

Market Comment | Green shoots in China and oil dynamic support market recovery

Global Financial Markets Unit
15 Apr 2016

- **China GDP stabilization has eased hard-landing concerns.** China's 1Q16 GDP increased by more than our estimates (by 6.7% YoY; BBVAe: 6.5%, consensus: 6.7%), moderating its growth relative to the previous quarter (6.8% YoY). This increase is the lowest since Q1 2009, however growth stabilization has eased hard-landing concerns due to the authorities' stimulus measures and also the Fed's dovish tone. Moreover, the softer USD during last month is helping to ease pressure on the RMB and reduce the uncertainty regarding FX policy management in China. In addition, retail sales rose in March by more than expected (by 10.5% YoY; consensus: 10.4%, previous: 10.2%), while industrial production surged, beating expectations in March (by 6.8% YoY; consensus: 5.9%; previous: 5.4%). Despite this improvement, more easing measures are expected to be deployed to avoid a hard landing. ([see](#))
- **Mixed data in the US.** US industrial production dropped in March by more than expected (by -0.6% MoM; consensus: -0.1%). Meanwhile, the Empire manufacturing index surged in April, beating estimates (to 9.56 points from 0.62; consensus: 2.0) and University of Michigan sentiment preliminary data dropped unexpectedly (by 1.3 points to 89.7; consensus: 92).
- **Rebound in risk assets.** Last week's global concerns, which triggered a mild safe-haven movement in financial markets, faded on the back of China's macroeconomic data and US 1Q16 company earnings results, both of which were better than expected. China's 1Q16 growth data showed that the country continued with its slowdown but averting any hard landing and without any substantial deviation from market forecasts. Another factor that helped to offset last week's high volatility was the upward trend in oil prices. Although US inventories data were slightly higher than expected, the increasing expectations of an agreement among major oil exporters to freeze oil production at January's levels drove oil prices to maximum levels so far this year (Brent: 44.8 USDpb). Nonetheless, the oil rally halted after the International Energy Agency warned that markets would already have priced in a freeze on oil production, so that the gains in oil prices would be extended only if oil producers agreed on production cuts, which seemed unlikely. Lastly, the tone of Fed officials' speeches has been dovish, which bodes well for risky asset valuation.
- The easing in global risk premiums boosted equity markets, led by cyclical sectors, mainly energy and banking (Eurostoxx: +4.9% IBEX: +5.1% DAX: +4.5% CAC: +4.4% S&P: +1.7%). However, the Italian banking sector brought some volatility to euro zone assets. The constitution of a EUR5-6bn fund to help weaker banks brought the concerns of Italian non-performing loans back into the spotlight. Although further details are still pending, analysts consider that this is a first positive step towards coping with the problem. Moreover, the markets' anxiety subsided after the Italian finance minister allayed concerns about the possibility that the European authorities might block this mechanism. On the other hand, the focus in the US was on the beginning of the earnings season, with better-than-expected results. The Nikkei surged, mainly due to the Japanese yen's depreciation (+6.5%), while the Chinese indices increased, underpinned by positive macroeconomic data released in the week (Shanghai: +3.1%).

Despite the positive mood in markets, safe-haven yields only inched up (US 10Y: +3 bps GER 10Y: +4 bps) this week. Meanwhile, European peripheral yields showed a mixed performance (ITA 10Y: +3 bps SPA 10Y: -2 bps POR 10Y: -18 bps), narrowing some risk premiums (Spain -5 bps and Portugal -21 bps). EM risk premiums diminished, offsetting last week's increases. CDS spreads declined across the board (Mexico: -22 bps Brazil: -59 bps Turkey: -27 bps Russia: -30 bps). Moreover, in Mexico the government announced support to Pemex, amounting to MXN123.5 bn, which helped to reduce PEMEX 5 CDS (-40 bps), while the 10Y Mexican yield also declined (-10 bps). In the same vein, EM currencies appreciated against the US dollar (RUB: +0.9% BRL: +1.5% COP: +2.9% CLP: +2.4% MXN: +1.2%) boosted by the recovery in commodity prices this week (Brent: +1.2% Wtx: +0.9% Copper : +2.9%), while the USD appreciated against other major currencies (JPY: -0.68% EUR: -0.93%)

ECB Thursday's meeting: What we expect from the ECB

- At its 21 April meeting, we expect no change to the ECB's monetary policy stance after last month's actions. The uncertainty and volatility in the financial markets has partially eased in the last weeks and it seems too early for further measures. Certainly, the central bank will retain its dovish communication and reiterate its commitment to the full implementation of its measures and its readiness to do more, if needed.
- Since the last monetary policy meeting, the uncertainty and volatility in the financial markets has partially eased as the rebound of oil prices coupled with some stabilization of China and dovish central banks (& weaker USD) partially counteracted the underlying sources of global uncertainty. However, in a context where main uncertainties on the global outlook still persist, the ECB will keep its easing bias, reaffirming that further action remains on the table.
- Regarding communication, central bank communication has been somewhat confused, as the latest comments from ECB members reaffirmed the possibility of further measures if needed, including further rate cuts, despite the fact that in the last meeting Mr Draghi hinted at closing the door on further rate cuts. In particular, Peter Praet said "a rate reduction remains in our armoury," he also said that "if further adverse shocks were to materialise, our measures could be recalibrated." Moreover, Vice president, Vitor Constâncio said the bank would do whatever was required to ensure price stability.
- At next week's meeting the ECB may provide details for the implementation of the Corporate Sector Purchase Programme (CSPP) and TLTRO II announced in March.

Macroeconomic environment.

- Available data for 1Q16 so far show mixed signs, but overall suggest that quarterly GDP growth could have gained some ground in early 2016 after the easing of some seasonal factors that weighed negatively on activity in 4Q15 (especially, terrorist attacks in France). On the one hand, hard data (retail sales and industrial production) point to the strength of domestic demand; on the other, external weakness is weighing on the recovery (the increase in exports in February failed to compensate the significant fall in January). Surveys have worsened in 1Q16 on average and, along with the slowdown in foreign demand, do not dispel the doubts about the sustainability of the pace of the recovery. Overall, our MICA-BBVA estimates quarterly GDP growth to be around 0.4% QoQ in 1Q16.
- Regarding prices, both headline and core inflation surprised to the upside in March after increasing by 0.2pp to 0% YoY and 1% YoY, respectively. This performance was due to a sharp increase in services

inflation, stemming mostly from seasonal effects (Easter in March and a one-off effect in February), that offset falling energy prices again. Looking forward, we see a slight decline in core inflation in April (around 0.2pp due to Easter calendar) and the headline rate falling again to slightly negative rates in coming months, but we continue to expect inflation to increase gradually after the summer to positive rates (around 0.5% YoY) by year end. The core rate is expected to remain broadly stable at around 0.9% YoY.

Update 17.15 CET 15 April, 2016

Table1

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

Debt markets (changes in bp)

Government bonds

US 2yr 0.72 (0.00) (0.02) (0.01)
 US 5yr 1.21 (0.00) (0.01) (0.02)
 US 10yr 1.75 (0.00) (0.01) (0.02)
 Japan 10yr 0.12 (0.00) (0.01) (0.02)
 GER 2yr 0.51 (0.00) (0.01) (0.02)
 GER 5yr 0.38 (0.00) (0.01) (0.02)
 GER 10yr 0.33 (0.00) (0.01) (0.02)
 Belgium 10yr 0.52 (0.00) (0.01) (0.02)
 France 10yr 0.40 (0.00) (0.01) (0.02)
 Greece 10yr 0.00 (0.00) (0.01) (0.02)
 Russia 10yr 8.00 (0.00) (0.01) (0.02)
 Italy 10yr 0.80 (0.00) (0.01) (0.02)
 Key 10yr 1.34 (0.00) (0.01) (0.02)
 Netherlands 10yr 0.25 (0.00) (0.01) (0.02)
 Portugal 10yr 0.17 (0.00) (0.01) (0.02)
 Spain 10yr 0.50 (0.00) (0.01) (0.02)

Emerging Markets

Brazil 10yr 13.00 (0.00) (0.01) (0.02)
 China 10yr 3.20 (0.00) (0.01) (0.02)
 Colombia 10yr 6.00 (0.00) (0.01) (0.02)
 Mexico 10yr 5.84 (0.00) (0.01) (0.02)
 Peru 10yr 6.50 (0.00) (0.01) (0.02)
 Poland 10yr 2.87 (0.00) (0.01) (0.02)
 Russia 5yr 3.24 (0.00) (0.01) (0.02)
 Russia 10yr 8.21 (0.00) (0.01) (0.02)
 Turkey 10yr 9.2 (0.00) (0.01) (0.02)
 India 10yr 7.44 (0.00) (0.01) (0.02)
 Indonesia 10yr 7.41 (0.00) (0.01) (0.02)

Country risk (changes in bp)

Government bonds (Agreement Germany)

Belgium 39 (0.00) (0.01) (0.02)
 France 38 (0.00) (0.01) (0.02)
 Greece 380 (0.00) (0.01) (0.02)
 Ireland 31 (0.00) (0.01) (0.02)
 Italy 31 (0.00) (0.01) (0.02)
 Netherlands 22 (0.00) (0.01) (0.02)
 Portugal 34 (0.00) (0.01) (0.02)
 Spain 137 (0.00) (0.01) (0.02)

Government bonds (Agreement Germany)

Belgium 14 (0.00) (0.01) (0.02)
 France 14 (0.00) (0.01) (0.02)
 Greece 140 (0.00) (0.01) (0.02)
 Italy 21 (0.00) (0.01) (0.02)
 Netherlands 7 (0.00) (0.01) (0.02)
 Portugal 14 (0.00) (0.01) (0.02)
 Spain 77 (0.00) (0.01) (0.02)

Government bonds (Agreement Germany)

Belgium 4 (0.00) (0.01) (0.02)
 France 4 (0.00) (0.01) (0.02)
 Greece 4 (0.00) (0.01) (0.02)
 Italy 4 (0.00) (0.01) (0.02)
 Netherlands 4 (0.00) (0.01) (0.02)
 Portugal 4 (0.00) (0.01) (0.02)
 Spain 4 (0.00) (0.01) (0.02)

Government bonds

EUR CDS Belgium 49 (0.00) (0.01) (0.02)
 EUR CDS France 30 (0.00) (0.01) (0.02)
 EUR CDS Germany 25 (0.00) (0.01) (0.02)
 EUR CDS Greece 102 (0.00) (0.01) (0.02)
 EUR CDS Ireland 66 (0.00) (0.01) (0.02)
 EUR CDS Italy 107 (0.00) (0.01) (0.02)
 EUR CDS Netherlands 26 (0.00) (0.01) (0.02)
 EUR CDS Portugal 27 (0.00) (0.01) (0.02)
 EUR CDS Spain 86 (0.00) (0.01) (0.02)
 EUR CDS UK 42 (0.00) (0.01) (0.02)
 EUR CDS US 21 (0.00) (0.01) (0.02)

Government bonds

EUR CDS Belgium 103 (0.00) (0.01) (0.02)
 EUR CDS China 61 (0.00) (0.01) (0.02)
 EUR CDS Colombia 21 (0.00) (0.01) (0.02)
 EUR CDS Greece 192 (0.00) (0.01) (0.02)
 EUR CDS France 103 (0.00) (0.01) (0.02)
 EUR CDS Venezuela 104 (0.00) (0.01) (0.02)

Government bonds

EUR CDS Russia 265 (0.00) (0.01) (0.02)
 EUR CDS Turkey 238 (0.00) (0.01) (0.02)
 EUR CDS China 110 (0.00) (0.01) (0.02)
 EUR CDS India 141 (0.00) (0.01) (0.02)
 EUR CDS Indonesia 194 (0.00) (0.01) (0.02)

Country risk

VIX 13.78 (0.00) (0.01) (0.02)
 EW EFT volatility index 22 (0.00) (0.01) (0.02)
 Detrended volatility 54 (0.00) (0.01) (0.02)
 EFT Fx volatility index 11 (0.00) (0.01) (0.02)
 Credit spread (BAA) 208 (0.00) (0.01) (0.02)
 US bonds volatility index 60 (0.00) (0.01) (0.02)

Bank risk (changes in bp)

US banks CDS 87 (0.00) (0.01) (0.02)
 EUR banks CDS 107 (0.00) (0.01) (0.02)
 UK banks CDS 121 (0.00) (0.01) (0.02)
 Large Spanish banks CDS 122 (0.00) (0.01) (0.02)
 Medium Spanish banks CDS 166 (0.00) (0.01) (0.02)
 Small banks CDS 162 (0.00) (0.01) (0.02)
 Russian banks CDS 77 (0.00) (0.01) (0.02)

Country risk (changes in bp)

US Non-Agency CDS 238 (0.00) (0.01) (0.02)
 EUR Non-Agency CDS 228 (0.00) (0.01) (0.02)
 UK Non-Agency CDS 180 (0.00) (0.01) (0.02)

Interbank markets (changes in bp)

US 3m secured 3m 16 (0.00) (0.01) (0.02)
 US 6m secured 3m 30 (0.00) (0.01) (0.02)
 US 12m secured 3m 34 (0.00) (0.01) (0.02)
 US 3m unsecured 3m 25 (0.00) (0.01) (0.02)
 US 6m unsecured 3m 29 (0.00) (0.01) (0.02)
 US 12m unsecured 3m 41 (0.00) (0.01) (0.02)
 Spain Fed Spread 3m -1 (0.00) (0.01) (0.02)

Commodity markets (changes in bp)

WTI 49 (0.00) (0.01) (0.02)
 Crude oil 49 (0.00) (0.01) (0.02)
 Linn 12m 1.22 (0.00) (0.01) (0.02)

Stock markets (Change in percentage)

Major equity indices

S&P500 2011.00 (0.00) (0.01) (0.02)
 Dow Jones 1782.00 (0.00) (0.01) (0.02)
 Nikkei 1084.00 (0.00) (0.01) (0.02)
 FTSE 100 604.00 (0.00) (0.01) (0.02)
 EuroStoxx 52 3055.00 (0.00) (0.01) (0.02)
 MIB 3000.00 (0.00) (0.01) (0.02)
 DAX 3000.00 (0.00) (0.01) (0.02)
 CAC40 3000.00 (0.00) (0.01) (0.02)
 ASI 3000.00 (0.00) (0.01) (0.02)

Bank stocks

US banks 82 (0.00) (0.01) (0.02)
 JPM 82 (0.00) (0.01) (0.02)
 Cit 82 (0.00) (0.01) (0.02)
 BofA 82 (0.00) (0.01) (0.02)
 WFC 82 (0.00) (0.01) (0.02)
 GS 109 (0.00) (0.01) (0.02)

UK banks

UK banks 71 (0.00) (0.01) (0.02)
 HSBC 71 (0.00) (0.01) (0.02)
 Lloyds 71 (0.00) (0.01) (0.02)
 Barclays 71 (0.00) (0.01) (0.02)
 NatWest 71 (0.00) (0.01) (0.02)

EUR banks

EUR banks 68 (0.00) (0.01) (0.02)
 BNP 68 (0.00) (0.01) (0.02)
 CIB 68 (0.00) (0.01) (0.02)
 ING 68 (0.00) (0.01) (0.02)
 Intesa 68 (0.00) (0.01) (0.02)
 UniCredit 68 (0.00) (0.01) (0.02)

Large Spanish banks

Large Spanish banks 66 (0.00) (0.01) (0.02)
 BBVA 66 (0.00) (0.01) (0.02)
 Santander 66 (0.00) (0.01) (0.02)
 Mediocredito 66 (0.00) (0.01) (0.02)
 Pegasus 66 (0.00) (0.01) (0.02)
 Sabadell 66 (0.00) (0.01) (0.02)
 Bankinter 66 (0.00) (0.01) (0.02)

Other banks

Other banks 12 (0.00) (0.01) (0.02)
 Alpha Bank 12 (0.00) (0.01) (0.02)
 Banca Popolare 12 (0.00) (0.01) (0.02)
 Banco di Sicilia 12 (0.00) (0.01) (0.02)
 Banco di Napoli 12 (0.00) (0.01) (0.02)

Bank stocks

Turkish banks 67 (0.00) (0.01) (0.02)
 Akbank 67 (0.00) (0.01) (0.02)
 Garanti 67 (0.00) (0.01) (0.02)
 Turkey's Banks 67 (0.00) (0.01) (0.02)
 Russian banks 165 (0.00) (0.01) (0.02)
 Sberbank 165 (0.00) (0.01) (0.02)
 VTB 165 (0.00) (0.01) (0.02)

Currencies (in percentage, positive for dollar depreciation)

EURUSD 1.29 (0.00) (0.01) (0.02)
 GBPUSD 1.62 (0.00) (0.01) (0.02)
 USDJPY 108.00 (0.00) (0.01) (0.02)
 USDCHF 0.92 (0.00) (0.01) (0.02)

USDCY (in percentage)

USDCY Argentina 14.28 (0.00) (0.01) (0.02)
 USDCY Brazil 13.41 (0.00) (0.01) (0.02)
 USDCY China 100.00 (0.00) (0.01) (0.02)
 USDCY Colombia 100.00 (0.00) (0.01) (0.02)
 USDCY France 1.00 (0.00) (0.01) (0.02)
 USDCY Germany 1.00 (0.00) (0.01) (0.02)
 USDCY India 100.00 (0.00) (0.01) (0.02)
 USDCY Italy 1.00 (0.00) (0.01) (0.02)
 USDCY Japan 1.00 (0.00) (0.01) (0.02)
 USDCY Korea 1.00 (0.00) (0.01) (0.02)
 USDCY Mexico 1.00 (0.00) (0.01) (0.02)
 USDCY Netherlands 1.00 (0.00) (0.01) (0.02)
 USDCY Portugal 1.00 (0.00) (0.01) (0.02)
 USDCY Russia 1.00 (0.00) (0.01) (0.02)
 USDCY Spain 1.00 (0.00) (0.01) (0.02)
 USDCY Turkey 1.00 (0.00) (0.01) (0.02)
 USDCY UK 1.00 (0.00) (0.01) (0.02)
 USDCY Venezuela 1.00 (0.00) (0.01) (0.02)

Commodity flows (change in percentage)

WTI 42.00 (0.00) (0.01) (0.02)
 Crude oil 42.00 (0.00) (0.01) (0.02)
 Gold 120.79 (0.00) (0.01) (0.02)
 S&P 500 100.00 (0.00) (0.01) (0.02)
 S&P 500 (spot contango) index 100.00 (0.00) (0.01) (0.02)
 S&P 500 (term spread) index 100.00 (0.00) (0.01) (0.02)
 S&P 500 (dividend yield) index 100.00 (0.00) (0.01) (0.02)
 S&P 500 (earnings yield) index 100.00 (0.00) (0.01) (0.02)

Stock financing (Debt and net)

*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.