

# Market Comment | Relief rally in risk assets during the week

Global Financial Markets Unit  
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- **Mixed data in the US.** The US import price index for September dropped less than expected (by -0.1%MoM; consensus:-0.5%) after decreasing the previous month by 1.6%. Wholesale inventories rose unexpectedly in August (by 0.1% MoM; consensus: 0.0%).
- **Mixed data in the eurozone.** French industrial production rose in August more than expected (by 1.6% MoM and 1.6% YoY; consensus: 0.6% MoM and 0.2% YoY), while manufacturing production also increased more than estimates (by 2.2% MoM and 2.0% YoY; consensus: 1.0% MoM and 0.5% YoY). In Italy, industrial production dropped more than estimated (by -0.5% MoM; consensus: -0.3%), while in annual terms it rose less than expectations (by 1.0% YoY; consensus: 1.4%).
- **September's FOMC minutes.** The Fed's decision to delay the first federal funds rate hike in September was mainly on inflation and the impact of weakness in the global economy. Before the September meeting, we expressed concerns that delaying the lift-off would open the door to the possibility that conditions could only get worse as we move through 4Q15. Unfortunately, these concerns are becoming a reality, and it is unclear whether we will see much improvement in the coming months. This may make it even more difficult for the FOMC to justify a rate hike by the end of the year, and may force the Fed to hold off until 2016, which most members still say they would like to avoid. At this point, the odds for a rate hike at December are falling fast. In order to do that, the Fed will need to see significant improvements in a variety of economic data. Furthermore, increasing fiscal uncertainty and the threat of another government shutdown by mid-December may force the Fed to hold off on a major monetary policy move. ([see](#))
- **Fed's Lockhart in favour of lifting interest rates this year.** Atlanta Fed president, Dennis Lockhart, said that the progress of the US economy is still consistent with a lift-off soon. However, he also warned that the economic data releases have shown mixed signals.
- **Relief rally in risk assets during the week, led by a strong rebound in commodity prices, especially oil.** The release of worse-than-expected data in both the eurozone and the US during the week was not enough to dilute the market optimism in Europe as well as in the US. The sharp accumulated fall in risk-asset prices could have contributed to increase their attractiveness to investors and to encourage purchases across the board, despite the IMF's warning about the worsening of the global economic outlook. Moreover, the supportive minutes of the Fed and also the ECB, also fueled the rebound of risk assets late in the week. Against this backdrop the European indices benefited the most and rose, led by the Ibex (Euro Stoxx: +5.5%, IBEX-35: +7.5%, CAC: +5.7%, DAX: +5.8%), and were underpinned by cyclical sectors such as Energy, Basic Resources and Banks. Both US and Asian equity markets increased during the week (S&P: +3.4%, Dow: +3.7%, Nikkei: +4.0%). US yields recovered after last week's disappointing employment figures, and the yield on 10Y bonds is over 2% again (+11bp to

2.02%). Meanwhile, European yields also increased after last week's sharp falls, especially in the core (GER 10Y: +10bp, FRA 10Y: +9bp, ITA 10Y: +6bp, SPA 10Y: +6bp, POR 10Y: +9bp); therefore the periphery risk premium decreased in the week (ITA and SPA 10Y: -4bp). On FX markets, the USD depreciated against other major currencies (EUR: +1.22%, GBP: +0.94%), on the back of the decreasing probability of the Fed's first hike in rates taking place this year (December meeting: 36.6%, according to Fed Fund futures). Meanwhile, EM currencies also appreciated against USD, especially the commodity-linked currencies (RUB: +7.7%, COP: +5.7%, BRL: +4.5%, MXN: +1.9%, CLP: +1.9% TRY:+2.8%). Commodity prices showed fresh increases in the week (Brent: +10.5%, WTI: +9.9% Copper: +3.9%.) on geopolitical concerns in the Middle East, coupled with some signs pointing to falling US production.

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Table1





**Current level and changes at daily, weekly, monthly and annual frequencies**

**Index markets (changes in bp)**

US 2yr 0.84 (1.06)(13)(2)  
 US 5yr 1.41 (1.11)(1)(2)(24)  
 US 10yr 2.19 (0.91)(18)(27)

Japan 10yr 0.21 (0.41)(6)(1)

US 2yr 0.26 (0.21)(1)

US 5yr 0.81 (0.61)(1)

US 10yr 0.85 (0.71)(6)(7)

Belgium 10yr 0.93 (2)(1)(4)(10)

France 10yr 0.59 (1)(1)(2)(10)

Germany 10yr 0.56 (1)(1)(2)(10)

Italy 10yr 1.16 (2)(1)(1)(1)

Key 10yr 1.7 (0.6)(14)(18)

Netherlands 10yr 0.7 (2)(0)(1)(1)

Portugal 10yr 2.3 (2)(0)(1)(3)(8)

Spain 10yr 1.44 (1)(0)(4)(2)

European Union

Brno 10yr 15.52 (10)(10)(10)(14)

China 10yr 4.8 (2)(1)(1)(1)(1)

Comorb 10yr 1.8 (1)(1)(1)(1)(1)

India 10yr 5.9 (1)(1)(1)(1)(1)

Japan 10yr 1.43 (0)(1)(1)(1)(1)

Poland 10yr 2.66 (2)(1)(1)(1)(1)

Russia 10yr 10.45 (1)(1)(1)(1)(1)

Saudi 10yr 10.33 (0)(1)(1)(1)(1)

Turkey 10yr 10.04 (4)(1)(1)(1)(1)

India 10yr 7.55 (1)(1)(1)(1)(1)

Indonesia 10yr 6.82 (2)(1)(1)(1)(1)

**C country risk (changes in bp)**

10yr sovereign defaults (against Germany)

Belgium 20 (0)(0)(0)

France 27 (0)(1)(1)(1)

Germany 27 (0)(1)(1)(1)

Italy 102 (41)(44)(20)

Netherlands 11 (1)(1)(1)(1)

Portugal 177 (16)(17)(16)(17)

Spain 122 (42)(44)(19)

2yr sovereign defaults (against Germany)

Belgium 13 (0)(1)(1)(1)

France 21 (0)(1)(1)(1)

Germany 162 (2)(1)(1)(1)

Italy 25 (1)(1)(1)(1)

Netherlands 4 (0)(1)(1)(1)

Portugal 110 (1)(1)(1)(1)

Spain 10 (1)(1)(1)(1)

2yr sovereign defaults (against Germany)

Belgium 14 (0)(1)(1)(1)

France 7 (0)(1)(1)(1)

Germany 18 (1)(1)(1)(1)

Italy 33 (0)(1)(1)(1)

Netherlands 1 (0)(1)(1)(1)

Portugal 48 (1)(1)(1)(1)

Spain 32 (0)(1)(1)(1)

Sovereign CDS

Spr CDS Belgium 40 (1)(1)(1)(1)

Spr CDS France 30 (0)(1)(1)(1)

Spr CDS Germany 14 (0)(1)(1)(1)

Spr CDS Greece 105 (20)(1)(1)(1)

Spr CDS Ireland 92 (0)(1)(1)(1)

Spr CDS Italy 100 (1)(1)(1)(1)

Spr CDS Portugal 101 (1)(1)(1)(1)

Spr CDS Spain 100 (1)(1)(1)(1)

Spr CDS US 10 (0)(1)(1)(1)

European CDS

Spr CDS Brno 420 (22)(20)(20)(20)

Spr CDS China 120 (20)(20)(20)(20)

Spr CDS Comorb 17 (1)(1)(1)(1)

Spr CDS India 141 (1)(1)(1)(1)

Spr CDS Japan 173 (1)(1)(1)(1)

Spr CDS Poland 173 (1)(1)(1)(1)

Spr CDS Russia 173 (1)(1)(1)(1)

Spr CDS Saudi 173 (1)(1)(1)(1)

Spr CDS Turkey 200 (1)(1)(1)(1)

Spr CDS US 10 (0)(1)(1)(1)

Spr CDS China 110 (1)(1)(1)(1)

Spr CDS India 175 (1)(1)(1)(1)

Spr CDS Indonesia 124 (1)(1)(1)(1)

Credit risk

VIX 11.1 (1.1)(1)(1)(1)

VIX 20 21.9 (1.1)(1)(1)(1)

EM EFT credit index 27 (1)(1)(1)(1)

Default spread 0.4 (0.1)(0.1)(0.1)

EM FTA credit index 11 (1)(1)(1)(1)

China spread 0.04 (0.1)(0.1)(0.1)

US bank credit index 0.0 (0.1)(0.1)(0.1)

Bank risk (changes in bp)

US banks CDS 80 (1)(1)(1)(1)

EM banks CDS 92 (1)(1)(1)(1)

UK banks CDS 87 (1)(1)(1)(1)

Large Spanish banks CDS 133 (1)(1)(1)(1)

Medium Spanish banks CDS 162 (1)(1)(1)(1)

Open bank CDS 200 (1)(1)(1)(1)

Russian bank CDS 449 (1)(1)(1)(1)

Corporate risk (changes in bp)

US Non-financial CDS 6 (0)(1)(1)(1)

EM Non-financial CDS 9 (0)(1)(1)(1)

UK Non-financial CDS 6 (0)(1)(1)(1)

Interbank markets (changes in bp)

US 3m spread 1m 10 (0)(1)(1)(1)

US 3m spread 3m 7 (0)(1)(1)(1)

US 3m spread 6m 6 (0)(1)(1)(1)

US 3m spread 9m 5 (0)(1)(1)(1)

US 3m spread 12m 4 (0)(1)(1)(1)

US 3m spread 15m 3 (0)(1)(1)(1)

Spain 3m spread 3m 6 (0)(1)(1)(1)

EM/NA 3m 14 (0)(1)(1)(1)

EM/NA 6m 14 (0)(1)(1)(1)

EM/NA 9m 14 (0)(1)(1)(1)

EM/NA 12m 14 (0)(1)(1)(1)

EM/NA 15m 14 (0)(1)(1)(1)

EM/NA 18m 14 (0)(1)(1)(1)

EM/NA 21m 14 (0)(1)(1)(1)

EM/NA 24m 14 (0)(1)(1)(1)

EM/NA 27m 14 (0)(1)(1)(1)

EM/NA 30m 14 (0)(1)(1)(1)

EM/NA 33m 14 (0)(1)(1)(1)

EM/NA 36m 14 (0)(1)(1)(1)

EM/NA 39m 14 (0)(1)(1)(1)

EM/NA 42m 14 (0)(1)(1)(1)

EM/NA 45m 14 (0)(1)(1)(1)

EM/NA 48m 14 (0)(1)(1)(1)

EM/NA 51m 14 (0)(1)(1)(1)

EM/NA 54m 14 (0)(1)(1)(1)

EM/NA 57m 14 (0)(1)(1)(1)

EM/NA 60m 14 (0)(1)(1)(1)

EM/NA 63m 14 (0)(1)(1)(1)

EM/NA 66m 14 (0)(1)(1)(1)

EM/NA 69m 14 (0)(1)(1)(1)

EM/NA 72m 14 (0)(1)(1)(1)

EM/NA 75m 14 (0)(1)(1)(1)

EM/NA 78m 14 (0)(1)(1)(1)

EM/NA 81m 14 (0)(1)(1)(1)

EM/NA 84m 14 (0)(1)(1)(1)

EM/NA 87m 14 (0)(1)(1)(1)

EM/NA 90m 14 (0)(1)(1)(1)

EM/NA 93m 14 (0)(1)(1)(1)

EM/NA 96m 14 (0)(1)(1)(1)

EM/NA 99m 14 (0)(1)(1)(1)

EM/NA 102m 14 (0)(1)(1)(1)

EM/NA 105m 14 (0)(1)(1)(1)

EM/NA 108m 14 (0)(1)(1)(1)

EM/NA 111m 14 (0)(1)(1)(1)

EM/NA 114m 14 (0)(1)(1)(1)

EM/NA 117m 14 (0)(1)(1)(1)

EM/NA 120m 14 (0)(1)(1)(1)

EM/NA 123m 14 (0)(1)(1)(1)

EM/NA 126m 14 (0)(1)(1)(1)

EM/NA 129m 14 (0)(1)(1)(1)

EM/NA 132m 14 (0)(1)(1)(1)





\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

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