

Market Comment | Positive CPI data in the US prevent the risk assets punishment

Global Financial Markets Unit
15 Oct 2015

- **Positive CPI data in the US.** US CPI unexpectedly remained unchanged in September (consensus: -0.1% YoY) while ex-food and energy it rose more than estimates (by 1.9% YoY; consensus: 1.8%). Also, the jobless claims unexpectedly dropped in the week ended 10 October (by 7K to 255K; consensus: 270K. Meanwhile two regional manufacturing indices (Empire and Philadelphia Fed) increased less than estimated, both remain in negative territory (-11.36 and -4.5 points respectively).
- **Fitch downgrades Brazil's credit rating to BBB- from BBB outlook negative.** The decision was driven by a testing political environment and a rising debt burden. Despite the downgrade Brazil retains the Investment Grade. Such a move follows the movement made by the other two main rating agencies in previous months (Moody's cut Brazil's rating to Baa3 and S&P cut the rating below investment grade BB+ one month ago).
- **Better-than-expected data in US stopped the punishment of risk assets.** Both the US labour market and, especially, prices data released today heightened investor confidence and mitigated the weekly fall in risk assets. Positive inflation data boosted US yields, which rose across tenors (2Y: +5bp, 10Y: +5bp). Nonetheless, although the probability of a rate hike in December 2015 (as implied in Fed fund futures) inched up, the market is still assigning a very low probability to a rate hike before the end of the year (28.9%). Meanwhile, European yields remained broadly unchanged today (GER 10Y: +2bp, FRA 10Y: +1bp, ITA 10Y: +2bp, SPA 10Y: +1bp, POR 10Y: +2bp). On another front, European equity markets rose across the board and reversed the early part of the week's negative trend, following the earlier mild rebound in Asian equity markets (Euro Stoxx: +1.4%, DAX: +1.5%, IBEX-35: +0.7%, CAC: +1.4% Nikkei: +1.2%, Shanghai: +2.32%). The US indices remained broadly unchanged amid the bank sector's mixed quarterly results (S&P 500: +0.5%). On FX markets, the USD appreciated against other major currencies, especially against the euro following Nowotny's comments on inflation: "One has to say that we're clearly missing our target" and the need of "additional set of instruments", referring mainly to structural measures) (EUR: -0.7%). EM currencies appreciated against the USD again (TRY: +1.0%, RUB: +0.7%, COP: +0.7%, CLP: +0.9%), despite the renewed falls in some commodity prices (Brent: -1.2%, WTI: -2.0%, copper: -0.3%).

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Table1

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

Debt markets (changes in bpt)

US 2yr 4.8 (0.1) (2.4) (4.2)
 US 5yr 3.3 (0.1) (1.5) (3.2)
 US 10yr 2.0 (0.1) (0.4) (2.7) (1.6)

Japan 10yr 3.2 (0.1) (1.4) (4.0)

CSI 2yr 4.26 (0.1) (1.4) (4.8)
 G5 5yr 4.05 (0.1) (2.1) (4.8) (2.1)
 DE 10yr 3.06 (0.1) (1.4) (4.0)

Belgium 10yr 5.88 (0.1) (1.9) (4.9) (3)

France 10yr 5.52 (0.1) (2.1) (5.0)

Germany 10yr 5.1 (0.1) (1.7) (4.7)

Italy 10yr 5.1 (0.1) (1.7) (4.7)

Key 10yr 6.64 (0.1) (2.1) (5.2)

Netherlands 10yr 5.2 (0.1) (1.8) (4.9)

Portugal 10yr 7.48 (0.1) (2.1) (5.2) (2.1)

Spain 10yr 5.8 (0.1) (2.1) (5.0)

Emerging Markets

Brazil 10yr 15.54 (1.0) (2.1) (5.0)

China 10yr 4.4 (0.1) (1.4) (4.8)

Colombia 10yr 8.0 (0.1) (1.4) (4.8)

India 10yr 8.9 (0.1) (2.1) (5.0)

Russia 10yr 15.2 (2.0) (2.1) (5.0) (2.0)

Turkey 10yr 9.87 (1.0) (2.1) (5.0)

Indonesia 10yr 7.74 (0.1) (2.1) (5.0)

Country risk (changes in bpt)

10yr sovereign spreads (against Germany)

Belgium 20 (0.1) (2) (5)

France 27 (0.1) (2) (5)

Germany 24 (0.1) (2) (5)

Italy 18 (0.1) (2) (5)

Netherlands 17 (0.1) (2) (5)

Portugal 102 (1.0) (1.0) (2.0)

Spain 125 (0.1) (2) (5)

5yr sovereign spreads (against Germany)

Belgium 12 (0.1) (1) (2)

France 16 (0.1) (1) (2)

Germany 16 (0.1) (1) (2)

Italy 12 (0.1) (1) (2)

Netherlands 11 (0.1) (1) (2)

Portugal 121 (1.0) (1.0) (2.0)

Spain 61 (0.1) (1) (2)

3yr sovereign spreads (against Germany)

Belgium 8 (0.1) (1) (2)

France 9 (0.1) (1) (2)

Germany 9 (0.1) (1) (2)

Italy 6 (0.1) (1) (2)

Netherlands 5 (0.1) (1) (2)

Portugal 126 (1.0) (1.0) (2.0)

Spain 34 (0.1) (1) (2)

Sovereign CDS

5yr CDS Belgium 38 (0.1) (1) (2)

5yr CDS France 38 (0.1) (1) (2)

5yr CDS Germany 34 (0.1) (1) (2)

5yr CDS Greece 112 (0.1) (1) (2)

5yr CDS Ireland 80 (0.1) (1) (2)

5yr CDS Italy 118 (0.1) (1) (2)

5yr CDS Netherlands 71 (0.1) (1) (2)

5yr CDS Portugal 181 (0.1) (1) (2)

5yr CDS Spain 108 (0.1) (1) (2)

5yr CDS US 18 (0.1) (1) (2)

Emerging Markets

5yr CDS Brazil 44 (0.1) (1) (2)

5yr CDS China 18 (0.1) (1) (2)

5yr CDS Colombia 24 (0.1) (1) (2)

5yr CDS India 26 (0.1) (1) (2)

5yr CDS Russia 44 (0.1) (1) (2)

5yr CDS Turkey 27 (0.1) (1) (2)

5yr CDS US 18 (0.1) (1) (2)

Country risk

US 17 (1.4) (1.0) (1.0) (2.0)

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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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