Market Comment | Last week's relief rally halted ahead of the next week relevant events

Global Financial Markets Unit
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- **Mixed data in the US.** US industrial production dropped in September in line with estimates (by -0.2% MoM, August -0.1% MoM and July +0.8% MoM), mining output continued to decline, dragged by the fall in commodity prices, while manufacturing fell (-0.1%) and capacity utilisation rose more than expected (by 77.5%; consensus: 77.3%). University of Michigan sentiment rose more than estimates (by 4.9pt to 92.1; consensus: 89.0), with both current conditions and expectation indices improving.

- **Negative data in the eurozone**. Eurozone final CPI confirmed the drop in the headline inflation in September (-0.1% YoY, August +0.1% YoY). Meanwhile, core inflation remained stable at 0.9% YoY for the third month in a row. On the other hand, exports continued falling in August for the third consecutive month (-1.3% MoM, July -0.7% MoM), while imports fell (by 0.2% MoM, July -1.4% MoM); as a result the trade surplus decreased in August more than expectations (to EUR19.8bn; consensus: EUR21.5bn, July 22.4bn).

- **Last week's relief rally halted ahead of the next week's relevant events (ECB meeting) and economic data (the Chinese 3Q GDP figure).** The release of the worse-than-expected Chinese imports (amplifying the "recessionary trade surplus"), resulting from a mix of weak exports and even weaker imports, coupled with disappointing prices data early this week, fueled the global concerns and hit risk assets across the board and also commodity prices. The US data during the week were mixed, while the negative effect of worse-than-expected retail sales and industrial prices was offset by September's inflation prints. Nonetheless, the weekly balance in both bond market and commodity prices indicates that last week's relief rally halted after disappointing data and ahead of the next week's relevant events and economic data. Against this backdrop, US treasury yields dropped during the week (2Y: -3bp 10Y: -6bp), due to the weekly decrease in the probabilities of a rate hike in December 2015 as implied by the Fed fund futures. Despite a slight rebound at the end of the week, the probabilities are still below 1/3 (30.6% at December`s meeting). In the same vein, European yields also dropped, led by Italian bonds and with the exception of the Portuguese (GER 10Y: -6bp, FRA 10Y: -6bp, ITA 10Y: -8bp, SPA 10Y: -6bps, POR 10Y: +4bp). The peripheral risk premia increased in Portugal (POR: +9.8bp), due to political uncertainty after the parliamentary elections. On equity markets, the Europeans remained unchanged (Euro Stoxx: +0.1%, DAX: -0.2%, CAC: -0.2%, MIB: +0.1%), with the exception of the Ibex-35 (-1.2%), dragged mainly by oil sector companies slumping at the beginning of the week. Meanwhile, US equity markets also stayed flattened (+0.6%) and Asian markets had a mixed performance (Nikkei: -0.8%, Shanghai: +6.5%). On commodity markets, the prices plunged led by oil prices (dragged down by worse-than-expected US oil inventories) after last week's rebound (Brent: -5.0%, WTI:-5.6%, copper: -0.6%). Despite the commodity price rebound lost steam, EM currencies showed a mixed performance against the USD (BRL: -2.0%, TRY: +0.5%, MXN: +0.2%, COP: -0.6%, CLP: +0.6%). The US dollar depreciated against most major developed currencies (GBP: +0.82%, JPY: +0.86%), undermined by the low probabilities that markets assign to a rate hike this year. Despite the high volatility during the week, EUR remained broadly unchanged against USD on the back of the dovish tone of Ewald Nowotny`s statement yesterday.

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Table1

BBVA Research

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0,61 (1) (-3) (-20) (-6)
US 5-yr 1,35 (2) (-5) (-26) (-30)
US 10-yr 2,02 (1) (-6) (-27) (-15)

Japan 10-yr 0,32 (0) (0) (-5) (-1)

GER 2-yr -0,26 (0) (-2) (-4) (-17)
GER 5-yr -0,03 (0) (-4) (-12) (-5)
GER 10-yr 0,56 (1) (-6) (-22) (1)

Belgium 10-yr 0,87 (0) (-6) (-23) (4)
France 10-yr 0,92 (0) (-6) (-25) (10)
Greece 10-yr 7,88 (-8) (4) (-68) (-187)
Ireland 10-yr 1,17 (0) (-2) (-21)
Italy 10-yr 1,61 (-3) (-8) (-31) (-28)
Netherlands 10-yr 0,73 (1) (-6) (-22) (4)
Portugal 10-yr 2,44 (-5) (4) (-27) (-25)
Spain 10-yr 1,78 (-3) (-6) (-35) (17)

Emerging Markets
Brazil 10-yr 15,81 (6) (16) (63) (345)
Chile 10-yr 4,46 (0) (0) (-21) (47)
Colombia 10-yr 7,93 (-9) (-6) (-51) (83)
Mexico 10-yr 5,88 (-3) (-4) (-29) (4)
Peru 10-yr 7,38 (0) (-6) (-20) (193)

Poland 10-yr 2,68 (1) (1) (-36) (16)
Russia 5-yr 10,19 (-23) (-37) (-124) (-400)
Russia 10-yr 10,06 (-21) (-33) (-112) (-295)
Turkey 10-yr 9,91 (4) (-13) (-49) (204)

India 10-yr 7,57 (2) (2) (-19) (-32)
Indonesia 10-yr 8,66 (-8) (4) (-87) (84)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 32 (-1) (0) (-1) (3)
France 37 (-1) (-1) (-3) (8)
Greece 733 (-9) (10) (-47) (-188)
Ireland 61 (-1) (4) (1) (-10)
Italy 106 (-4) (-2) (-9) (-29)
Netherlands 17 (0) (-0,2) (0) (3)
Portugal 189 (-5) (9,8) (-6) (-26)
Spain 122 (-4) (0) (-13) (15)

5-yr sovereign spreads *(against Germany)*
Belgium 12 (0) (-0,4) (-2) (-2)
France 20 (0) (-2) (6) (4)
Greece 1606 (0) (4) (12) (473)
Ireland 34 (0) (3) (-2) (-6)
Italy 69 (-2) (1) (-6) (-25)
Netherlands 5 (0) (0,5) (-1) (-3)
Portugal 121 (-4) (12) (-6) (-23)
Spain 83 (-1) (2) (-10) (-4)

2-yr sovereign spreads *(against Germany)*
Belgium 6 (0) (-1) (1) (0)
France 6 (0) (-0,1) (2) (0)
Ireland 10 (0) (1) (2) (-1)
Italy 35 (-1) (2) (-2) (-28)
Netherlands 1 (0) (0) (0) (-5)
Portugal 55 (-2) (6) (-4) (4)
Spain 34 (0) (2) (-3) (-16)

5-yr sovereign CDS
5-yr CDS Belgium 40 (1) (-1) (1) (-9)
5-yr CDS France 31 (0) (-1) (1) (-15)
5-yr CDS Germany 14 (0) (0) (0) (-4)
5-yr CDS Greece 1149 (-2) (12) (-347) (-132)
5-yr CDS Ireland 53 (3) (0) (-1) (2)
5-yr CDS Italy 118 (-1) (-1) (7) (-18)
5-yr CDS Netherlands 17 (0) (-1) (0) (-4)
5-yr CDS Portugal 182 (3) (7) (2) (-18)
5-yr CDS Spain 103 (-1) (0) (4) (8)
5-yr CDS UK 17 (1) (0) (0) (-5)
5-yr CDS US 15 (-1) (1) (-1) (-2)

Emerging Markets
5-yr sovereign CDS
5-yr CDS Brazil 423 (-21) (3) (46) (223)
5-yr CDS Chile 128 (-8) (-2) (16) (34)
5-yr CDS Colombia 216 (-11) (-1) (8) (77)
5-yr CDS Mexico 151 (-9) (3) (9) (47)
5-yr CDS Peru 173 (-10) (-1) (11) (57)
5-yr CDS Venezuela 5120 (-325) (-644) (-895) (615)

5-yr CDS Poland74 (0) (-1) (1) (4)
5-yr CDS Russia 310 (-13) (-15) (-38) (-166)
5-yr CDS Turkey 266 (-11) (-1) (-10) (85)

5-yr CDS China 104 (-8) (-9) (-10) (19)
5-yr CDS India 169 (1) (-5) (-9) (-2)
5-yr CDS Indonesia 211 (-14) (-13) (-18) (55)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 16,27 (1,4) (-4,7) (-23,8) (-2)
VSTOXX23,15 (-4) (-1,1) (-17,1) (-3)
EM EFT volatility Index 26 (4) (-4) (-18) (16)
Dollar/euro volatility 9,2 (-0,8) (-1,1) (-18,3) (-4)
EM FX volatility index 11 (0) (-3) (-8) (2)
Credit spread (BAA) 327,6 (-0,7) (-1,6) (12,7) (78)
US bonds volatility index 75 (0) (-5) (-12) (8)

Bank risk *(changes in bp)*
US banks CDS 87 (-2) (0) (9) (17)
EMU banks CDS 91 (0) (-2) (0) (7)
UK banks CDS 85 (0) (-2) (1) (25)

Large Spanish banks CDS 128 (1) (-5) (4) (51)
Medium Spanish banks CDS 160 (6) (-1) (-4) (46)

Greek banks CDS 2399 (0) (6) (-49) (1515)
Russian banks CDS 443 (-8) (-6) (-33) (-144)

Corporate risk *(changes in bps)*
US Non-financial CDS 0 (0) (0) (0) (-157)
EMU Non-financial CDS 0 (0) (0) (0) (-107)
UK Non-financial CDS 0 (0) (0) (0) (-113)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 10 (0) (1) (0) (0)
UEM OIS spread 12m 32 (0) (1) (1) (-8)
UEM TED spread 3m 30 (0) (-0,5) (-4) (5)

US OIS spread 3m 16 (0) (0) (5) (2)
US OIS spread 12m 52 (-1) (0) (9) (19)
US TED spread 3m 32 (-1) (0) (3) (10)

Spain Ted Spread 3m 6 (1) (0,5) (1) (1)

EONIA Index -0,14 (0) (-0,1) (-1) (-29)
Euribor 3m -0,05 (0) (-0,2) (-1) (-13)
Euribor 12m 0,13 (-1) (-1) (-3) (-20)

Libor 3m 0,32 (0) (0) (-2) (6)
Libor 12m 0,83 (0) (-2) (-4) (20)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2026,8 (0,1) (0,6) (1,6) (-2)
DowJones 17180,2 (0,2) (0,6) (2,6) (-4)
Nikkei 18291,8 (1,1) (-0,8) (0,7) (5)
FTSE 100 6372,7 (0,5) (-0,7) (2,3) (-3)
EuroStoxx 50 3253,6 (0,5) (0,1) (0,1) (3)
IBEX10190,9 (0,9) (-1,2) (2,1) (-1)
DAX 10073,9 (0,1) (-0,2) (-1,5) (3)
CAC4692,3 (0,4) (-0,2) (1) (10)
MIB 22280 (0,3) (0,1) (1) (17)
ASE Athens 690,7 (-0,5) (2) (-0,2) (-16)

Bank stocks
US banks 93,7 (-0,2) (2,3) (-1,9) (-6)
JPM 62,1 (0,4) (0,3) (-3,1) (-1)
Citi 52,8 (-0,4) (2,7) (0,3) (-3)
BoA 16,1 (-0,6) (3,2) (-1,5) (-10)
MS 33,7 (0,3) (3) (-2,6) (-13)
GS 183,9 (-0,6) (2,6) (-2,5) (-5)

UK banks 92,5 (0,5) (-2,5) (-1,2) (-7)
HSBC 520,8 (0,3) (-2,1) (1,5) (-14)
RBS 326,5 (0,1) (-2,3) (-0,4) (-17)
Barclays 250,2 (0,9) (-2,7) (-4,7) (3)
Lloyds 75,1 (0,7) (-2,7) (-0,5) (-1)

EMU banks 114,3 (1,2) (0,4) (-0,5) (14)
BNP 54,9 (1,8) (2,1) (-0,6) (12)
Crédit Agricole 11,1 (1,3) (-2,2) (-2,3) (3)
Deutsche Bank 25,9 (1,6) (0,1) (-0,3) (4)
ING 13 (1,5) (1,8) (-2,2) (20)
Intesa 3,2 (1,1) (1,8) (2,3) (34)
SG 42 (1,8) (0,2) (-0,5) (20)
Unicredito 5,8 (-0,5) (-1,4) (-0,5) (8)

Large Spanish banks 87,9 (1,7) (-2,2) (0,3) (-12)
Santander 5,2 (2,5) (-3,9) (0,2) (-26)
BBVA 8 (1,1) (-0,9) (0,4) (2)

Medium Spanish banks 94,9 (0,6) (-2,7) (10) (-5)
Caixabank 3,8 (1,3) (-4,3) (6) (-13)
Popular 3,8 (1,3) (-3,7) (9,7) (-10)
Sabadell 2 (-0,3) (-2,9) (14,2) (-3)
Bankinter 6,9 (0,6) (-1) (6,4) (4)
Bankia 1,2 (0,4) (-1,6) (14) (-2)

Greek banks 23,2 (2,5) (14,1) (-11,8) (-77)
Alpha Bank0,1 (6,7) (30,9) (-5,9) (-69)
Pireus Bank0,1 (0) (14,7) (-27,7) (-91)
National Central Bank0,6 (5,1) (11,1) (7,1) (-59)
Eurobank Ergasias0 (-12) (-8,3) (-45) (-88)

Emerging Markets
Main equity indices
MSCI Latam 63470 (0,48) (-2) (0,6) (-5)
Ibovespa (Brazil) 46647 (-1,1) (-5,5) (-3,9) (-6,7)
Mexbol 44127 (0,1) (-0,6) (2) (2,3)

MSCI EM Europe 4564 (0,56) (2) (2,5) (2,9)
Poland 2126 (-0,5) (-0,8) (-2,6) (-8,2)
Micex (Russia) 1728 (-0,2) (0) (-0,2) (23,7)
Ise 100 (Turkey) 79109 (-0,2) (-0,1) (6,7) (-7,7)

MSCI EM Asia 690 (1,37) (1,5) (6,1) (-4,1)
Shanghai Composite (China) 3391 (1,6) (6,5) (7,6) (4,8)
Jakarta Composite (Indonesia) 4522 (0,3) (-1,5) (4,4) (-13)

Bank stocks
Turkish banks 80 (-0,1) (-1,1) (7,9) (-19,9)
Akbank T.A.S. 7 (-0,4) (-0,5) (10) (-13,9)
Garanti 8 (0,3) (-2) (5,9) (-20,3)
Turkiye Is Bankasi 5 (-0,2) (-1) (7,7) (-25,5)

Russian banks 140 (1,5) (3,7) (14,6) (39,8)
Sberbank 90 (2,4) (4,7) (15,6) (63,6)
VTB Bank 0,1 (0,3) (2,3) (13,3) (16)

Currencies *(in percentage, positive for dollar depreciation)*

Developed Markets
EURUSD 1,137 (-0,18) (0,06) (0,7) (-6,1)
GBPUSD 1,54 (-0,08) (0,82) (-0,3) (-0,9)
USDJPY 119,23 (-0,28) (0,86) (1,1) (0,4)
DXY 94,47 (-0,1) (0,4) (1) (-4,6)

Emerging Markets
USDARS (Argentina) 9,49 (-0,1) (-1,5) (-1,3) (-12,1)
USDBRL (Brazil) 3,84 (-1,1) (-2) (-0,3) (-44,5)
USDCLP (Chile) 674,22 (0) (0,6) (0,4) (-11,1)
USDCOP (Colombia) 2885,95 (0,3) (-0,6) (2,7) (-21,4)
USDMXN (Mexico) 16,39 (0) (0,2) (0,9) (-11,2)
USDPEN (Peru) 3,23 (0) (-0,7) (-1,1) (-8,6)
LACI 67,32 (-0,3) (-0,7) (0,5) (-18,1)

USDPLN (Poland) 3,73 (-0,3) (-0,4) (-0,2) (-5,3)
USDRUB (Russia) 61,53 (-0,3) (0) (5,9) (-6,4)
USDTRY (Turkey) 2,9 (-0,6) (0,5) (3,4) (-24,2)

USDCNY (China) 6,35 (-0,1) (-0,1) (0,3) (-2,4)
USDINR (India) 64,82 (0) (-0,1) (2,5) (-2,3)
USDIDR (Indonesia) 13540 (-0,9) (-1) (6,4) (-9,3)
ADXY 108,99 (-0,2) (0,2) (1,2) (-3,4)

Commodities *(change in percentage)*

Brent 50 (2,6) (-5) (0,5) (-12,8)
WTx 46,86 (1) (-5,6) (-0,6) (-12)
Copper 240,3 (-0,9) (-0,6) (-2,4) (-15,3)
Gold 1179,74 (-0,3) (1,9) (5,4) (-0,2)
CRB Index 397,63 (0) (0,9) (-2,1) (-9,2)
CRB (food) index 359,37 (0) (1,2) (0,1) (-2,7)
Baltic Dry Index 766 (0) (-5,3) (-5,9) (-2)

Source: Bloomberg, Datastream and Haver

*CDS, EMBI & MSCI indices with one day delay
**Credit spread (BAA) with two days delay

Spain with number 0182.