

Market Comment | Cautious market mood ahead of FOMC's expected announcement

Global Financial Markets Unit
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- **Mixed data in the US.** US retail sales rose less than estimated in August (0.2% MoM; consensus: 0.3% MoM), while retail sales ex autos also increased less than expected (by 0.1% MoM; consensus: 0.2%) and retail sales ex autos and gas rose less than estimated (by 0.3% MoM; consensus: 0.4%). On another front, empire manufacturing in September increased less than estimated (by 0.25pt to -14.67; consensus: -0.5pt). Meanwhile, industrial production dropped in August more than estimated (by -0.4% MoM; consensus: -0.2%) and capacity utilisation increased less than expectations (by 77.6%; consensus: 77.8%).
- **Mixed data in Europe.** Eurozone trade balance SA surplus increased in July more than estimated (by EUR0.5bn to EUR22.4bn; consensus: EUR21.4bn), due to the reduction in imports (by -1.1% MoM) and despite the decrease in exports (by -0.7% MoM). German ZEW survey expectations dropped more than expected in September (12.9 points to 12.1; BBVAe: 24.0, consensus: 18.3), due to lower expectations of doing business with EM. However, the ZEW survey for the current situation rose unexpectedly (by 1.8 to 67.5pt; BBVAe: 67.0, consensus: 64.0). On another front, the French CPI continued to slow down in August (0.1% YoY, consensus 0.2% YoY, previous month 0.2% YoY).
- **Brazil's government announces an emergency package of budget cuts and tax increases.** The government announced an emergency BRL65bn package, which includes spending cuts and tax increases, after last week's S&P downgrade of Brazil's credit rating to BB+ from BBB-. The package would deliver a primary fiscal surplus of 0.7% of GDP in 2016, said the finance minister, Joaquim Levy. "A lot of these measures require the co-operation of congress to be put into practice and all of them demand commitment from society." ([see](#))
- **The BoJ will not hesitate to deploy more support if needed.** The BoJ said in its Tuesday meeting that it will continue with its JPY80trn (USD663bn) annual asset-buying to try to return inflation to 2%, which is dragged especially by losses in the commodities prices. The Bank of Japan's governor, Haruhiko Kuroda, said that "There's absolutely no change to our view that we won't hesitate to adjust monetary policy if there's a change in the price trend and we think (further action) is needed to swiftly achieve our price target."
- **Cautious market mood across the board ahead of FOMC's expected announcement.** Doubts concerning China's economic outlook continued to undermine Asian equity indices. Despite new measures adopted by authorities early this week, Chinese indices continued their negative trend today (Shanghai: -3.52%, Shenzhen: -4.97%), dragging down other Asian indices (Nikkei: +0.3%). Europe's equity markets opened in the red on the back of new falls in China, although there was a positive start for the US equity indices (S&P 500: +0.9%, Dow Jones: +0.9% at the time of writing). The macroeconomic data released European bourses to finish in positive territory (Euro Stoxx: +1.5%, CAC: +1.6%, DAX:

+1.0%, Ibex-35: +1.4%). On bond markets, yields in the US and European core countries rose, awaiting Thursday's FOMC meeting, (US10Y: +5bp, GER 10Y:+9bp FRA 10Y: +8bp). There was a mixed performance in peripherals' yields: while the Spanish 10 Y yield stayed flat, Italian and Portuguese yields inched up (ITA 10Y: +4bp, POR 10Y: +5bp) and this allowed a narrowing of Spain and Italy's yield differential. On FX markets, the USD appreciated against other major currencies (EUR: -0.35%, GBP: -0.44%). Among EM currencies, most appreciated against USD (RUB: +0.9%, TRY: +1.0%, CLP: +0.2%), whereas other EM currencies depreciated, dragged by idiosyncratic factors (BRL: -1.2%, MXN: -0.1%, IDR: -0.5%). Commodity prices recovered slightly after yesterday's falls (WTI: +1.3%, copper: +0.7%).

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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