

# Market Comment | Expansive measures in China offset worsening inflation data in Europe

Global Financial Markets Unit  
29 Feb 2016

- **PBoC cut the reserve requirement ratio for banks.** China's central bank cut the reserve requirement ratio for the fifth time in a year by 50bp to 17%, this decision was taken to extend system liquidity and to encourage an "appropriate growth" in the credit market.
- **Negative inflation in February and moderation in core in EZ,** worse than expected Eurostat's flash estimate was below our expectations, as the national data anticipated late last week, noting that inflation fell by 0.5pp to -0.2% YoY in January (BBVA Research and consensus: 0% YoY). A greater fall in energy prices and lower unprocessed food prices partly explain the 0.3pp reduction in headline inflation, but the negative surprise came from a greater moderation in services inflation and, in particular, non-energy industrial goods, which explain the remaining 0.2pp of the falling prices and send core inflation to 0.8% YoY from 1% YoY in January ([see](#))
- **G20: recognition of global risks yet no coordinated actions.** G20 meeting recognized that challenges facing the global economy are increasing: the downward risk to the global economy have increased, fueled by high volatility in financial markets, capital outflows, commodity prices dynamics and geopolitical tension - among others factors. Nonetheless, they did not agree on coordinated actions (as advised by the IMF), only saying that they "will continue to explore policy options to support growth and financial stability". With respect to FX policy, a key issue in the policy agenda, the G20 said that: "we will carefully calibrate and clearly communicate our macroeconomic and structural policy actions to reduce policy uncertainty, minimize negative spillovers and promote transparency".
- **Expansive measures in China offset worsening inflation data in Europe.** China was the main market driver today, although the lack of coordinated action in the G20 did not help markets either today. The PoBC established a depreciated exchange rate against USD (twice within a week), fuelling concerns about a erratic managing of fx policy and rattling equity markets across the board, with the Asian registering sharply falls (Shanghai: -2.9% Nikkei: -1.0%) and dragging European indexes at the beginning of the session. Nonetheless, letter in the morning, the European equity markets rebounded, after the the PoBC announced a new cut in reserve requirement ratio for banks - a new expansive measure that showed the strong commitment of authorities to maintain the pace of growth-. At the end of the session, most European equity markets managed to end the session in positive, despite disappointing price data in Eurozone (Eurostoxx:+0.6% IBEX:+1.3% DAX:-0.2% CAC:+0.9% S&P:+0.5% Dow:0.4%). Low growth environment and negative inflation rates, weighed on markets inflation expectations in the Eurozone (5Y5Y forward inflation swap declined to 1.36% from 1.40% on Friday), while Eurozone yields decreased across the board led by the sharp decline in Portugal (GER 10Y:-4 bp FRA10Y:+2bp ITA 10Y:-5bp SPA 10Y:-4bp POR 10Y:-9bp). Moreover, the 10Y German yield reached its low since spring of 2015 (0.13%), while the 9Y German bond showed a negative yield (-0.014%). FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.6% GBP:+0.38% JPY:0.96%). EM currencies appreciated against the US dollar (RUB +1.5% BRL: 0.5% MXN:+1.1% COP:+0.8% TRY:1.1%) boosted

by the positive trend in oil prices (Brent: 2.6% Wtx: 2.3 %).

Update 17.30 CET 29 February, 2015  
Table1



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Fuente: BBVA Research



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

**Debit markets (change in bp)**

**United States**

US 2 yr 1.81 (1.81) (1.81) (1.81)  
 US 3 yr 1.24 (1.11) (1.08) (1.05)  
 US 10 yr 1.75 (2.19) (2.41) (2.61) (4.3)

Japan 10 yr 2.8 (3.01) (3.01) (2.98) (2.98)  
 DE 2 yr -0.07 (0.14) (-0.12) (-0.17)  
 DE 5 yr -0.41 (0.12) (-0.15) (-0.14)  
 DE 10 yr 0.11 (0.11) (0.10) (0.10)

Belgium 10 yr 0.09 (0.14) (0.16) (0.21) (2.4)  
 France 10 yr 0.21 (0.12) (0.11) (0.10) (0.08)  
 Greece 10 yr 10.22 (9.13) (8.17) (8.03) (8.07)  
 Ireland 10 yr 0.06 (0.10) (0.11) (0.11) (0.11)  
 Italy 10 yr 1.42 (0.10) (0.10) (0.10) (0.10)  
 Netherlands 10 yr 0.20 (0.14) (0.13) (0.13) (0.14)  
 Portugal 10 yr 0.09 (0.10) (0.10) (0.10) (0.10)  
 Spain 10 yr 0.14 (0.12) (0.11) (0.11) (0.11)

**Europe - 10 years**

Brazil 10 yr 6.08 (6.08) (6.08) (6.08) (6.08)  
 Chile 10 yr 4.67 (4.67) (4.67) (4.67) (4.67)  
 Colombia 10 yr 0.00 (0.00) (0.00) (0.00) (0.00)  
 Mexico 10 yr 0.29 (0.11) (0.10) (0.10) (0.10)  
 Peru 10 yr 7.1 (7.1) (7.1) (7.1) (7.1)

Russia 10 yr 2.06 (1.01) (0.12) (0.12) (0.12)  
 Russia 10 yr 1.41 (1.41) (1.41) (1.41) (1.41)  
 Russia 10 yr 0.01 (0.01) (0.01) (0.01) (0.01)  
 Turkey 10 yr 10.07 (10.07) (10.07) (10.07) (10.07)

India 10 yr 7.63 (7.63) (7.63) (7.63) (7.63)  
 Indonesia 10 yr 6.26 (6.26) (6.26) (6.26) (6.26)

**Country risk (change in bp)**

**Key economic indicators (quarter Germany)**

Belgium 48 (0) (1) (2) (7)  
 France 48 (0) (1) (1) (1)  
 Greece 18 (1) (1) (2) (3) (5) (5)  
 Ireland 17 (1) (1) (2) (2) (2)  
 Italy 12 (1) (2) (2) (1) (1)  
 Netherlands 44 (0) (0) (0) (0) (0)  
 Portugal 200 (1) (2) (2) (2) (2)  
 Spain 14 (0) (1) (1) (1) (1)

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Belgium 18 (0) (1) (1) (1)  
 France 17 (0) (1) (1) (1)  
 Greece 14 (1) (1) (1) (1) (1)  
 Ireland 11 (0) (1) (1) (1)  
 Italy 11 (0) (1) (1) (1) (1)  
 Netherlands 11 (0) (1) (1) (1) (1)  
 Portugal 22 (1) (2) (2) (2) (2)  
 Spain 11 (0) (1) (1) (1) (1)

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 Netherlands 11 (0) (1) (1) (1) (1)  
 Portugal 22 (1) (2) (2) (2) (2)  
 Spain 11 (0) (1) (1) (1) (1)

**Key economic indicators**

Spr CDS Belgium 33 (2) (3) (3) (3)  
 Spr CDS France 26 (2) (2) (2) (2)  
 Spr CDS Germany 26 (2) (2) (2) (2)  
 Spr CDS Greece 1394 (8) (8) (8) (8) (8)  
 Spr CDS Ireland 29 (1) (1) (1) (1) (1)  
 Spr CDS Italy 143 (4) (4) (4) (4) (4)  
 Spr CDS Netherlands 29 (2) (2) (2) (2) (2)  
 Spr CDS Portugal 315 (12) (12) (12) (12) (12)  
 Spr CDS Spain 112 (12) (12) (12) (12) (12)  
 Spr CDS UK 24 (3) (3) (3) (3) (3)  
 Spr CDS US 26 (3) (3) (3) (3) (3)

**Emerging Markets**

Spr CDS Brazil 140 (7) (7) (7) (7) (7)  
 Spr CDS Chile 119 (2) (2) (2) (2) (2)  
 Spr CDS Colombia 274 (8) (8) (8) (8) (8)  
 Spr CDS Mexico 166 (2) (2) (2) (2) (2)  
 Spr CDS Peru 162 (1) (1) (1) (1) (1)  
 Spr CDS Venezuela 5006 (22) (22) (22) (22) (22)

Spr CDS Russia 251 (2) (2) (2) (2) (2)  
 Spr CDS Taiwan 322 (1) (1) (1) (1) (1)  
 Spr CDS Turkey 30 (1) (1) (1) (1) (1)

Spr CDS China 120 (1) (1) (1) (1) (1)  
 Spr CDS India 172 (2) (2) (2) (2) (2)  
 Spr CDS Indonesia 232 (1) (1) (1) (1) (1)

**Country risk**

**10-1000bp (change in percentage except for EEA countries)**

US 10-200bp 0.61 (0.61) (0.61) (0.61)  
 US 200-300bp 0.42 (0.42) (0.42) (0.42)  
 US 300-400bp 0.21 (0.21) (0.21) (0.21)  
 US 400-500bp 0.11 (0.11) (0.11) (0.11)  
 US 500-600bp 0.06 (0.06) (0.06) (0.06)  
 US 600-700bp 0.03 (0.03) (0.03) (0.03)  
 US 700-800bp 0.02 (0.02) (0.02) (0.02)  
 US 800-900bp 0.01 (0.01) (0.01) (0.01)  
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Fuente: BBVA Research

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

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

\*\*\*S&P GSCI with one day delay

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