

Market Comment | Positive mood supported by economic indicators

Global Financial Markets Unit
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- Financial markets were in a **positive mood in today's session**, showing a higher risk appetite. **Encouraging economic indicators in the euro zone** fanned the positive sentiment, as August Markit Composite PMI hit a seven-month high, above expectations (53.3, consensus 53.1, prior 53.2) fuelled by the services sector. France's PMI was especially positive, growing at its fastest pace in 10 months. That signalled the euro zone's path to steady growth in the third quarter, unaffected by Brexit uncertainty. **US economic activity also showed positive signs**, as new home sales exceeded expectations (645K, consensus 580K, prior 582K).
- The positive surprise in euro zone PMIs despite Brexit concerns **pushed up European stocks** (Euro Stoxx 50 +1.1%, Dax 0.9%, Ibex35 1.3%), with the banking sector outperforming (EMU, 3.2%), probably related to lower expectations of the ECB's cutting rates in the near future. **US equities also rose**, but to a lesser extent (S&P500 +0.3%), propped up by positive corporate earnings reports.
- Against this backdrop, government **bond yields remained almost flat**, with no significant movements (10YUS +1 bps, 10YGER -1 bps), without any marked differences between core and peripheral Europe. The US yield curve flattened amid Fed interest rate hike uncertainty.
- The USD depreciated signally against the GBP (+0.35%), which showed resilience about Brexit. On the other hand, high volatility in oil prices due to high flow of news on the supply side, **but finally oil prices ended up +1.4%**, amid reports that Iran will attend a meeting of OPEC producers in Algeria next month. However, **EM currencies depreciated** (MXN -0.3%, CLP -0.4%, COP -0.9%) despite the rise in oil prices. On the other side, Turkey's Central Bank, in line with market expectations, reduced the upper bound of the marginal funding rate from 8.75% to 8.5%, while keeping unchanged the repo rate and borrowing rate. The market reaction was neutral.

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Table 1

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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