

Market Comment | EUR depreciation due to the increased expectations of further stimuli

Global Financial Markets Unit
23 Oct 2015

- **China's central bank cut interest rates for the sixth time since November.** China's central bank has decided cut the deposit rate to 1.5 from 1.75%, the reserve ratio by 0.5% to 17.5% and the lending rate by 0.25bp to 4.35%. This decision has taken place driven by the slowdown in China's economy, whose GDP fell to the benchmark of 7% since 2009.
- **Positive PMI data in the eurozone.** Eurozone Markit composite PMI preliminary in October rose against estimates of decreasing (by 0.4 to 54.0; BBVAe: 53.3 and consensus: 53.4). The services PMI also increased against expectations of a decline (by 0.5 points to 54.2; BBVAe and consensus: 53.5), and manufacturing PMI in October remained unexpectedly stable at 52.0 points (consensus: 51.7 points). By country, the German composite PMI rose unexpectedly (by 0.4 points to 54.5; consensus: 53.7), while services PMI also increased unexpectedly (by 1.1 points to 55.2; BBVAe: 53.5 and consensus: 53.9), whereas the manufacturing PMI dropped more than estimated (by 0.7 point to 51.6; BBVAe: 51.5 consensus: 51.7). Meanwhile, in France the composite PMI rose against expectations of decreasing (by 0.4 points to 52.3; consensus: 51.6). The services PMI rose unexpectedly (by 0.4 points to 52.3; BBVAe: 51.5 and consensus: 51.6), and the manufacturing PMI also increased unexpectedly (by 0.1 points to 50.7; BBVAe: 51.0, consensus: 50.2).
- **China's interest rate cut fueled yesterday's rally.** Calm predominated across the global markets during most of the week, despite the positive surprise of the Chinese 3Q GDP figures. However, Thursday's ECB meeting provided a fresh market rally and dragged the euro, after the European monetary authority surprised the market by hinting at further stimulus. Mario Draghi announced that "the degree of monetary policy accommodation will be re-examined in December", which contributed to increase the expectations of further actions. Moreover, the ECB highlighted that it is in a work-and-assess mood instead of a wait-and-see mood. Nonetheless, Mr. Draghi did not say what kind of stimuli the bank will apply. Financial markets also received an additional boost from China, after the PBoC announced a new cut in its interest rates. Against this backdrop, on bond markets European yields dropped this week, led by peripherals and mainly due to yesterday's sharp falls (GER 10Y: -4bp, FRA 10Y: -6bp, ITA 10Y: -10bp, SPA 10Y: -13bp, POR 10Y: -6bp). In this way, peripheral risk premia decreased (ITA: -6bp, SPA: -9bp, POR: -2.6bp). Moreover, Core bonds up to the 3Y tenor showed negative yield levels below the deposit rate (reducing the pool of eligible bonds for ECB purchase), while peripheral 2Y yields are flirting with the negative yield levels. Meanwhile US treasury yields rose (10Y: +5bp). On equity markets, the European indexes rose on the back of the hint of further monetary stimuli (Euro Stoxx: +5.4%, DAX: +7.2%, IBEX-35: +2.9%, CAC: +4.9%), while US equity indexes rose slightly during the week (S&P 500: +2.1%, Dow: +2.4%), fuelled by European optimism. Asian markets also rose despite the neutral effect of China's 3Q GDP (Nikkei: +2.9%, Shanghai: +0.60%). On FX markets, the euro depreciated against other major currencies (USD: +2.1%, GBP: +1.9%, JPY: +1.4%). Commodities markets were hit by high price volatility during the week, that was reinforced by the slump at the end of

the week due to the increased worries about China's economic outlook - further fuelled by today's PBoC decision. Commodity prices (Brent: -5.8%, WTI: -6.0%, copper:-1.2%) hampered EM currencies, which depreciated against the USD, especially those most linked to commodity prices (RUB: -1.5%, CLP: -1.9%, COP: -1.0%, MXN: -0.5%).

Update 16.00 CET 23 October, 2015

Table1

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

Debt markets (change in bpt)

US 2yr 0.41 (2) 1(7) 1(4)
 US 5yr 1.41 (3) 1(4) 1(23)
 US 10yr 2.36 (4) 4(14) 4(8)

Japan 10yr 0.31 (2) 1(1) 1(3)

UK 2yr 0.22 (4) 1(1) 1(22)
 UK 5yr 0.39 (1) 4(1) 1(14)
 UK 10yr 0.51 (2) 1(4) 1(14)

Belgium 10yr 0.81 (2) 4(1) 1(12)
 France 10yr 0.85 (2) 4(1) 1(12)
 Greece 10yr 2.11 (2) 1(1) 1(24)
 Ireland 10yr 1.01 (1) 1(1) 1(3)
 Italy 10yr 1.11 (1) 1(1) 1(21)
 Netherlands 10yr 0.91 (1) 1(1) 1(12)
 Portugal 10yr 2.01 (1) 4(1) 1(21)
 Spain 10yr 1.04 (2) 1(1) 1(12)

Emerging Markets

Brazil 10yr 1.04 (2) 1(1) 1(10)
 Chile 10yr 0.81 (2) 1(1) 1(8)
 Colombia 10yr 1.01 (2) 1(1) 1(4)
 Costa Rica 1.01 (2) 1(1) 1(4)
 Mexico 10yr 0.91 (2) 1(1) 1(4)
 Peru 10yr 1.11 (1) 1(1) 1(12)

Poland 10yr 2.01 (4) 1(1) 1(12)
 Russia 10yr 1.01 (2) 1(1) 1(12)
 Turkey 10yr 0.91 (2) 1(1) 1(12)

India 10yr 1.01 (2) 1(1) 1(12)
 Indonesia 10yr 0.81 (1) 1(1) 1(12)

C country risk (change in bpt)

Very low risk (Argentina, Germany)

Belgium 34 (2) 1(1) 1(1)
 France 34 (2) 1(1) 1(1)
 Greece 112 (1) 1(1) 1(1)
 Ireland 17 (1) 1(1) 1(1)
 Italy 14 (1) 1(1) 1(1)
 Netherlands 18 (1) 1(1) 1(1)
 Portugal 18 (1) 1(1) 1(1)
 Spain 11 (1) 1(1) 1(1)

Low risk (Japan, Ireland, Germany)

Belgium 12 (1) 1(1) 1(1)
 France 12 (1) 1(1) 1(1)
 Greece 182 (1) 1(1) 1(1)
 Ireland 21 (1) 1(1) 1(1)
 Italy 21 (1) 1(1) 1(1)
 Netherlands 4 (1) 1(1) 1(1)
 Portugal 11 (1) 1(1) 1(1)
 Spain 11 (1) 1(1) 1(1)

Very low risk (Argentina, Germany)

Belgium 8 (1) 1(1) 1(1)
 France 8 (1) 1(1) 1(1)
 Greece 12 (1) 1(1) 1(1)
 Italy 24 (1) 1(1) 1(1)
 Netherlands 21 (1) 1(1) 1(1)
 Portugal 14 (1) 1(1) 1(1)
 Spain 24 (1) 1(1) 1(1)

Very low risk (CIS)

Eur CIS Belgium 34 (1) 1(1) 1(1)
 Eur CIS France 31 (1) 1(1) 1(1)
 Eur CIS Germany 12 (1) 1(1) 1(1)
 Eur CIS Greece 194 (1) 1(1) 1(1)
 Eur CIS Ireland 48 (1) 1(1) 1(1)
 Eur CIS Italy 168 (1) 1(1) 1(1)
 Eur CIS Netherlands 17 (1) 1(1) 1(1)
 Eur CIS Portugal 168 (1) 1(1) 1(1)
 Eur CIS Spain 91 (1) 1(1) 1(1)
 Eur CIS US 22 (1) 1(1) 1(1)

C credit risk

Very low risk (CIS)

Eur CIS Belgium 34 (1) 1(1) 1(1)
 Eur CIS France 31 (1) 1(1) 1(1)
 Eur CIS Germany 12 (1) 1(1) 1(1)
 Eur CIS Greece 194 (1) 1(1) 1(1)
 Eur CIS Ireland 48 (1) 1(1) 1(1)
 Eur CIS Italy 168 (1) 1(1) 1(1)
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 Eur CIS Portugal 168 (1) 1(1) 1(1)
 Eur CIS Spain 91 (1) 1(1) 1(1)
 Eur CIS US 22 (1) 1(1) 1(1)

Large Spanish banks (CIS)

Bank of Spain 116 (2) 1(1) 1(1)
 Caixa 116 (2) 1(1) 1(1)
 Santander 116 (2) 1(1) 1(1)

Other banks (CIS)

BBVA 116 (2) 1(1) 1(1)
 Banco de Valencia 116 (2) 1(1) 1(1)

Interbank markets (change in bpt)

EUR 12m 1.11 (2) 1(1) 1(1)
 EUR 3m 1.11 (2) 1(1) 1(1)
 USD 12m 1.11 (2) 1(1) 1(1)
 USD 3m 1.11 (2) 1(1) 1(1)

Stock markets (change in percentage)

Spain 100 (1) 1(1) 1(1)
 France 100 (1) 1(1) 1(1)
 Germany 100 (1) 1(1) 1(1)
 Italy 100 (1) 1(1) 1(1)
 Netherlands 100 (1) 1(1) 1(1)
 Belgium 100 (1) 1(1) 1(1)

Bank stocks

Spain 100 (1) 1(1) 1(1)
 France 100 (1) 1(1) 1(1)
 Germany 100 (1) 1(1) 1(1)
 Italy 100 (1) 1(1) 1(1)
 Netherlands 100 (1) 1(1) 1(1)

Commodity (change in percentage)

Oil 100 (1) 1(1) 1(1)
 Gold 100 (1) 1(1) 1(1)
 Wheat 100 (1) 1(1) 1(1)

Commodity (change in percentage)

Oil 100 (1) 1(1) 1(1)
 Gold 100 (1) 1(1) 1(1)
 Wheat 100 (1) 1(1) 1(1)

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

Debt markets (changes in bp)

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US 2yr 4.83 (31.2) (7.14)
 US 5yr 4.41 (33.0) (4.25)
 US 10yr 2.98 (8) (6) (4) (8)

Japan

Japan 10yr 0.31 (11.2) (4) (3)

OECD

OECD 2yr 4.26 (31) (6) (8) (22)
 OECD 5yr 4.08 (31) (6) (9) (15)
 OECD 10yr 3.05 (25) (4) (6) (13)

Belgium

Belgium 10yr 6.81 (2) (4) (6) (10) (2)

France

France 10yr 5.58 (2) (4) (6) (10) (3)
 France 5yr 5.01 (2) (4) (6) (10) (4) (24)

Germany

Germany 10yr 3.86 (1) (3) (5) (9) (14) (24)

Italy

Italy 10yr 5.17 (6) (1) (5) (10) (23) (30)

Netherlands

Netherlands 10yr 6.80 (2) (4) (6) (10) (15)

Portugal

Portugal 10yr 2.58 (5) (8) (12) (17) (21)

Spain

Spain 10yr 5.48 (5) (10) (15) (21) (27)

European Nations

Europe 10yr 15.24 (2) (4) (8) (15) (24)
 China 10yr 4.48 (2) (4) (8) (14)
 Columbia 10yr 7.32 (1) (3) (6) (11) (18)
 Mexico 10yr 5.98 (3) (7) (13) (21) (31)
 New Zealand 10yr 5.17 (2) (4) (8) (15) (23)

Poland

Poland 10yr 2.6 (4) (6) (10) (15)

Russia

Russia 5yr 10.38 (14) (17) (18) (18) (42)
 Russia 10yr 8.08 (11) (12) (12) (12) (30)

Turkey

Turkey 10yr 9.52 (8) (8) (9) (9) (16)

India

India 10yr 7.58 (2) (3) (3) (3)

Indonesia

Indonesia 10yr 5.88 (11) (21) (31) (8)

Country risk (changes in bp)

US government bonds (against Germany)

Belgium 30 (2) (4) (8)
 France 34 (5) (14) (8)
 Greece 75 (17) (28) (56) (211)
 Ireland 57 (8) (16) (31) (54)
 Italy 88 (14) (31) (60)
 Netherlands 16 (1) (1) (1) (2) (2)
 Portugal 186 (41) (81) (161) (281)
 Spain 113 (3) (6) (12) (8)

US government bonds (against Germany)

Belgium 12 (8) (16) (32) (65)
 France 18 (3) (7) (14)
 Greece 10 (2) (4) (8) (16) (32)
 Ireland 20 (3) (6) (12) (24)
 Italy 61 (12) (24) (48) (96)
 Netherlands 4 (8) (16) (32) (64)
 Portugal 118 (23) (46) (92) (184)
 Spain 74 (1) (2) (4) (8)

2yr government bonds (against Germany)

Belgium 8 (8) (16) (32)
 France 8 (8) (16) (32)
 Greece 15 (3) (6) (12) (24)
 Ireland 15 (3) (6) (12) (24)
 Italy 34 (7) (14) (28) (56)
 Netherlands 2 (4) (8) (16) (32)
 Portugal 34 (7) (14) (28) (56)
 Spain 34 (7) (14) (28) (56)

US government bonds

US 2yr Belgium 34 (6) (12) (24) (48)
 US 2yr France 37 (8) (16) (32) (64)
 US 2yr Germany 13 (3) (6) (12) (24)
 US 2yr Greece 100 (20) (40) (80) (160)
 US 2yr Ireland 48 (12) (24) (48) (96)
 US 2yr Italy 188 (38) (76) (152) (304)
 US 2yr Netherlands 17 (4) (8) (16) (32)
 US 2yr Portugal 84 (18) (36) (72) (144)
 US 2yr Spain 83 (18) (36) (72) (144)
 US 2yr UK 19 (4) (8) (16) (32)
 US 2yr US 22 (4) (8) (16) (32)

European Nations

US 2yr Belgium 44 (8) (16) (32) (64)
 US 2yr China 127 (26) (52) (104) (208)
 US 2yr Columbia 81 (18) (36) (72) (144)
 US 2yr Mexico 101 (20) (40) (80) (160)
 US 2yr New Zealand 71 (14) (28) (56) (112)
 US 2yr Russia 1188 (238) (476) (952) (1904) (3808)

US government bonds

US 2yr Belgium 49 (10) (20) (40) (80)
 US 2yr China 200 (40) (80) (160) (320)
 US 2yr France 202 (40) (80) (160) (320)
 US 2yr Germany 108 (22) (44) (88) (176)
 US 2yr Greece 108 (22) (44) (88) (176)
 US 2yr Ireland 108 (22) (44) (88) (176)
 US 2yr Italy 108 (22) (44) (88) (176)
 US 2yr Netherlands 108 (22) (44) (88) (176)
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 US 2yr Spain 108 (22) (44) (88) (176)
 US 2yr UK 108 (22) (44) (88) (176)
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Comd risk

US Treasury

US 2yr 4.83 (31.2) (7.14)
 US 5yr 4.41 (33.0) (4.25)
 US 10yr 2.98 (8) (6) (4) (8)

Japan

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France 10yr 5.58 (2) (4) (6) (10) (3)
 France 5yr 5.01 (2) (4) (6) (10) (4) (24)

Germany

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 France 5yr 5.01 (2) (4) (6) (10) (4) (24)

Germany

Germany 10yr 3.86 (1) (3) (5) (9) (14) (24)

Italy

Italy 10yr 5.17 (6) (1) (5) (10) (23) (30)

Netherlands

Netherlands 10yr 6.80 (2) (4) (6) (10) (15)

Portugal

Portugal 10yr 2.58 (5) (8) (12) (17) (21)

Spain

Spain 10yr 5.48 (5) (10) (15) (21) (27)

European Nations

Europe 10yr 15.24 (2) (4) (8) (15) (24)
 China 10yr 4.48 (2) (4) (8) (14)
 Columbia 10yr 7.32 (1) (3) (6) (11) (18)
 Mexico 10yr 5.98 (3) (7) (13) (21) (31)
 New Zealand 10yr 5.17 (2) (4) (8) (15) (23)

Poland

Poland 10yr 2.6 (4) (6) (10) (15)

Russia

Russia 5yr 10.38 (14) (17) (18) (18) (42)
 Russia 10yr 8.08 (11) (12) (12) (12) (30)

Turkey

Turkey 10yr 9.52 (8) (8) (9) (9) (16)

India

India 10yr 7.58 (2) (3) (3) (3)

Indonesia

Indonesia 10yr 5.88 (11) (21) (31) (8)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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