

Market Comment | A tumultuous week comes to a close.

Global Financial Markets Unit
28 Aug 2015

- **Data in the US in line with expectations.** PCE rose in July in line with expectations (by 0.1% MoM and 0.3% YoY), and PCE core also increased in line with estimates (by 0.1% MoM), whereas PCE core increased less YoY than was expected (by 1.2% YoY; consensus: 1.3%). Meanwhile, US personal income in July rose as expected (by 0.4%), whereas personal spending rose slightly less (by 0.3%; consensus: 0.4%).
- **Some mixed data in the eurozone.** German CPI rose more than estimated in August (by 0.2% YoY; BBVAe: 0.2%, consensus: 0.1%) as CPI MoM remained unexpectedly unchanged (consensus: -0.1%). Spanish CPI in August surprised negatively (dropping by 0.4% YoY; consensus: -0.1%). The EU harmonised CPI also dropped more than expected (by -0.4% MoM; consensus: -0.1%). On another front, the Italian consumer confidence index surprised to the upside (by 2.3 points to 109; consensus: 107) whereas business confidence unexpectedly fell (by 1.0 point to 102.5; BBVAe: 103.2, consensus: 103.6).
- **Greece's electoral calendar is confirmed.** Greek President Prokopis Pavlopoulos signed the presidential decree for the dissolution of parliament and for elections to be held on 20 September.
- **A tumultuous week comes to a close.** An plunge in global markets, accompanied by high volatility (VIX reached 50 points, to end the week at 26 points) was followed by a significant rebound later in the week. Uncertainty about China's growth and policy effectiveness triggered a local "Black Monday" that sent ripple effects across the globe. Most markets recovered in the second half of the week in response to more-dovish signals from the Fed (Dudley), positive data in the US (GDP 2Q15) and, to a lesser extent, an active response by China's authorities (monetary easing). As a result, most markets ended the week in the positive: S&P 500: +0.9%, Dow: +0.7%, Euro Stoxx: +0.4%, DAX: +1.1% IBEX-35: -0.2%, CAC: +0.2%, Nikkei -5.7% and the Shanghai: -7.9% (which ended at 3,200 points, far from June levels of over 5,000 points). The magnitude of the plunge led markets to reassess the Fed's next move, with the US curve flattening early in the week (US 10Y reached 1.92%) yet returning to last week's levels (at 2.14%) after the announced revision of the US 2Q15 GDP. On the other hand, European core yields surged early in the week and remained at those higher levels thereafter (GER: +14bp, FRA: +11bp). In the periphery, Greek yields fell on the back of last week's outline agreement, with little impact on other peripheral countries (GRE 10Y: -60bp, ESP: +4bp, ITA 10Y: +4bp). High volatility was also present on the FX markets. After depreciating strongly against other major currencies, the USD recovered all the lost ground by the end of the week (EUR: -1.16%, GBP: -2.15%). EM currencies also depreciated strongly against the USD, to then rebound later in the week, especially those linked to commodity prices and/or those with current cyclical/political vulnerabilities (RUB: +3%, CLP: +1%, MXN: +0.4%). Uncertainty about China had a direct impact on commodity prices. Oil prices fell to the year's lows (Brent USD42.23, WTI: USD37.75) yet they ended the week higher after yesterday's rally (WTX: +4.4%, Brent: +3.7% in the week). Markets are watching the start of the Fed's annual economic policy symposium in

Jackson Hole. Despite the absence of Janet Yellen and Mario Draghi, signs regarding future monetary action may be revealed. Next week, the ECB governing council meets once again.

Table1

Fuente: BBVA Research

Current level and changes in daily, weekly, monthly and annual frequencies

Global markets (changes in %)

US 2 yr 6.88(1.81)(3.17)
US 5 yr 4.47(2.84)(1.63)
US 10 yr 2.14(2.18)(4.04)

Japan 10 yr 2.01(1.11)(0.90)
GER 5 yr 0.20(1.05)(0.85)
GER 10 yr 0.17(1.04)(0.87)

Belgium 10 yr 1.28(4.18)(2.90)
France 10 yr 1.56(4.31)(2.75)
France 5 yr 0.51(4.35)(3.84)

Italy 10 yr 1.36(5.03)(3.67)
Italy 5 yr 1.53(4.65)(3.12)
Netherlands 10 yr 1.42(4.21)(2.79)

Portugal 10 yr 2.12(4.23)(2.11)
Spain 10 yr 2.08(4.18)(2.10)

China 10 yr 1.65(1.24)(0.41)
China 5 yr 1.45(1.16)(0.29)
Canada 10 yr 1.11(1.22)(0.10)

Mexico 5 yr 0.26(1.52)(1.26)
Mexico 10 yr 1.02(1.44)(0.42)
Russia 10 yr 1.02(1.15)(0.13)

Turkey 10 yr 10.03(1.01)(0.98)
India 10 yr 7.78(1.11)(1.43)
Indonesia 10 yr 3.79(1.41)(2.37)

C country risk (changes in %)

16 yr sovereign spreads (against Germany)
Belgium 36(23)(51)
France 36(23)(51)
Germany 45(17)(30)

Italy 82(42)(143)
Netherlands 20(14)(26)
Portugal 18(14)(22)

Spain 125(2)(121)(129)
5 yr sovereign spreads (against Germany)
Belgium 18(11)(25)

France 19(11)(27)
Germany 19(11)(27)
Italy 41(16)(25)

Netherlands 21(11)(32)
Portugal 46(21)(71)
Spain 61(12)(50)

3 yr sovereign spreads (against Germany)
Belgium 7(1)(13)

France 7(1)(13)
Germany 7(1)(13)
Italy 41(16)(25)

Netherlands 21(11)(32)
Portugal 46(21)(71)
Spain 61(12)(50)

5 yr sovereign spreads (against Germany)
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Fuente: BBVA Research

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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