

Market Comment | Economic data and Portugal's debt rating review fuelled EZ risk assets

Global Financial Markets Unit
24 Oct 2016

- **EZ PMIs point to improved growth in Q4 2016, driven by Germany.** The composite euro zone PMI in October increased above expectations, by 1.1 pt to 53.7 pts (consensus: 52.8 pts). This improvement is due to increased confidence in both the service sector (53.5 pts, up from 52.2) and the manufacturing sector (53.3 pts, from 52.6). This suggests that the pace of growth could be strengthened or even accelerated slightly, as forward-looking indicators point to a more optimistic outlook in the coming months.
- **The rating agency DBRS maintained Portugal's long-term Sovereign debt rating at BBB low with a stable outlook.** The decision was crucial for Portugal's sovereign bond markets because a downgrade would have left the ECB unable to purchase Portuguese sovereign debt or accept it as collateral. The main rationale for the DBRS maintaining the sovereign rating was the reduction of the fiscal deficit. Nonetheless, the agency pointed out important challenges that could add downward pressure in the future, such as high indebtedness and weakening in the political commitment to sustainable economic policies. ([see](#))
- **The Fed's interest rate hike probabilities for the December meeting remained anchored to 70%,** despite dovish comments from the Fed's Bullard ("A single US interest rate rise would be all that was necessary for the time being", he said) while Dudley did not shed light on the Fed's future route map . The economic data that will be released during this week may weigh on the Fed's tone (GDP QoQ Q3 2016, consumer confidence and pending and new home sales).
- The most remarkable movement in financial markets was felt in the **European peripheral countries, especially in Portugal** (10YPOR -4 bps), which benefited from the favourable decision of DBRS rating agency, to maintain the debt rating. The loosening of the political deadlock in Spain also played a role (10YSPA -1 bps). Meanwhile the remaining sovereign yields remained almost unchanged (10YFRA +1 bps, 10YGER +2 bps).
- In this context, **equity prices rose across the board**, led by European stocks (Euro Stoxx50 +0.5%, Ibex35 +1.3%, Dax +0.5%), underpinned by a significantly outperforming banking sector (EZ banks, +2.4%). In this regard, it seems that concerns about the Italian banking sector are fading, to judge from market reaction (MDP rose by 28% today after rising above 50% during last week ahead of the industrial plan from the new chief executive; UniCredit +4%, Intensa +2.1%), despite the fact that the talks about the deal to support the banking sector are still under way. In the US, shares rose moderately (S&P500 +0.5%) while Asian stocks rose appreciably (Nikkei +0.3%, Shanghai +1.2%).
- Against this backdrop, developed currencies remained almost stable (EURUSD 0%, USDJPY -0.4%,

GBUSD -0.2%) while high volatility in oil prices - ahead of the official OPEC meeting next month in Vienna - did not hamper EM currencies (MXN +0.1%, CLP +1.1%, COP +0.2%).

Update 17:45 CET 24 October, 2016

Table 1

Source: Bloomberg, Datastream and Haver

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* With one day delay

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