

Market Comment | Positive economic data in developed markets help equity market increases

Global Financial Markets Unit
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- **China's manufacturing activity continued to contract in October.** China's manufacturing PMI rose more than expected (by 1.1 points to 48.3; consensus: 47.6). Despite the slight increase in October, manufacturing activity continued to contract for the eighth consecutive month, showing the weakness in the Chinese economy although the People's Bank of China applied some stimulus for change the situation.
- **Positive data in the US.** US ISM manufacturing dropped in October less than estimated (by 0.1 points to 50.1; consensus: 50.0), the production and new orders improved, offsetting the moderation in the employment and the inventories components. On another front, construction spending increased more than expectations (by 0.6% MoM; consensus: 0.5%).
- **PMIs improve slightly in the eurozone in October.** Eurozone Markit manufacturing PMI rose in October against estimations of remaining unchanged (by 0.3 points to 52.3; BBVAe and consensus: 52.0). By country, German manufacturing PMI increased unexpectedly (by 0.5 points to 52.1; BBVAe and consensus: 51.6). However, in France it dropped slightly and unexpectedly (by 0.1 points to 50.6; BBVAe and consensus: 50.7). Meanwhile, in Spain it decreased against expectations of increasing (by 0.4 points to 51.3; consensus: 52.0), whereas the Italian PMI rose more than expected (by 1.4 points to 54.1; BBVA: 52.9, consensus: 53.1).
- **The ECB has published the results of the Greek banks' stress test: capital needs are €14.4bn, in line with market expectations and with our forecast** (at the upper range of our range (EUR11.2bn-14.9bn). Banks must submit capital plans explaining how they will cover the shortfall by 6 November and the recapitalisation will take place before the year-end, thus before the entry into force of the Banking Recovery and Resolution Directive (BRRD). European authorities have already rejected imposing losses on depositors. The banks should be recapitalised as soon as possible, in order to put them in a position to support the economic recovery.
- **In Turkey, the AKP surprisingly won the legislative elections by a clear majority** (after losing the majority last June). The reaction of financial markets has been extremely positive, as the markets had priced in a coalition government.
- **Positive economic data in developed markets help equity market increases.** European equity markets rose today (Euro Stoxx: +0.5%, DAX: +0.8%, IBEX-35: +0.5%, CAC: +0.4%), helped by the slight improvement in the eurozone's manufacturing activity. Cyclical sectors drove the gains in the European indexes, with the basic resources, auto and banking sectors leading the increase. The results of the Greek banks' stress test has boosted the Greek banking sector's stocks (+7.7%), while the

German Commerzbank led the increases in bank stocks, after announcing that it would resume its dividend payments. In the same vein, US equity indexes rose (S&P 500 and Dow: +0.5%). On another front, Asian markets dropped today (Nikkei: -2.1%, Shanghai: -1.7%), dragged down by the contraction in manufacturing activity, which maintained the worries about China's economic outlook. On bond markets, European yields rose today and almost offset the accumulated falls since last week's ECB meeting (currently they are close to levels prior to the meeting), after Mario Draghi spread some doubts in an interview in an Italian newspaper about the implementation of further stimulus: "We will see whether a further stimulus is necessary. This is an open question" (GER 10Y: +5bp, FRA 10Y: +7bp, ITA 10Y: +8bp, SPA 10Y: +8bp, POR 10Y: +7bp). In the periphery, the risk premia increased (ITA: +3bp, SPA: +3bp, POR: +2bp). US Treasury yields increased slightly (10Y: +4bp). On FX markets, the USD depreciated against the EUR, whereas the other major currencies remained unchanged (EUR: +0.27%). EM currencies remained unchanged against the USD despite the falls in commodity prices (Brent: -0.8%, WTI: -0.6%, copper: -0.3%), hampered by the concerns about China's slowdown. The only exception was the Turkish lira, which appreciated (+3.1%) due to the result of yesterday's elections.

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Table1

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

Debt markets (changes in bps)

US 2yr 6.76 (11)(14)(8)
 US 5yr 3.56 (11)(16)(9)(6)
 US 10yr 2.94 (12)(14)(1)

Japan 10yr 3.22 (11)(14)(14)
 G20 5yr 4.21 (11)(14)(12)
 GE 5yr 2.65 (11)(14)(17)
 GE 10yr 3.25 (11)(14)(12)

Belgium 10yr 5.87 (7)(12)(4)
 France 10yr 5.52 (7)(12)(11)
 Germany 10yr 3.24 (11)(14)(12)
 Ireland 10yr 1.18 (11)(12)
 Italy 10yr 6.95 (11)(14)(12)
 Netherlands 10yr 4.78 (11)(14)(12)
 Portugal 10yr 2.61 (11)(14)(12)
 Spain 10yr 3.53 (11)(14)(12)

Finland 10yr 5.58 (11)(14)(12)
 Greece 10yr 8.17 (11)(14)(12)
 Hungary 10yr 5.36 (11)(14)(12)
 Austria 10yr 3.51 (11)(14)(12)

Poland 10yr 2.74 (11)(14)(12)
 Russia 5yr 1.32 (11)(14)(12)
 Russia 10yr 10.52 (11)(14)(12)
 Turkey 10yr 9.18 (11)(14)(12)

India 10yr 7.53 (11)(14)(12)
 Indonesia 10yr 5.88 (11)(14)(12)

Country risk (changes in bps)

10yr sovereign spreads (against Germany)
 Belgium 37 (2)(12)(2)
 France 27 (2)(12)(2)
 Greece 146 (11)(14)(12)
 Ireland 8 (2)(12)(2)
 Italy 102 (2)(12)(2)
 Netherlands 17 (2)(12)(2)
 Portugal 24 (12)(14)(12)
 Spain 119 (2)(12)(2)

5yr sovereign spreads (against Germany)
 Belgium 12 (1)(12)(2)
 France 18 (1)(12)(2)
 Greece 108 (2)(12)(2)
 Ireland 2 (1)(12)(2)
 Italy 61 (1)(12)(2)
 Netherlands 4 (1)(12)(2)
 Portugal 14 (1)(12)(2)
 Spain 78 (1)(12)(2)

3yr sovereign spreads (against Germany)
 Belgium 9 (1)(12)(2)
 France 5 (1)(12)(2)
 Greece 14 (1)(12)(2)
 Ireland 1 (1)(12)(2)
 Italy 37 (2)(12)(2)
 Netherlands 1 (1)(12)(2)
 Portugal 7 (1)(12)(2)
 Spain 36 (2)(12)(2)

Sovereign CDS
 Sfr CDS Belgium 36 (1)(12)(2)
 Sfr CDS France 36 (1)(12)(2)
 Sfr CDS Germany 35 (1)(12)(2)
 Sfr CDS Greece 114 (1)(12)(2)
 Sfr CDS Ireland 47 (1)(12)(2)
 Sfr CDS Italy 103 (1)(12)(2)
 Sfr CDS Netherlands 7 (1)(12)(2)
 Sfr CDS Portugal 11 (1)(12)(2)
 Sfr CDS Spain 88 (2)(12)(2)
 Sfr CDS US 24 (1)(12)(2)

Corporate CDS
 Sfr CDS Breda 42 (1)(12)(2)
 Sfr CDS Cofa 31 (1)(12)(2)
 Sfr CDS Combank 31 (1)(12)(2)
 Sfr CDS Incelex 10 (1)(12)(2)
 Sfr CDS Faw 11 (1)(12)(2)
 Sfr CDS Vercure 40 (1)(12)(2)

Sfr CDS Pasa 75 (1)(12)(2)
 Sfr CDS Sava 22 (1)(12)(2)
 Sfr CDS Tur 21 (1)(12)(2)
 Sfr CDS Cna 106 (2)(12)(2)
 Sfr CDS Inda 106 (2)(12)(2)
 Sfr CDS Inveco 218 (4)(12)(2)

Comd risk

VIX 16.42 (1)(12)(2)
 VIX 3M 16.42 (1)(12)(2)
 EIA Crude 67.11 (1)(12)(2)
 EIA Natural Gas 3.11 (1)(12)(2)
 Crude spread 184.22 (1)(12)(2)
 US bank weekly yield 71.25 (1)(12)(2)

Bank risk (changes in bps)
 US banks CDS 76 (2)(12)(2)
 EUR banks CDS 78 (2)(12)(2)
 UK banks CDS 71 (2)(12)(2)

Large Spanish banks CDS 138 (2)(12)(2)
 Medium Spanish banks CDS 148 (2)(12)(2)
 Greek banks CDS 246 (2)(12)(2)
 Russian banks CDS 407 (2)(12)(2)

Corporate risk (changes in bps)
 US Non-financial CDS 6 (1)(12)(2)
 UK Non-financial CDS 6 (1)(12)(2)

Interbank markets (changes in bps)
 US Fed overnight 12 (1)(12)(2)
 US Fed reserve 24 (1)(12)(2)
 EUR 10 overnight 18 (1)(12)(2)
 US O/S overnight 14 (1)(12)(2)
 US O/S reserve 48 (1)(12)(2)
 US T/B overnight 24 (1)(12)(2)

Spain Fed Spread 3m 6 (1)(12)(2)
 EONIA Index 43 (1)(12)(2)
 EONIA 3m 43 (1)(12)(2)
 Euribor 12m 311 (1)(12)(2)
 Libor 3m 63 (1)(12)(2)
 Libor 12m 107 (1)(12)(2)

Stock markets (Change in percentage)

Major equity indices
 S&P 500 10.51 (1)(12)(2)
 Dow Jones 1774.5 (1)(12)(2)
 Nikkei 1982.2 (1)(12)(2)
 FTSE 100 5075.2 (1)(12)(2)
 Euro Stoxx 50 3484.8 (1)(12)(2)
 BEI 1014.4 (1)(12)(2)
 DAX 1094.7 (1)(12)(2)
 CAC 40 1414.1 (1)(12)(2)
 ASI 2008.3 (1)(12)(2)
 ASI Athens 722.8 (1)(12)(2)

Russian equity indices
 US banks 94 (1)(12)(2)
 Sfr 12 (1)(12)(2)
 Citi 5 (1)(12)(2)
 Bank 17 (1)(12)(2)
 GE 33 (1)(12)(2)
 GE 188 (1)(12)(2)

UK banks 62 (1)(12)(2)
 HSBC 52 (1)(12)(2)
 RBS 32 (1)(12)(2)
 Barclays 20 (1)(12)(2)
 Lloyds 76 (1)(12)(2)

EUR banks 114 (1)(12)(2)
 BNP 11 (1)(12)(2)
 Credit Agricole 11 (1)(12)(2)
 Deutsche Bank 10 (1)(12)(2)
 ING 11 (1)(12)(2)
 Intesa 12 (1)(12)(2)
 SO 42 (1)(12)(2)
 Unicredit 13 (1)(12)(2)

Large Spanish banks 67 (1)(12)(2)
 Santander 2 (1)(12)(2)
 BBVA 7 (1)(12)(2)
 Medium Spanish banks 81 (1)(12)(2)
 Caixabank 3 (1)(12)(2)
 Pegasus 1 (1)(12)(2)
 Sabadell 1 (1)(12)(2)
 Bankinter 1 (1)(12)(2)
 Bankia 1 (1)(12)(2)

Greek banks 20 (1)(12)(2)
 Alpha Bank 1 (1)(12)(2)
 National Bank 1 (1)(12)(2)
 Eurobank Ergasias 2 (1)(12)(2)

Corporate indices
 MSCI Europe 1279 (2)(12)(2)
 MSCI Europe 4059 (2)(12)(2)
 MSCI Europe 10 (1)(12)(2)
 MSCI E Europe 4059 (2)(12)(2)
 FTSE 100 5075.2 (1)(12)(2)
 Nikkei 1982.2 (1)(12)(2)
 FTSE 100 5075.2 (1)(12)(2)
 ASI 2008.3 (1)(12)(2)

MSCI E Europe 4059 (2)(12)(2)
 FTSE 100 5075.2 (1)(12)(2)
 Nikkei 1982.2 (1)(12)(2)
 FTSE 100 5075.2 (1)(12)(2)
 ASI 2008.3 (1)(12)(2)

Turkish banks 10 (1)(12)(2)
 Akbank 1 (1)(12)(2)
 Garanti 1 (1)(12)(2)
 Turkis Bankasi 1 (1)(12)(2)
 Russian banks 142 (1)(12)(2)
 Sberbank 1 (1)(12)(2)
 VTB Bank 1 (1)(12)(2)

Commodities (in percentage, positive for dollar depreciation)

EURUSD 1.18 (1)(12)(2)
 GBPUSD 1.34 (1)(12)(2)
 USDJPY 124 (1)(12)(2)
 DXY 76.74 (1)(12)(2)

USDAHS (Argentina 9.32 (1)(12)(2)
 USDAHS (Brazil 3.06 (1)(12)(2)
 USDAHS (China 182.44 (1)(12)(2)
 USDAHS (Copper 107 (1)(12)(2)
 USDAHS (Wheat 15.49 (1)(12)(2)
 USDAHS (Fuels 229 (1)(12)(2)
 LACI 108.8 (1)(12)(2)

USDPUR (Poland 1.96 (1)(12)(2)
 USDPUR (Russia 14.01 (1)(12)(2)
 USDPUR (Turkey 2.46 (1)(12)(2)
 USDPUR (China 182.44 (1)(12)(2)
 USDPUR (Wheat 15.49 (1)(12)(2)
 USDPUR (Fuels 229 (1)(12)(2)
 ACPI 108.84 (1)(12)(2)

Commodity prices (change in percentage)
 WTI 42.31 (1)(12)(2)
 Crude 104.65 (1)(12)(2)
 Gas 174.85 (1)(12)(2)
 Oil 104.65 (1)(12)(2)
 CBOT WTI 42.31 (1)(12)(2)
 Bank of India 721 (1)(12)(2)

Source: Bloomberg, DataStream and IHS

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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