

# Market Comment | USD appreciated as ECB and Fed policy divergences increased

Global Financial Markets Unit  
04 Nov 2015

- **Positive macroeconomic data in the US.** The US ADP employment change dropped less than expected in October (by 8K to 182K; consensus: 180K; previous data as revised: 190K). On another front, the ISM non-manufacturing composite index surged in October against estimates of decreasing (+2.2 points to 59.1; consensus: 56.5).
- **Janet Yellen hawkish speech raised the likelihood of a rate-hike at December's FOMC meeting.** "I see the U.S. economy as performing well," "Domestic spending has been growing at a solid pace" and if the data continue to point to growth and firmer prices, a December rate hike would be a "live possibility," she said.
- **Draghi reinforced the ECB's dovish tone.** Yesterday, Mario Draghi repeated that the ECB will be willing to act using all available instruments. He also highlighted the downside risk to the outlook for growth and inflation, which is due to the concerns over growth prospects in emerging markets. Against this backdrop, as he announced at the last Governing Council, "the degree of monetary policy accommodation will need to be reexamined in December's meeting". Also Mr. Coeure (member of the ECB's Governing Council) emphasized that "we have been specific about the downside risks in the scenario, particularly at the ECB's most recent meeting in Malta. The Governing Council saw an increased risk that inflation would stay too low for too long, and concluded that additional monetary policy reactions could be warranted, should this risk materialise."
- **The final Eurozone PMIs for October were revised slightly downwards.** The Markit eurozone composite PMI final for October dropped slightly, against estimates of remaining unchanged, although the October print remained above September's (by 0.1 to 53.9; BBVAe and consensus: 54.0, preliminary 54, September 53.6). The services PM also dropped unexpectedly (by 0.1 points to 54.1; BBVAe and consensus: 54.2, September 53.7). By country, the German composite PMI was the only one that disappointed, while the prints for France, Italy and Spain were all better than expected.
- **USD appreciated as the probabilities of further monetary policy divergences increased.** The release of fresh positive macroeconomic data in the US and the reinforcement of the dovish tone that Draghi exhibited at the last Government Council increased the probabilities of further monetary divergences in the coming months. On the one hand, as the ECB message remained unaltered it increased the probability of an extension of the bank's QE in December; on the other hand, the positive US prints boosted the probability of a Fed lift-off in December (as implied in the fed fund futures) to 56%. Against this backdrop, US treasury yields rose higher in the short-term tenor, which are more linked to the monetary policy (2Y: +4bp, 10Y: +2bp), while European safe-haven yields remained unchanged (GER 10Y: +2bp, FRA 10Y: +1bp). Peripherals showed a mixed performance today (ITA 10Y: 0bp, SPA 10Y: +1bp, POR 10Y: -4bp). On the equity markets, European indices rebounded with the exception of DAX, where the index was dragged down by Volkswagen's plunge (-8.0%), hampered by the emissions

scandal (Euro Stoxx: +0.4%, DAX: -0.5%, IBEX-35: +0.9%, CAC: +0.8%). In the same vein, Asian markets surged (Nikkei: +1.30%, Shanghai: +4.31%), due to the President Xi Jinping announced that China's annual economic growth rate over the next five years will not be less than 6.5 percent, However, the US equity indices were falling slightly at the time of writing (S&P 500 and Dow: -0.2%), despite the better-than-expected macroeconomic data. On FX markets, the USD appreciated against other major currencies (EUR: -0.89%, GBP: -0.25%, JPY: -0.44%) in line with the increase in the probability of the Fed tightening in December. This also weighed on the EM currencies' depreciation against the USD (COP: -0.9%, BRL: -0.8%, MXN: -0.7%, RUB: -0.6%), also dragged by the renewed decline in oil prices, which dropped after yesterday's rebound due to the increase in weekly oil supplies (Brent: -2.3%, WTI: -1.9%), while the copper price rose slightly (+0.6%).

Update 17.00 CET 04 November, 2015

Table1

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

**Debt markets (changes in bp)**

US 2yr 0.4 (4) (18) (20) (4)  
 US 5yr 1.0 (4) (18) (20) (2)  
 US 10yr 2.2 (2) (7) (1) (8)

Japan 10yr 1.3 (2) (1) (4) (3)  
 JGB 2yr 0.2 (2) (1) (4) (2)  
 JGB 5yr 0.6 (0) (3) (2) (7)  
 JGB 10yr 1.0 (2) (0) (2) (3)

Belgium 10yr 0.8 (2) (0) (1) (8)  
 France 10yr 0.9 (1) (1) (1) (1) (1)  
 Greece 10yr 1.7 (1) (1) (1) (1)  
 Ireland 10yr 1.7 (1) (1) (1) (1)  
 Italy 10yr 1.6 (1) (2) (1) (2) (3)  
 Netherlands 10yr 1.0 (2) (1) (1) (1)  
 Portugal 10yr 2.5 (4) (0) (2) (1) (8)  
 Spain 10yr 1.7 (1) (1) (1) (1) (1)

**Emerging Markets**

Brazil 10yr 10.7 (1) (1) (2) (2) (2)  
 China 10yr 4.2 (1) (1) (1) (1)  
 Colombia 10yr 8.0 (1) (1) (1) (1)  
 Columbia 10yr 6.0 (1) (1) (1) (1)  
 India 10yr 7.1 (1) (1) (1) (1)

Poland 10yr 2.7 (1) (1) (1) (1)  
 Russia 10yr 5.3 (1) (1) (1) (1)  
 Russia 10yr 3.8 (1) (1) (1) (1)  
 Turkey 10yr 9.9 (1) (1) (1) (1)

India 10yr 7.0 (1) (1) (1) (1)  
 Indonesia 10yr 6.7 (1) (1) (1) (1)

**Country risk (changes in bp)**

10yr sovereign spreads (against Germany)  
 Belgium 36 (1) (1) (2)  
 France 36 (1) (1) (2)  
 Greece 178 (7) (20) (20)  
 Ireland 37 (2) (2) (2) (2)  
 Italy 58 (2) (2) (2) (2)  
 Netherlands 17 (1) (1) (1) (1)  
 Portugal 181 (6) (2) (1) (1)  
 Spain 115 (1) (1) (1) (1)

**10yr government spreads (against Germany)**

Belgium 11 (1) (1) (1) (1)  
 France 11 (1) (1) (1) (1)  
 Greece 160 (1) (1) (1) (1)  
 Ireland 24 (1) (1) (1) (1)  
 Italy 45 (1) (1) (1) (1)  
 Netherlands 5 (0) (0) (1) (1)  
 Portugal 121 (4) (1) (1) (1)  
 Spain 71 (2) (2) (1) (1)

**5yr government spreads (against Germany)**

Belgium 6 (0) (0) (1) (1)  
 France 6 (0) (0) (1) (1)  
 Greece 14 (1) (1) (1) (1)  
 Ireland 17 (1) (1) (1) (1)  
 Netherlands 1 (1) (1) (1) (1)  
 Portugal 37 (1) (1) (1) (1)  
 Spain 26 (1) (1) (1) (1)

**5yr sovereign CDS**

5yr CDS Belgium 34 (2) (1) (1) (1)  
 5yr CDS France 28 (0) (2) (1) (1)  
 5yr CDS Germany 5 (0) (0) (1) (1)  
 5yr CDS Greece 102 (4) (2) (1) (1)  
 5yr CDS Ireland 48 (1) (1) (1) (1)  
 5yr CDS Italy 102 (1) (1) (1) (1)  
 5yr CDS Netherlands 17 (0) (0) (1) (1)  
 5yr CDS Portugal 171 (1) (1) (1) (1)  
 5yr CDS Spain 81 (1) (1) (1) (1)  
 5yr CDS 24 (0) (0) (1) (1)  
 5yr CDS US 24 (0) (0) (1) (1)

**5yr sovereign CDS**

5yr CDS Brazil 364 (20) (15) (4) (19)  
 5yr CDS China 108 (6) (2) (1) (1)  
 5yr CDS Colombia 102 (12) (1) (1) (1)  
 5yr CDS Columbia 115 (11) (1) (1) (1)  
 5yr CDS India 107 (11) (1) (1) (1)  
 5yr CDS Korea 171 (1) (1) (1) (1)  
 5yr CDS Mexico 4278 (105) (196) (196) (226)  
 5yr CDS Poland 21 (1) (1) (1) (1)  
 5yr CDS Russia 21 (1) (1) (1) (1)  
 5yr CDS Turkey 234 (4) (1) (1) (1)

**5yr CDS China**

5yr CDS China 108 (6) (2) (1) (1)  
 5yr CDS India 171 (1) (1) (1) (1)  
 5yr CDS Korea 171 (1) (1) (1) (1)  
 5yr CDS Mexico 4278 (105) (196) (196) (226)

**Credit risk**

10yr CDS index (changes in percentage points for CDS spreads, bp)  
 UK 14 (0) (1) (1) (1)  
 VTOO 28 (3) (2) (1) (1)  
 EIT 17 (1) (1) (1) (1)  
 Delinquency ratio 12 (2) (1) (1) (1)  
 EIT 17 (1) (1) (1) (1)  
 Credit spread (Baa) 315 (2) (1) (1) (1)  
 US 10yr Treasury index 71 (1) (1) (1) (1)

Bank 10yr changes in bp  
 US banks CDS 71 (1) (1) (1) (1)  
 EU banks CDS 70 (2) (1) (1) (1)  
 UK banks CDS 60 (2) (1) (1) (1)

Large Spanish banks CDS 118 (3) (2) (1) (1)  
 Medium Spanish banks CDS 148 (3) (2) (1) (1)  
 Greek banks CDS 349 (1) (1) (1) (1)  
 Russian banks CDS 381 (1) (1) (1) (1)

**Corporate risk (changes in bp)**

US non-financial CDS 6 (0) (0) (1) (1)  
 EU non-financial CDS 6 (0) (0) (1) (1)  
 UK non-financial CDS 6 (0) (0) (1) (1)

**Interbank markets (changes in bp)**

EUR CDS spread 12 (1) (1) (1) (1)  
 US CDS spread 20 (1) (1) (1) (1)  
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US CDS spread 20 (1) (1) (1) (1)  
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 US CDS spread 20 (1) (1) (1) (1)

Spain 10yr spread 6 (1) (1) (1) (1)  
 EONIA index 4.13 (1) (1) (1) (1)  
 London 12m 4.37 (1) (1) (1) (1)  
 Euro 12m 4.1 (1) (1) (1) (1)  
 Libor 3m 4.21 (1) (1) (1) (1)  
 Libor 12m 4.18 (1) (1) (1) (1)

**Stock markets (Change in percentage)**

US S&P 500 1.0 (1) (1) (1) (1)  
 Dow Jones 1.0 (1) (1) (1) (1)  
 Nikkei 1.0 (1) (1) (1) (1)  
 FTSE 100 1.0 (1) (1) (1) (1)  
 DAX 1.0 (1) (1) (1) (1)  
 CAC 40 1.0 (1) (1) (1) (1)  
 IBEX 35 1.0 (1) (1) (1) (1)  
 ASI 1.0 (1) (1) (1) (1)

US banks 0.7 (0) (0) (1) (1)  
 US 0.6 (0) (0) (1) (1)  
 US 0.6 (0) (0) (1) (1)  
 US 0.6 (0) (0) (1) (1)

UK banks 0.4 (0) (0) (1) (1)  
 HSBC 1.2 (1) (1) (1) (1)  
 RBS 1.1 (1) (1) (1) (1)  
 Lloyds 1.1 (1) (1) (1) (1)

EU banks 1.0 (1) (1) (1) (1)  
 BNP 1.1 (1) (1) (1) (1)  
 Credit Agricole 1.1 (1) (1) (1) (1)  
 Deutsche 1.1 (1) (1) (1) (1)  
 HSBC 1.1 (1) (1) (1) (1)  
 Intesa 1.1 (1) (1) (1) (1)  
 ING 1.1 (1) (1) (1) (1)  
 Unicredit 1.1 (1) (1) (1) (1)

Large Spanish banks 0.9 (1) (1) (1) (1)  
 Santander 1.1 (1) (1) (1) (1)  
 BBVA 1.1 (1) (1) (1) (1)

Medium Spanish banks 0.8 (1) (1) (1) (1)  
 Caixabank 1.1 (1) (1) (1) (1)  
 Pegasus 1.1 (1) (1) (1) (1)  
 Sabadell 1.1 (1) (1) (1) (1)  
 Bankia 1.1 (1) (1) (1) (1)

Greek banks 0.5 (1) (1) (1) (1)  
 Alpha Bank 1.1 (1) (1) (1) (1)  
 Piraeus Bank 1.1 (1) (1) (1) (1)  
 National Central Bank 1.1 (1) (1) (1) (1)  
 Eurobank 1.1 (1) (1) (1) (1)

**Emerging Markets**

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\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

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