

Market Comment| Gloomy mood at the beginning of the week

Global Financial Markets Unit
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- **Mixed data in the US.** Personal income in August rose less than expected (by 0.3%; consensus: 0.4%), however, personal spending increased more than estimations (by 0.4%: consensus: 0.3%). On another front, the Dallas Fed manufacturing activity index increased more than expected in September (by 6.3 points to -9.5; consensus: -10.0). Meanwhile, pending home sales dropped unexpectedly (by 1.4% MoM; consensus: +0.4%).
- **Fed's Dudley said that the Fed will probably hike rates in 2015.** New York Federal Reserve Bank President William Dudley said that "My expectation is that we will probably raise rates later this year". He added that "the economy is doing pretty well. We are making progress toward our objectives", but he also said that "international developments have created a little bit more uncertainty".
- **Confidence improves in Italy.** The Italian consumer confidence index rose in September, surprising markets (by 3.4 points to 112.7; BBVAe and consensus: 108.7) while business confidence increased against expectations of remaining unchanged (up 1.5 points to 104.2; BBVAe: 102.5, consensus: 102.7).
- **Gloomy mood at the beginning of the week.** Equity markets dropped across the board, (S&P:-1.3% Nikkei: -1.3% Eurostoxx: -2.2% IBEX: -1.2% CAC: -2.7% DAX: -1.9%), dragged by the worsening economic outlook. China's negative industrial profits data in August (-8.8% YoY, previous: -2.9%), the worst data in four years, with companies most linked to commodities collapsing. Furthermore, Christine Lagarde, IMF chief, said that a downwards revision in its estimates for global economic growth is possible due to the outlook for emerging economies on the back of the ongoing commodity prices dynamics. However China's equity markets rose in the day (Shanghai: +0.27% Shenzhen: +2.40%). Along the same lines, bond markets also tracked the worsening global economic outlook fuelled by China's industrial profits: the US 10Y treasury yield decreased (-4bp), and European yields dropped, especially in Spain, where the Catalan elections took place last weekend (GER 10Y: -4bp, FRA 10Y: -2bp, ITA 10Y: -2bp, SPA 10Y: -8bp, POR 10Y: -2bp, GRE 10Y: +4bp). Spain's risk premium narrowed today (-4bp). The election result showed that the pro-independence movement won the majority of the seats in the Catalan parliament (72 seats) but failed to get the majority of the votes (48%). The spread between Spanish and Italian 10Y yields, which had been widening since July (by 27bp), narrowed 6bp today. In FX markets, the USD remained flat against other major currencies at the time of writing. EM currencies have also stayed flat against USD with the exception of the Brazilian peso (BRL: -1.3%) despite the dips in commodities prices (Brent and WTx: -1.8% Copper:-1.8%).

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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