Market Comment | China’s better than expected 3Q GDP had no impact on global markets.

Global Financial Markets Unit
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- **China’s GDP moderated less than expected in 3Q15**, allaying fears of a hard-landing (6.9% YoY, BBVA Research 6.5% YoY, consensus 6.8% YoY, previous 7.0% YoY). Nonetheless, the 3Q GDP figure could be affected by statistical factor, underpinned by changes in the GDP methodology. This is the first time that the GDP growth has been below 7% since the first quarter of 2009. Nevertheless, in sequential terms, the pace of growth picked up modestly (1.8% QoQ sa in 3Q15, 1.7% QoQ in 2Q15). Moreover, the GDP components, along with a number of September activity indicators are suggesting that China’s economy is undergoing a rebalancing towards consumption and the service sector at a pace faster than we envisaged. (see)

- **Greek parliament approved the economic reform package, that paves the way for the disbursement of a EUR2bn loan from the EU to Greece.** There were 154 votes for and 140 against “prior actions”, which included fiscal and structural reforms. Next Month, the Greek parliament needs to approve an additional package in order to release EUR15bn-25bn of funding needed to recapitalise the banks. Tomorrow, Greece’s lenders will visit Athens to supervise the approved reforms.

- **China’s better than expected 3Q GDP had no relevant impact on global markets.** Despite the positive surprise in China`s growth prints, the data showed the slowest rate since 2009. This fact is evidence that the Chinese economic slowdown is maintaining concerns about the global economic outlook. Against this backdrop, even the Asian indices did not react to the news in China (Nikkei: -0.9%, Shanghai: -0.14%). European indices showed mixed trading (Euro Stoxx: +0.2%, DAX: +0.6%, IBEX-35: -0.3%, CAC: 0.0%), while the US indices opened with a negative bias (S&P 500: -0.2%), dragged down by (among other factors) some negative 3Q results from the banking sector. On bond markets, US treasury yields remained unchanged and the probabilities of a hike-rate this year remain close to 30%. In the same line, European core yields stayed flattened, while periphery yields showed a mixed performance. On the back of the news concerning the new reform package, the Greek 10Y yield reached its lowest level since December (-35 bp to 7.58%), while other peripherals countries remained unchanged, with the exception of Portugal`s yield which partially corrected last week`s rise (ITA 10Y: -1bp, SPA 10Y: -1bp, POR 10Y: -5bp). On FX markets, the USD appreciated against the euro, despite dovish statements by William Dudley (FOMC member) that pointed out that turbulence on financial markets, modest global growth, energy prices and macro-prudential imbalances could slow down the process of tightening the monetary conditions (EUR: -0.33%). Meanwhile, EM currencies depreciated against USD (RUB: -1.7%, COP: -0.8%, CLP: -0.6%, MXN:-0.4%), above all those most linked to commodity prices, which continued last week’s negative trend despite the positive surprise in China (Brent: -3.1%, WTI: -2.2%, copper: -1.6%).

ECB Thursday meeting

- **At its 22 October meeting, we expect no change to the ECB's monetary policy stance. However, the central bank will reiterate its commitment to the full implementation of its measures and its readiness to do more, if needed, but it will also stress the need not to take premature decisions.**

- Economic indicators in the eurozone over the last month have deteriorated somewhat, although we expect the euro area's recovery to have continued in the third quarter of the year at 0.4% QoQ. Inflation was -0.1% YoY in September, after +0.1% in August, due to heavier falls in energy prices for the fourth month in succession, whereas core inflation held stable at 0.9% YoY. Going forward, we continue to expect inflation to return towards the target level in the next two years, as does the ECB. Moreover, in the last few weeks, medium- to long-term inflation expectations have continued to improve, i.e. measured by the 5Y5Y swap, recovering levels close to 1.7%.

- Against this background, a large percentage of analysts expect that the ECB will signal another phase of quantitative easing before the end of the year. Until now, the ECB has signalled that it prefers not to take premature decisions. Moreover, several ECB governing council members have stated that it is too early to fully judge whether more easing is needed. Nevertheless, the central bank has continued to underline that the PSPP is flexible enough to be adapted if needed, emphasising that appropriate communication of monetary policy remains essential. In this context, while uncertainty is high and risks remain on the downside, and assuming that growth in China and major emerging markets stabilises (our baseline scenario) as does the turbulence in financial markets, we are standing by our central scenario of there being no changes to the ECB purchasing programme.

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Table1

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

Debt markets *(changes in bp)*
Developed Markets
US 2-yr 0,6 (0) (-3) (-7) (-6)
US 5-yr 1,36 (0) (-4) (-12) (-30)
US 10-yr 2,04 (1) (-5) (-15) (-13)

Japan 10-yr 0,33 (1) (1) (-3) (0)

GER 2-yr -0,26 (1) (-1) (-6) (-16)
GER 5-yr -0,04 (0) (-2) (-14) (-5)
GER 10-yr 0,56 (1) (-2) (-22) (2)

Belgium 10-yr 0,87 (1) (-3) (-23) (4)
France 10-yr 0,93 (1) (-2) (-24) (10)
Greece 10-yr 7,58 (-35) (-34) (-79) (-217)
Ireland 10-yr 1,16 (0) (0) (-23)
Italy 10-yr 1,6 (-1) (-8) (-31) (-29)
Netherlands 10-yr 0,74 (1) (-2) (-21) (5)
Portugal 10-yr 2,39 (-5) (-5) (-29) (-30)
Spain 10-yr 1,76 (-1) (-5) (-33) (15)

Emerging Markets
Brazil 10-yr 15,88 (8) (23) (52) (352)
Chile 10-yr 4,47 (0) (1) (-24) (48)
Colombia 10-yr 7,99 (7) (0) (-36) (89)
Mexico 10-yr 5,88 (-1) (-7) (-21) (4)
Peru 10-yr 7,36 (1) (-7) (-19) (191)

Poland 10-yr 2,7 (2) (2) (-31) (18)
Russia 5-yr 10,26 (11) (-30) (-122) (-394)
Russia 10-yr 10,12 (10) (-27) (-109) (-288)
Turkey 10-yr 9,84 (-7) (-26) (-60) (197)

India 10-yr 7,57 (0) (-1) (-19) (-31)
Indonesia 10-yr 8,66 (0) (6) (-67) (84)

Country risk *(changes in bp)*
Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 31 (0) (-1) (0) (2)
France 37 (0) (-1) (-1) (8)
Greece 702 (-36) (-32) (-56) (-218)
Ireland 60 (-1) (2) (-1) (-11)
Italy 104 (-2) (-6) (-8) (-31)
Netherlands 18 (0) (0,1) (1) (3)
Portugal 183 (-6) (-3,6) (-7) (-32)
Spain 120 (-2) (-3) (-11) (13)

5-yr sovereign spreads *(against Germany)*
Belgium 12 (0) (-0,8) (-2) (-3)
France 19 (-1) (-2) (6) (3)
Greece 1606 (0) (2) (14) (473)
Ireland 34 (-1) (0) (0) (-6)
Italy 68 (-1) (-2) (-6) (-25)
Netherlands 5 (0) (0,6) (0) (-3)
Portugal 117 (-4) (1) (-5) (-27)
Spain 83 (0) (-1) (-9) (-4)

2-yr sovereign spreads *(against Germany)*
Belgium 6 (0) (-1) (1) (0)
France 6 (0) (-0,5) (3) (-1)
Ireland 11 (0) (0) (2) (-1)
Italy 35 (-1) (1) (-3) (-28)
Netherlands 1 (-1) (0) (1) (-6)
Portugal 55 (-1) (5) (-7) (3)
Spain 34 (-1) (0) (-4) (-16)

5-yr sovereign CDS
5-yr CDS Belgium 39 (-1) (-2) (3) (-9)
5-yr CDS France 32 (0) (-1) (2) (-15)
5-yr CDS Germany 14 (0) (-1) (1) (-4)
5-yr CDS Greece 1151 (2) (-7) (-203) (-130)
5-yr CDS Ireland 50 (-3) (0) (3) (-1)
5-yr CDS Italy 116 (-2) (1) (6) (-19)
5-yr CDS Netherlands 18 (1) (-1) (1) (-3)
5-yr CDS Portugal 177 (-5) (13) (2) (-23)
5-yr CDS Spain 102 (-1) (1) (2) (6)
5-yr CDS UK 17 (0) (1) (0) (-5)
5-yr CDS US 17 (3) (-5) (4) (1)

Emerging Markets
5-yr sovereign CDS
5-yr CDS Brazil 437 (14) (26) (69) (238)
5-yr CDS Chile 126 (-2) (-1) (20) (32)
5-yr CDS Colombia 217 (0) (5) (20) (77)
5-yr CDS Mexico 150 (-1) (3) (14) (47)
5-yr CDS Peru 171 (-2) (0) (13) (55)
5-yr CDS Venezuela 5058 (-62) (-416) (-771) (553)

5-yr CDS Poland73 (-1) (-2) (1) (3)
5-yr CDS Russia 287 (-23) (-31) (-48) (-189)
5-yr CDS Turkey 255 (-11) (-10) (-6) (73)

5-yr CDS China 104 (0) (-6) (-7) (19)
5-yr CDS India 167 (-3) (-7) (-10) (-5)
5-yr CDS Indonesia 211 (0) (-6) (-13) (55)

Credit risk
Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 15,57 (3,5) (-3,7) (-26,3) (-3)
VSTOXX 22,81 (0,3) (-1,6) (-15,7) (-3)
EM EFT volatility Index 25 (6) (-3) (-13) (12)
Dollar/euro volatility 9,7 (5,6) (4,4) (-8,2) (1)
EM FX volatility index 11 (1) (0) (-6) (2)
Credit spread (BAA) 329,3 (-0,4) (0,1) (9,7) (78)
US bonds volatility index 75 (0) (-5) (-4) (8)

Bank risk *(changes in bp)*
US banks CDS 86 (-2) (-2) (9) (16)
EMU banks CDS 89 (-1) (-1) (2) (5)
UK banks CDS 83 (-1) (0) (2) (24)

Large Spanish banks CDS 124 (-4) (-2) (6) (47)
Medium Spanish banks CDS 163 (3) (2) (4) (49)

Greek banks CDS 2401 (2) (7) (-49) (1517)
Russian banks CDS 429 (-15) (-17) (-42) (-158)

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) (0) (0) (0)
UEM OIS spread 12m 32 (0) (1) (2) (-8)
UEM TED spread 3m 28 (0) (-0,1) (-5) (4)

US OIS spread 3m 15 (0) (0) (-3) (2)
US OIS spread 12m 53 (0) (1) (-1) (19)
US TED spread 3m 32 (1) (0) (-3) (10)

Spain Ted Spread 3m 13 (7) (7,6) (9) (8)

EONIA Index -0,14 (0) (-0,8) (0) (-29)
Euribor 3m -0,05 (0) (-0,5) (-2) (-13)
Euribor 12m 0,13 (0) (-1) (-3) (-20)

Libor 3m 0,32 (0) (0) (-3) (6)
Libor 12m 0,83 (0) (-1) (-5) (20)

Stock markets *(Changes in percentage)*
Developed Markets
Main equity indices
S&P500 2029 (-0,2) (0,6) (2) (-1)
Dow Jones 17186,6 (-0,2) (0,3) (3,1) (-4)
Nikkei 18131,2 (-0,9) (-1,7) (-1,6) (4)
FTSE 100 6047,5 (-0,5) (-0,4) (2,6) (-3)
EuroStoxx 50 3271,6 (0,2) (0,7) (0,5) (4)
IBEX10292,4 (-0,3) (-0,4) (0,9) (-1)
DAX 10160,3 (0,6) (0,5) (-0,6) (4)
CAC4702,3 (0) (0,3) (1) (10)
MIB 22399,1 (0,3) (1,4) (1,4) (18)
ASE Athens 685,1 (-0,1) (0,6) (-1) (-17)

Bank stocks
US banks 93,1 (-1) (1,7) (-0,5) (-7)
JPM 62,3 (-0,2) (1) (-0,5) (0)
Citi 52,8 (0,2) (3) (2,2) (-2)
BoA 16,2 (0,4) (4,3) (2) (-10)
MS 32 (-0,7) (-2,4) (-6) (-18)
GS 185,3 (0) (2,8) (-0,6) (-4)

UK banks 92,6 (0) (-1,5) (0,1) (-7)
HSBC 516,8 (-0,8) (-2,8) (2,8) (-15)
RBS 323,4 (-0,8) (-1,5) (-0,8) (-18)
Barclays 253,4 (1) (-1,2) (-2,7) (4)
Lloyds 75,5 (0,4) (-0,6) (1,6) (0)

EMU banks 115,3 (0,6) (1,9) (-0,1) (15)
BNP 55 (0) (1,9) (-1,2) (12)
Crédit Agricole 11,2 (0,7) (-0,6) (-1) (4)
Deutsche Bank 27 (3,8) (4,7) (2,3) (8)
ING 13 (0,1) (3,6) (-2,5) (20)
Intesa 3,3 (0,8) (3,4) (2,6) (36)
SG 41,9 (-0,4) (0,9) (-0,7) (20)
Unicredito 5,8 (-0,3) (-0,9) (-0,4) (9)

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

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

Greek banks 23,3 (1,9) (17,3) (-12,6) (-77)
Alpha Bank0,1 (-8,2) (25) (-12,3) (-71)
Pireus Bank0,1 (-10,7) (4,2) (-35,3) (-92)
National Central Bank0,7 (10,4) (24,5) (12,1) (-56)
Eurobank Ergasias0 (4,8) (-8,3) (-45) (-88)

Emerging Markets
Main equity indices
MSCI Latam 63589 (0,19) (-2,4) (-0,6) (-4,8)
Ibovespa (Brazil) 47495 (0,5) (-3,7) (-2,2) (-5)
Mexbol 44356 (0,1) (1,3) (2,8)

MSCI EM Europe 4522 (-0,91) (-0,9) (0,6) (2)
Poland 2111 (-0,5) (-1,1) (-4) (-8,8)
Micex (Russia) 1712 (-0,3) (0,1) (-1) (22,6)
Ise 100 (Turkey) 79735 (1,6) (0,5) (6,3) (-7)

MSCI EM Asia 691 (0,16) (1,1) (4,5) (-4)
Shanghai Composite (China) 3387 (-0,14) (3) (9,7) (4,7)
Jakarta Composite (Indonesia) 4570 (1,1) (-1,3) (4,4) (-13)

Bank stocks
Turkish banks 60 (1,1) (0,1) (7,5) (-19,7)
Akbank T.A.S. 7 (0,8) (0,4) (8,9) (-13,7)
Garanti 8 (1,6) (-0,4) (6,5) (-19,9)
Turkiye Is Bankasi 5 (0,8) (0,2) (7) (-25,5)

Russian banks 136 (-0,9) (-0,3) (11,8) (35,6)
Sberbank 87 (-1,7) (1,8) (13,8) (58,5)
VTB Bank 0,1 (0,2) (-3,2) (9,1) (12,8)

Currencies *(in percentage, positive for dollar depreciation)*
Developed Markets
EURUSD 1,131 (-0,33) (-0,42) (-1,1) (-6,6)
GBPUSD 1,55 (0,29) (0,87) (-0,7) (-0,7)
USDJPY 119,45 (-0,01) (0,49) (0,5) (0,2)
DXY 94,94 (-0,4) (-0,1) (-0,4) (-5,2)

Emerging Markets
USDARS (Argentina) 9,49 (0) (-1,6) (-1,2) (-12,1)
USDBRL (Brazil) 3,9 (0,7) (-3,5) (0,1) (-46,6)
USDCLP (Chile) 678,88 (-0,6) (-0,6) (0) (-11,9)
USDCOP (Colombia) 2907,23 (-0,8) (-1,3) (2,5) (-22,3)
USDMXN (Mexico) 16,49 (-0,4) (-0,2) (0,7) (-11,8)
USDPEN (Peru) 3,25 (-0,1) (-0,7) (-2,1) (-9,1)
LACI 66,78 (0) (-1,7) (0,3) (-18,7)

USDPLN (Poland) 3,75 (-0,6) (-0,9) (-2) (-6)
USDRUB (Russia) 62,29 (-1,7) (-0,4) (4,9) (-7,8)
USDTRY (Turkey) 2,9 (-0,3) (0,9) (3,7) (-24,4)

USDCNY (China) 6,36 (-0,1) (-0,6) (0,1) (-2,5)
USDINR (India) 64,81 (0) (-0,1) (2,5) (-2,3)
USDIDR (Indonesia) 13517 (0,2) (-0,8) (6,5) (-9,1)
ADXY 108,67 (-0,2) (-0,2) (0,9) (-3,6)

Commodities *(change in percentage)*
Brent 48,92 (-3,1) (-1,9) (-0,3) (-14,7)
WTx 46,22 (-2,2) (-1,9) (-1,4) (-13,2)
Copper 236,95 (-1,6) (-2,1) (-3,7) (-16,5)
Gold 1171,42 (-0,5) (0,7) (3,5) (-0,9)
CRB Index 397,35 (0) (0,2) (-2,1) (-9,2)
CRB (food) index 359,81 (0) (0,6) (0,2) (-2,6)
Baltic Dry Index 754 (0) (-6,8) (-14,6) (-3,6)

Source: Bloomberg, Datastream and Haver

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

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