

Market Comment | Global economic outlook's uncertainty hit risk assets this week

Global Financial Markets Unit
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- **US nonfarm payrolls disappointed at only 142K in September and a revised 136K in August.** Nonfarm payrolls fell way below consensus expectations, up a mere 142K, following a significant downward revision to August's already discouraging data (from 173K to 136K). Even more surprising was the weakness in private payrolls, at only 118K in September and revised down from 140K to 100K in August. The falling participation rate, low wage growth, and elevated involuntary part-time employment continue to weigh on the labor market outlook. In September, the participation rate declined to 62.4%, the lowest since October 1977. Average hourly earnings were unchanged following relatively strong growth in the summer months. Unfortunately, September's data resets all the progress made over the past year and ensures that the Fed will need at least another few months before feeling comfortable enough for a rate hike. The chances of delaying liftoff past December seem more likely. ([see](#))
- **China's authorities approve some stimulus measures.** China's regulators decided to cut downpayment requirements again for first-time home buyers with the intention of improving the property market. Such a decision follows a previous one that halved the sales tax on small cars in the previous day.
- **Spain Labour market figures of Sep-15: Positive closure of a less dynamic quarter.** The favorable evolution of the labor market figures in September did not offset the disappointing start of the quarter. BBVA Research estimates indicate that both the growth of Social Security affiliation and hiring, as well as reducing unemployment slowed down throughout the 3T15 as a whole. The unemployment rose in September more than expected (by 26.1K; consensus: 21.1k) due to seasonal causes. ([see](#)) **The Spanish PM announced yesterday that the parliamentary elections are going to take place on 20 December.**
- **Global economic outlook's uncertainty hit risk assets this week.** The weak economic data published in China this week (confidence and activity figures), the main source of economic instability in recent months, again fueled doubts about the global economic growth dynamic. In the same vein, disappointing data in developed markets (Japan, eurozone and especially today's US payrolls) also contributed to increase concerns. Furthermore, Christine Lagarde, Managing Director of the IMF, anticipated a downward revision of the global growth forecast for 2016 (to 3.8% from 4% previously forecast). Global concerns contributed to flatten yields across the board. Today's disappointing US labour data dragged US yields sharply down (2Y -10bp, 5Y: -15bp, and 10Y -13bp) ending the week registering huge falls (US 2Y: -15bp and 10Y: -25bp during the week). Moreover, the probability of a rate hike in 2015 broadly evaporated after the data. The probability of a hike in December 2015 (as implied in the Fed fund futures) decreased below 30%, offsetting the increase in the probability of the rate hike that took place after the FOMC members' speeches (Yellen, Dudley and Williams) that highlighted the need to start the lift-off in the US Fed Funds rate this year. Meanwhile, European bond yields were dragged by the strong fall in US yields today, while the weak inflation data also contributed to the fall. Peripheral yields showed the

highest declines among them (GER 10Y: -17bp, FRA 10Y: -18bp, ITA 10Y: -18bp, SPA 10Y: -28bp, POR 10Y: -28bp). The spread between Spanish and Italian 10Y yields, which had been widening since July (by 27bp), narrowed by 4bp this week. Last Sunday's 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%). Volatility was once again the main driver of the equity markets during this week. Early in the week, commodity-related stocks as well as the auto and components sector were undermined by doubts about the sustainability of Glencore's debt profile and the emissions scandal at Volkswagen. After a slight rebound in the middle of the week, the worse-than-expected data in the US hit the indices at the end of the week (S&P 500: -1.6%, Euro Stoxx: -2.1%, IBEX-35: -0.6%, CAC: -1.8%, DAX: -2.6%). Asian markets also dropped during the week (Nikkei: -0.9%, Shanghai: -1.3%), hampered by the worries about China's contraction. The stand-out was the underperformance of the DAX index (highly linked to the auto sector). The USD depreciated against other major currencies in the week (EUR: +1.0%, JPY: +1.49%), dragged overall by today's disappointing US labour data. EM currencies showed a mixed performance (BRL: -1.3%, RUB: -1.6%, TRY: -2.6%, MXN: +0.2% COP: +0.8 CLP: +0.6%) in a week in which oil prices plunged again (Brent: -2.9% and WTI: -3.2%)

- **The IMF and World Bank meeting will take place in Lima next week, with the focus on worries over the outlook for the emerging economies.**

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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