

Market Comment | Oil prices and supportive central banks help risk assets

Global Financial Markets Unit
01 Mar 2016

- **In the US, the ISM manufacturing increased in February.** ISM manufacturing index rose in February more than expected (by 1.3 points to 49.5; consensus: 48.5) although it continues below the 50 points benchmark. Price component was one of the best performers (+5.0 points) but it still stands at a very low level of 38.5 points.
- **In the EZ, manufacturing PMI declined in February.** Final manufacturing PMI data for the EZ was revised slightly upwards (by 0.2 points to 51.2) although relative to the previous month manufacturing activity declined (previous: 52.3). By country, in Germany dropped (by 1.6 points to 50.5) while in France PMI increased (to 50.2 from 50.0). Meanwhile, Spanish and Italian manufacturing PMI declined in February more than expected (to 54.1 from 55.4 and to 52.2 from 53.2 respectively).
- **Also in China the slowdown of manufacturing is ongoing.** China's manufacturing PMI dropped again in February against expectations of its remaining unchanged (by 0.4 points to 49.0) continuing the contraction in activity. Thus, PMI reached its lowest level since February 2009, although the data were dragged by the seasonal effects of the Lunar year holiday. ([see](#))
- **William Dudley of the Federal Reserve of NY expressed concerns about US growth and inflation expectations.** The markets turmoil and concerns about emerging economies have increased the risks in US growth and inflation expectations. "At this moment, I judge that the balance of risks to my growth and inflation outlooks may be starting to tilt slightly to the downside," Mr Dudley said. About inflation, he considers that the low energy prices and the high dollar could put back the Fed's 2 percent target. Moreover, "past experience shows that it is difficult to push inflation back up to the central bank's objective if inflation expectations fall meaningfully below that objective" he added.
- **Equity markets extended rebound, despite the worse-than-expected manufacturing data in China,** as yesterday's monetary easing announced by the Chinese central bank suggests that the authorities have beefed up their efforts to spur growth. Stable oil prices also helped the recovery in equity prices. In addition, the lack of negative surprises from the US and the increasingly cautious tone of monetary policy officials regarding the effects of the EM slowdown in US economy, also gives some support to equity indices. Against this background, risk assets were in a positive mood, with equity and EM assets improving, while safe-haven assets declined. European equity markets continued rising today led by the DAX, which yesterday was the only one that closed down (Eurostoxx: +1.7% IBEX: +1.7% DAX: +2.3% CAC: +1.2% and FTSE +0.8% dragged down by Barclays sharp declines 8.15%). In the same vein, both US and Asian indices increased (S&P: +1.5% Dow:+1.4% Nikkei: +0.4% Shanghai: +1.68%). On bond markets, safe-haven yields rose (US 10Y: +8bps GER 10Y: +4bps), while European peripheral yields showed a mixed performance (ITA 10Y: -4bps SPA 10Y: -4bps POR 10Y: +3bps). On FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.25% GBP: +0.11% JPY: -1.05%). EM currencies appreciated against the US dollar (RUB: +2.2% BRL: +1.6% CLP: +0.5% COP:

+1.0% MXN: +1.4% TRY: +0.9%), mainly those most linked to oil prices, which increased today (Brent: +2.5% Wtx: +1.7%).

Update 17.30 CET 01 March, 2015

Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day 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 / 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.