

Market Comment | Financial markets cautious ahead of the ECB's monetary policy meeting

Global Financial Markets Unit
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- **Mixed housing data in the US.** US housing starts rose in September more than expected (by 74K to 1,206K; consensus: 1,142K). Meanwhile, building permits dropped against estimations of increasing (by 58K to 1,103K; consensus: 1,170K).
- **The ECB's Bank Lending Survey (BLS) shows that eurozone banks loosened their credit standards more than expected, and that the APP is having positive effects on bank lending.** The survey revealed that: "Banks reported a further net easing of credit standards on loans to enterprises in the third quarter of 2015," adding that this "was stronger than the previous survey round's expectations." For the current quarter, "banks expect a further net easing in credit standards on loans to enterprises." By contrast, the report said that standards on loans to households for house purchase "tightened measurably" in the third quarter. The survey said that "banks continue to report that the additional liquidity from the APP is being used for granting loans." ([see](#))
- **Financial markets cautious ahead of the ECB's monetary policy meeting.** The lack of new macroeconomic data in both the US and Europe focused the market's attention on the monetary policy. In this regard, European bond markets rose across the board and across maturities, after the ECB's BLS showed that bank lending is improving in the eurozone, i.e. that credit transmission is starting to work, which decreased expectations of further stimulus from the ECB. Against this backdrop, European yields increased, led by Italy (GER 10Y: +6bp, FRA 10Y: +6bp, ITA 10Y: +7bp, SPA 10Y: +5bp, POR 10Y: +3bp). Along the same lines, US treasury yields also rose (2Y: +4bp, 10Y: +4b). On another front, European equity markets dropped slightly, led by the IBEX (Euro Stoxx: -0.3%, DAX: +0.1%, IBEX-35: -0.9%, CAC: -0.4%) dragged down particularly by the financial (-1.3%) and energy sectors (-1.3%). US equity markets remained unchanged at the time of writing, undermined by some worse-than-expected financial quarterly results. Asian markets, after the neutral effect of yesterday's 3Q China's GDP, rose slightly today (Nikkei: +0.4%, Shanghai: +1.14%). On FX markets, the euro appreciated against the USD after the encouraging ECB lending data, but later it began to reverse, to stand currently at USD1.134 (+0.15%). EM currencies showed a mixed performance (RUB: +0.4%, TRY: +0.3%, BRL: +0.3% MXN: -0.5%), despite commodity prices recovering slightly today (Brent: +0.3% WTI: +0.7%).

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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