

Market Comment | Calm in markets awaiting this week's Fed meeting

Global Financial Markets Unit
26 Oct 2015

- **Negative data in the US.** The increase of US new home sales was worse than expected in September, and fell by 61K compared with August, to 468K (consensus: +549K). Meanwhile, the Dallas Fed manufacturing activity index dropped unexpectedly in October by -3.2 points to -12.7 (consensus: -6.5).
- **Disappointing business climate data in Germany.** The German IFO business climate index dropped in October more than our expectations (by -0.3 points to 108.2; BBVAe: 108.6, consensus: 107.8). The IFO current assessment decreased unexpectedly (by 1.4 points to 112.6; BBVAe: 114.1 consensus: 113.5), whereas IFO expectations rose unexpectedly (by 0.5 points to 103.8; BBVAe: 103.5, consensus: 102.4).
- **Calm in markets awaiting this week's Fed meeting.** After the high volatility environment of last week, on the back of the increasing market expectations of further stimuli by the ECB, calm predominated at the beginning of the week. Financial markets across the board were broadly unchanged, waiting for this week's Fed meeting. The release of worse-than-expected macroeconomic data in the US and Germany did not have a significant effect in the markets, confirming monetary policy as the dominant current driver for financial markets. Against this backdrop, equity markets stayed unchanged across the board (S&P 500: -0.2% Euro Stoxx: -0.4%, CAC: -0.7%). The Asian markets, which could have tracked the positive effect of the last Chinese's interest rate cut, also remained broadly unchanged (Nikkei: +0.6%, Shanghai: +0.5%). On bond markets, US treasury yields stayed flattened today (2Y: -1bp, 10Y: -3bp), while European yields remained unchanged, with the exception of Portugal (POR 10Y: +7bp). Commodity prices started the week as they finished the last one, as the fall in oil prices continued its negative trend (Brent: -0.4%, WTI: -1.1%), as well as the copper price (-0.2%), even with the accommodative tone exhibited by major central banks, that could enhance the prospects for future global growth. Despite today's falls in commodity prices, the EM currencies showed a mixed performance (RUB: -0.8%, MXN: +0.6%, CLP: +0.2%, TRY: +0.7%), while the USD depreciated against other major currencies (EUR: +0.26%, JPY: +0.45%, GBP: +0.27%).

FOMC preview

- **The chances of a rate hike announcement at October's FOMC meeting (Wednesday) are slim to none.** First and foremost, economic data have proven to be weaker-than-expected since the September meeting and even the latest employment reports have disappointed to the downside. The Fed will not be able to justify its data-dependent strategy if they increase rates based off the data released throughout the past month. However, it will be interesting to see additional commentary of how various FOMC members are responding to this prolonged period of inflation and a falling unemployment rate as we are in a unique economic environment compared to the pre-crisis period. Secondly, this FOMC meeting is not associated with any chair press conference or release of updated economic projections. Announcing the first hike at such a time would cause unwanted reaction in financial markets - something the FOMC

desperately wants to avoid. December remains the Fed's target for liftoff, but delays to 1Q16 are highly possible, and the meeting-by-meeting approach will continue into next year.

Update 17.00 CET 26 October, 2015

Table1

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

Debt markets (changes in bp)

US Treasury

US 2yr	0.61 (4) (6) (8) (4)
US 3yr	1.26 (2) (6) (6) (26)
US 10yr	2.26 (3) (3) (7) (+7)

Japan

Japan 10yr	0.32 (2) (4) (6) (1)
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EM

GB 2yr	4.26 (6) (6) (2)
GB 3yr	4.19 (6) (1) (1) (1)
GB 10yr	4.5 (1) (7) (1) (4)

France

France 10yr	0.8 (1) (4) (2) (3)
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Germany

Germany 10yr	0.35 (2) (6) (1) (5)
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India

India 10yr	6.8 (1) (6) (1)
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Italy

Italy 10yr	1.1 (5) (1) (2) (3)
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Portugal

Portugal 10yr	2.4 (7) (6) (1) (2) (2)
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Spain

Spain 10yr	1.94 (4) (1) (2) (2)
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Emerging Markets

Brazil 10yr	6.83 (1) (6) (1) (6) (1) (6)
China 10yr	4.8 (2) (6) (1) (2) (6)
Colombia 10yr	7.9 (2) (2) (1) (2) (6)
Costa Rica 10yr	6.87 (1) (7) (1) (6) (2)
Ecuador 10yr	7.7 (1) (6) (1) (2) (6)
Hong Kong 10yr	2.8 (2) (2) (1) (2) (1)
Russia 10yr	11 (6) (1) (6) (1) (2) (6)
Saudi Arabia 10yr	10.8 (1) (6) (1) (2) (6)
Turkey 10yr	9.55 (3) (2) (6) (1) (6) (2)

India 10yr T-bill

India 10yr T-bill	12.4 (1) (2) (1)
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Indonesia 10yr

Indonesia 10yr	6.5 (4) (4) (1) (2) (6)
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Country risk (changes in bp)

Very low/low risk (against Germany)

Belgium	30 (1) (1) (2) (1)
France	35 (1) (2) (1) (4) (1)
Germany	112 (0) (1) (2) (1) (2) (2)
Ireland	30 (2) (2) (1) (4) (1)
Italy	10 (1) (2) (1) (4) (1)
Netherlands	17 (1) (2) (1) (2) (2)
Portugal	16 (0) (1) (2) (1) (2) (2)
Spain	114 (1) (4) (2) (1) (1)

Low/medium risk (against Germany)

Belgium	12 (0) (1) (2) (1) (1)
France	13 (0) (1) (4) (1)
Germany	162 (0) (1) (1) (4) (1)
Ireland	21 (0) (2) (1) (4)
Italy	42 (1) (4) (1) (2) (2)
Netherlands	4 (0) (1) (2) (1) (4)
Portugal	17 (1) (1) (2) (1) (1)
Spain	11 (1) (4) (1) (1) (1)

Very low/low risk (against Germany)

Belgium	6 (0) (1) (1) (1)
France	6 (0) (1) (2) (1)
Germany	12 (1) (2) (1) (1)
Italy	26 (1) (1) (2) (1) (2)
Netherlands	2 (0) (1) (1) (1) (1)
Portugal	8 (1) (1) (1) (1) (1)
Spain	25 (1) (1) (1) (1)

Very low/low risk (against Germany)

Belgium	36 (1) (1) (1) (1) (2)
France	36 (1) (1) (1) (1) (1)
Germany	13 (0) (1) (1) (1) (1)
Italy	109 (1) (2) (1) (1) (1) (2)
Spain	17 (1) (1) (1) (1) (1)
US	104 (1) (1) (1) (1) (1)
UK	10 (1) (1) (1) (1) (1)
Canada	10 (1) (1) (1) (1) (1)
Australia	10 (1) (1) (1) (1) (1)
Japan	10 (1) (1) (1) (1) (1)
China	10 (1) (1) (1) (1) (1)
India	10 (1) (1) (1) (1) (1)
Brazil	10 (1) (1) (1) (1) (1)
Russia	10 (1) (1) (1) (1) (1)
Turkey	10 (1) (1) (1) (1) (1)

Very low/low risk (against Germany)

Belgium	12 (0) (1) (1) (1)
France	13 (0) (1) (1) (1)
Germany	162 (0) (1) (1) (1)
Ireland	21 (0) (2) (1) (1)
Italy	42 (1) (4) (1) (1)
Netherlands	4 (0) (1) (2) (1) (1)
Portugal	17 (1) (1) (2) (1) (1)
Spain	11 (1) (4) (1) (1) (1)

Very low/low risk (against Germany)

Belgium	6 (0) (1) (1) (1)
France	6 (0) (1) (2) (1)
Germany	12 (1) (2) (1) (1)
Italy	26 (1) (1) (2) (1) (2)
Netherlands	2 (0) (1) (1) (1) (1)
Portugal	8 (1) (1) (1) (1) (1)
Spain	25 (1) (1) (1) (1)

Very low/low risk (against Germany)

Belgium	36 (1) (1) (1) (1) (2)
France	36 (1) (1) (1) (1) (1)
Germany	13 (0) (1) (1) (1) (1)
Italy	109 (1) (2) (1) (1) (1) (2)
Spain	17 (1) (1) (1) (1) (1)
US	104 (1) (1) (1) (1) (1)
UK	10 (1) (1) (1) (1) (1)
Canada	10 (1) (1) (1) (1) (1)
Australia	10 (1) (1) (1) (1) (1)
Japan	10 (1) (1) (1) (1) (1)
China	10 (1) (1) (1) (1) (1)
India	10 (1) (1) (1) (1) (1)
Brazil	10 (1) (1) (1) (1) (1)
Russia	10 (1) (1) (1) (1) (1)
Turkey	10 (1) (1) (1) (1) (1)

Credit risk

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

Interbank markets (changes in bp)

US

US 3m	15 (4) (6) (1) (2)
US 6m	15 (4) (6) (1) (2)
US 12m	15 (4) (6) (1) (2)
US 24m	15 (4) (6) (1) (2)

Spain

Spain 3m	6 (1) (1) (2) (1) (1)
Spain 6m	6 (1) (1) (2) (1) (1)
Spain 12m	6 (1) (1) (2) (1) (1)
Spain 24m	6 (1) (1) (2) (1) (1)

EM

EM 3m	15 (4) (6) (1) (2)
EM 6m	15 (4) (6) (1) (2)
EM 12m	15 (4) (6) (1) (2)
EM 24m	15 (4) (6) (1) (2)

Stock markets (Change in percentage)

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

Commodity (in percentage, positive for dollar depreciation)

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

Very low/low risk (against Germany)

US	115 (2) (1) (1) (2) (1) (4)
UK	115 (2) (1) (1) (2) (1) (4)
EU	115 (2) (1) (1) (2) (1) (4)
EM	115 (2) (1) (1) (2) (1) (4)
Developing	115 (2) (1) (1) (2) (1) (4)
China	115 (2) (1) (1) (2) (1) (4)
India	115 (2) (1) (1) (2) (1) (4)
Brazil	115 (2) (1) (1) (2) (1) (4)
Russia	115 (2) (1) (1) (2) (1) (4)
Turkey	115 (2) (1) (1) (2) (1) (4)

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

Debt markets (changes in bpt)

Eurozone	
US 2yr	8.83 (1) (4) (4)
US 5yr	3.9 (1) (4) (4)
US 10yr	2.6 (3) (7) (1)
Japan 10yr	3.2 (2) (1) (1)
China 2yr	4.2 (1) (4) (4)
US 2yr	4.1 (4) (1) (1)
DE 10yr	3.5 (1) (1) (1)
Belgium 10yr	3.3 (1) (4) (1)
France 10yr	3.5 (1) (4) (1)
Germany 10yr	3.1 (1) (1) (1)
Italy 10yr	3.8 (1) (1) (1)
Spain 10yr	3.5 (1) (1) (1)
Portugal 10yr	2.4 (7) (8) (1)
Spain 10yr	3.4 (1) (1) (1)
Emerging Markets	
Brazil 10yr	15.3 (1) (1) (1)
China 10yr	4.4 (1) (1) (1)
Colombia 10yr	7.1 (1) (1) (1)
Mexico 10yr	5.8 (1) (1) (1)
Russia 10yr	15.3 (1) (1) (1)
Turkey 10yr	9.5 (1) (1) (1)
India 10yr	7.1 (1) (1) (1)
Indonesia 10yr	8.2 (1) (1) (1)

Country risk (changes in bpt)

Eurozone	
Belgium	31 (1) (1) (1)
France	31 (1) (1) (1)
Germany	31 (1) (1) (1)
Italy	31 (1) (1) (1)
Netherlands	31 (1) (1) (1)
Portugal	31 (1) (1) (1)
Spain	31 (1) (1) (1)
Eurozone (average)	
Belgium	12 (1) (1) (1)
France	12 (1) (1) (1)
Germany	12 (1) (1) (1)
Italy	12 (1) (1) (1)
Netherlands	12 (1) (1) (1)
Portugal	12 (1) (1) (1)
Spain	12 (1) (1) (1)
Eurozone (average)	
Belgium	4 (1) (1) (1)
France	4 (1) (1) (1)
Germany	4 (1) (1) (1)
Italy	4 (1) (1) (1)
Netherlands	4 (1) (1) (1)
Portugal	4 (1) (1) (1)
Spain	4 (1) (1) (1)
Eurozone (average)	
Belgium	36 (1) (1) (1)
France	36 (1) (1) (1)
Germany	36 (1) (1) (1)
Italy	36 (1) (1) (1)
Netherlands	36 (1) (1) (1)
Portugal	36 (1) (1) (1)
Spain	36 (1) (1) (1)
Eurozone (average)	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)
Eurozone (average)	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)
Eurozone (average)	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)

Comd risk (changes in percentage points)

Eurozone	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)
Eurozone (average)	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)
Eurozone (average)	
Belgium	101 (1) (1) (1)
France	101 (1) (1) (1)
Germany	101 (1) (1) (1)
Italy	101 (1) (1) (1)
Netherlands	101 (1) (1) (1)
Portugal	101 (1) (1) (1)
Spain	101 (1) (1) (1)

Interbank markets (changes in bpt)

Eurozone	
US 2yr	8.83 (1) (4) (4)
US 5yr	3.9 (1) (4) (4)
US 10yr	2.6 (3) (7) (1)
Japan 10yr	3.2 (2) (1) (1)
China 2yr	4.2 (1) (4) (4)
US 2yr	4.1 (4) (1) (1)
DE 10yr	3.5 (1) (1) (1)
Belgium 10yr	3.3 (1) (4) (1)
France 10yr	3.5 (1) (4) (1)
Germany 10yr	3.1 (1) (1) (1)
Italy 10yr	3.8 (1) (1) (1)
Spain 10yr	3.5 (1) (1) (1)
Portugal 10yr	2.4 (7) (8) (1)
Spain 10yr	3.4 (1) (1) (1)
Emerging Markets	
Brazil 10yr	15.3 (1) (1) (1)
China 10yr	4.4 (1) (1) (1)
Colombia 10yr	7.1 (1) (1) (1)
Mexico 10yr	5.8 (1) (1) (1)
Russia 10yr	15.3 (1) (1) (1)
Turkey 10yr	9.5 (1) (1) (1)
India 10yr	7.1 (1) (1) (1)
Indonesia 10yr	8.2 (1) (1) (1)

Stock markets (Change in percentage)

Eurozone	
US 2yr	8.83 (1) (4) (4)
US 5yr	3.9 (1) (4) (4)
US 10yr	2.6 (3) (7) (1)
Japan 10yr	3.2 (2) (1) (1)
China 2yr	4.2 (1) (4) (4)
US 2yr	4.1 (4) (1) (1)
DE 10yr	3.5 (1) (1) (1)
Belgium 10yr	3.3 (1) (4) (1)
France 10yr	3.5 (1) (4) (1)
Germany 10yr	3.1 (1) (1) (1)
Italy 10yr	3.8 (1) (1) (1)
Spain 10yr	3.5 (1) (1) (1)
Portugal 10yr	2.4 (7) (8) (1)
Spain 10yr	3.4 (1) (1) (1)
Emerging Markets	
Brazil 10yr	15.3 (1) (1) (1)
China 10yr	4.4 (1) (1) (1)
Colombia 10yr	7.1 (1) (1) (1)
Mexico 10yr	5.8 (1) (1) (1)
Russia 10yr	15.3 (1) (1) (1)
Turkey 10yr	9.5 (1) (1) (1)
India 10yr	7.1 (1) (1) (1)
Indonesia 10yr	8.2 (1) (1) (1)

Commodity (in percentage, positive for dollar depreciation)

Eurozone	
US 2yr	8.83 (1) (4) (4)
US 5yr	3.9 (1) (4) (4)
US 10yr	2.6 (3) (7) (1)
Japan 10yr	3.2 (2) (1) (1)
China 2yr	4.2 (1) (4) (4)
US 2yr	4.1 (4) (1) (1)
DE 10yr	3.5 (1) (1) (1)
Belgium 10yr	3.3 (1) (4) (1)
France 10yr	3.5 (1) (4) (1)
Germany 10yr	3.1 (1) (1) (1)
Italy 10yr	3.8 (1) (1) (1)
Spain 10yr	3.5 (1) (1) (1)
Portugal 10yr	2.4 (7) (8) (1)
Spain 10yr	3.4 (1) (1) (1)
Emerging Markets	
Brazil 10yr	15.3 (1) (1) (1)
China 10yr	4.4 (1) (1) (1)
Colombia 10yr	7.1 (1) (1) (1)
Mexico 10yr	5.8 (1) (1) (1)
Russia 10yr	15.3 (1) (1) (1)
Turkey 10yr	9.5 (1) (1) (1)
India 10yr	7.1 (1) (1) (1)
Indonesia 10yr	8.2 (1) (1) (1)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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