Market Comment| Awaiting US labour data, the Fed's hawkish tone continued to drive markets

Global Financial Markets Unit 05 Nov 2015

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- **Positive labour data in the US.** US jobless claims rose more than expected in the week ended 31 October (by 16K to 276K; consensus: 262K). Although the jobless claims were higher than for the previous week, the downward trend remained intact.
- Eurozone retail sales fell slightly in September, but overall showed robust growth in 3Q15. The eurozone's retail sales dropped unexpectedly in September (-0.1% MoM; BBVAe: 0.0%, consensus: +0.2%) after they had remained stable in August. Retail sales ended 3Q15 showing robust growth (3Q15 0.6% QoQ, 2Q15 0.3% QoQ). In Germany, the weak foreign demand dragged factory orders in September, which decreased against estimates of increasing (by -1.7% MoM; consensus: +1.0%);
- According to European Commission forecasts, the European economy remains on a recovery course. According to its Autumn economic forecasts, the Eurozone is expected to 1.6% for this year, a 0.1% increase on the spring forecast, followed by 1.8% in 2016, a balancing reduction of 0.1% from the previous forecast, and 1.9% in 2017.
- The BoE strikes a dovish tone. The Bank of England (BoE) made no changes to its policy stance, keeping its interest rate and purchasing programme unaltered at the respective 0.50% and GBP375bn. The central bank's communiqué showed that interest rates will stay on hold for a while longer. On inflation, the BoE said that it does not expect it to reach the bank's 2% target for another two years.
- Awaiting US labour data, the Fed's hawkish tone continued to drive markets. Yesterday's speech by Janet Yellen reinforced the possibility of a December rate hike by the Fed. The labour market prints to be released tomorrow will bring fresh information for evaluating the state of the US economy before the probabl start of the tightening cycle. On another front the BoE maintained its last's meeting dovish message and said that the borrowing cost would likely stay lower for longer. Against this backdrop, on bond markets US treasury yields rose slightly after Yellen's speech (2Y:+4bp, 10Y: +2bp). Meanwhile, European core yields showed a mixed performance, highlighting a fall in UK yields after the BoE's dovish tone (GER 10Y: +1bp, FRA 10Y:-1bp, UK10Y: -3bp), while peripheral yields rose (ITA 10Y:+3bp, SPA 10Y: +5bp, POR 10Y: +5bp). Therefore risk-premia in the periphery also increased today (ITA: +2bp, SPA: +4bp, POR: +5bp). On the FX markets, the USD appreciated against the GBP, which was hampered by the BoE's dovish tone (GBP: -0.89%). EM currencies resumed their depreciating trend against the USD, due to the increased expectations of a Fed lift-off this year and the continued fall in commodity prices (COP: -1.0%, CLP: -0.5%, MXN: -0.4%, RUB: -0.3%). Oil prices fell below the threshold of USD50/bbl again (Brent: -0.7%, WTI: -1.3%) and the price of copper plunged -2.2% today. On equity markets, European equity indexes showed a mixed performance (Euro Stoxx: +0.2%, DAX: +0.3%, IBEX-35: -0.3%, CAC: +0.6%, MIB: -0.5%) while US equity indexes were dropping at the time of writing (S&P 500: -0.4%, Dow: -0.5%), despite the positive weekly labour data.



Update 17.10 CET 05 November, 2015 Table1

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*CDS, EMBI & MSCI indices with one day delay **Credit spread (BAA) with two days delay

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