,4) (-2)
Gold 1241,16 (1) (0,8) (10,8) (16,9)
Baltic Dry Index 322 (0) (2,9) (-6,7) (-32,6)
S&P GSCI Spot commodity index 297,851 (1,2) (-0,9) (5,2) (-3,6)
S&P GSCI Brent Spot 298,468 (3,2) (-0,2) (12) (-4,9)
S&P GSCI Metals Spot 255,56 (0,3) (2,2) (6,2) (0,3)
S&P GSCI Agricultural Spot 275,288 (-0,6) (-1,6) (-2,7) (-2,9)

Source: Bloomberg, Datastream and Haver

*CDS, EMBI & MSCI indices with one day delay
**Credit spread (BAA) with two days delay
***S&P GSCI with one day delay

Spain with number 0182.