

Market Comment | The plunge in China's stocks and oil prices wreak havoc on equity markets

Global Financial Markets Unit
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- **China released a bunch of weak economic figures, while its currency reserves plunged in December.** The monthly fall in China's foreign currency reserves reached a new record (-USD107.92bn to USD3,330.36bn), well ahead of consensus expectations (-USD24bn to USD3,415bn). Manufacturing confidence also disappointed. The Caixin China Manufacturing PMI extended its fall in December, against expectations of a slight increase (48.2, consensus 48.9, previous month 48.6). Furthermore, the official manufacturing PMI disappointed by recovering less than expected (49.7, consensus 49.8, previous month 49.6). The weak Caixin PMI services, which fell to close to the 50 threshold in December (50.2 vs 51.2), renewed investors' concerns about China's economic outlook. Moreover, the PBoC set the mid-point rate of the yuan at USDCNY 6.5646 (-0.5% vs. the previous fixing of 6.5314), fixing the price of the yuan exchange rate to follow closely the market price of the previous day.
- **Mixed data in the US.** Yesterday, the ADP employment change was released, which in December increased unexpectedly (by 46K to 257K; consensus: 198K). The ISM non-manufacturing was also published, which dropped against estimates of increasing (by 0.6 points to 55.3; consensus: 56.0). Meanwhile, today's US jobless claims showed a less-than-expected decline in the week ended 2 January (by 10K to 277K; consensus: 275K), while continuing claims rose more than expected in the week ended 26 December (by 25K to 2,230K; consensus: 2,200K).
- **The FOMC minutes:** December's meeting minutes hinted at lingering uncertainty within the Committee, particularly related to the lack of material upward inflationary pressure in the economy. In order to move ahead with the lift-off, members wanted to be certain that the accompanying statement and any future communication emphasised "the potential need to accelerate or slow the pace of normalisation as the economic outlook evolved". They also wanted to make sure that it was clear that they were not committing to a specific pace or size of future adjustments, with the understanding that the future path of interest rates could become flatter/steeper if economic activity strayed negatively/positively from their outlook. This suggests that the FOMC will wait at least a few months before moving ahead with the second rate hike, which we expect to come in 2Q16. We expect that the Federal Funds rate will reach 1.0% by the end of 2016 ([see](#)).
- **Positive data in the eurozone.** Eurozone economic confidence rose in December against estimates (to 106.8 from 106.1; BBVAe: 106.1, consensus: 106.0). The increase was due to the improvement in consumer, services and industrial confidence sub-indices, while the retail confidence index declined. Furthermore, the unemployment rate declined slightly, surprising expectations, in November (at 10.5%; BBVAe and consensus: 10.7%). On the other hand, retail sales dropped in November against estimates of an improvement (by -0.3% MoM; BBVAe: +0.1% MoM, consensus: +0.2% MoM). However, German

retail sales rose in line with our estimates in November (by 0.2% MoM; BBVAe: 0.2% MoM, consensus: 0.5% MoM). Meanwhile, factory orders increased and beat the forecasts (by 1.5% MoM; BBVAe: -1.0%, consensus: 0.1%).

- The plunge in China's stocks and oil prices wreak havoc on equity markets.** The Chinese stock market was closed early today, as the CSI 300 plummeted by 7% again in morning trading. Weak economic data and the PBoC's decision to fix the yuan 0.5% lower against the US dollar might have renewed investors' concerns about the Chinese economic and currency outlook. However, the market circuit breakers might have accelerated the falls, as investors tried to sell stocks before the prescribed market halts (when there is a 5% swing in the CSI 300 trading is halted for 15 minutes, while the equity market shuts for the rest of the day if the index moves by 7%). For this reason, late in the afternoon the Chinese regulator announced that it had suspended the circuit breakers altogether, to forestall the development of a vicious circle. Furthermore, in order to counteract the stock markets' falls, the Chinese Securities Regulatory Commission has imposed a limit on the amount of stocks that large shareholders can sell. The CSI 300 has accumulated a fall of 11.7% in the first seven days of the year. Chinese concerns have spilled over into world equity markets and other cyclical assets such as commodity prices. Both the Brent and the West Texas Intermediate oil prices have reached levels unseen since early 2004 (USD32.8/bbl for the Brent future, USD35.5/bbl for the WTI future), despite the increase in geopolitical tensions (Saudi Arabia/Iran), wreaking havoc on equity markets. In this context, safer bonds and currencies attracted fresh flows, while risk measures derived from markets surged (implied volatility in equity markets increased by 11.9% in US and 13.4% in Europe). Against this backdrop, equity markets plunged across the board, led by the Chinese markets (Shanghai: -7.0%, Nikkei: -2.3%, S&P 500: -1.0%, Euro Stoxx -1.6%, DAX: -2.2% IBEX-35: -1.5%). Meanwhile, the safe-haven bonds have been attracting fresh flows from equities since the start of the year, although today the bond market gains retreated after the eurozone released positive economic figures, while US Treasury investors are cautious about potential sales by foreign governments to support their currencies. US Treasury yields remained unchanged, while European yields rose today - highlighted in peripheral bonds, whose yields increased sharply (GER 10Y: +4bp, FRA 10Y: +5bp, ITA 10Y: +8bp, SPA10Y: +7bp, POR 10Y: +9bp). As a result, peripheral risk premia rose (ITA: +4bp, SPA: +3bp, POR: +5bp). On the FX markets, safe-haven and carry trade currencies appreciated against the USD, while commodity-linked currencies extended their falls (EUR: +0.63%, JPY: +0.37%, GBP: -0.43%, AUD: -0.71%). EM currencies depreciated against the US dollar (BRL: -0.2%, MXN: -0.7%, COP: -0.3%, CLP: -1.0%), which was mainly due to the plunge in commodity prices hampered by the widespread doubts about the Chinese economy. Meanwhile, the gold price improved (+1.2%) as a consequence of the general risk-off mood and the copper fell (-2.1%)

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Table1

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

Index markets (changes in bp)

US 3m 336 (3) (7) (5) (7)
 US 5yr 145 (3) (1) (1) (1)
 US 10yr 2 (2) (1) (1) (1)
 Japan 10yr 124 (1) (-2) (1) (-1)
 UK 5yr 4 (3) (1) (-1) (-1)
 UK 10yr 2 (1) (1) (1) (1)
 Spain 10yr 2 (1) (1) (1) (1)
 Belgium 10yr 5 (1) (1) (1) (1)
 France 10yr 5 (1) (1) (1) (1)
 Germany 10yr 5 (1) (1) (1) (1)
 Italy 10yr 5 (1) (1) (1) (1)
 Netherlands 10yr 5 (1) (1) (1) (1)
 Portugal 10yr 5 (1) (1) (1) (1)
 Sweden 10yr 5 (1) (1) (1) (1)

Emerging Markets

China 10yr 5 (1) (1) (1) (1)
 Columbia 10yr 5 (1) (1) (1) (1)
 Mexico 10yr 5 (1) (1) (1) (1)
 Peru 10yr 5 (1) (1) (1) (1)
 Poland 10yr 5 (1) (1) (1) (1)
 Russia 10yr 5 (1) (1) (1) (1)
 Taiwan 10yr 5 (1) (1) (1) (1)
 Turkey 10yr 5 (1) (1) (1) (1)
 India 10yr 5 (1) (1) (1) (1)
 Indonesia 10yr 5 (1) (1) (1) (1)

Country risk (changes in bp)

EUR sovereign spreads (against Germany)
 Belgium 36 (1) (2) (7) (2)
 France 38 (1) (2) (7) (2)
 Germany 19 (1) (2) (7) (2)
 Ireland 40 (1) (2) (7) (2)
 Italy 42 (1) (2) (7) (2)
 Netherlands 35 (1) (2) (7) (2)
 Portugal 39 (1) (2) (7) (2)
 Spain 37 (1) (2) (7) (2)

EUR sovereign spreads (against Germany)

Belgium 13 (1) (2) (7) (2)
 France 17 (1) (2) (7) (2)
 Germany 10 (1) (2) (7) (2)
 Ireland 21 (1) (2) (7) (2)
 Italy 23 (1) (2) (7) (2)
 Netherlands 4 (1) (2) (7) (2)
 Portugal 10 (1) (2) (7) (2)
 Spain 13 (1) (2) (7) (2)

EUR sovereign spreads (against Germany)

Belgium 5 (1) (1) (1) (1)
 France 6 (1) (1) (1) (1)
 Germany 1 (1) (1) (1) (1)
 Ireland 11 (1) (1) (1) (1)
 Italy 13 (1) (1) (1) (1)
 Netherlands -1 (1) (1) (1) (1)
 Portugal 4 (1) (1) (1) (1)
 Spain 5 (1) (1) (1) (1)

EUR sovereign CDS

EUR CDS Belgium 22 (2) (1) (1) (1)
 EUR CDS France 20 (2) (1) (1) (1)
 EUR CDS Germany 20 (2) (1) (1) (1)
 EUR CDS Ireland 48 (2) (1) (1) (1)
 EUR CDS Italy 48 (2) (1) (1) (1)
 EUR CDS Netherlands 16 (1) (1) (1) (1)
 EUR CDS Portugal 17 (1) (1) (1) (1)
 EUR CDS Spain 20 (2) (1) (1) (1)
 EUR CDS US 20 (2) (1) (1) (1)

EUR sovereign CDS

EUR CDS Belgium 471 (1) (1) (1) (1)
 EUR CDS China 138 (1) (1) (1) (1)
 EUR CDS Columbia 241 (1) (1) (1) (1)
 EUR CDS Mexico 177 (1) (1) (1) (1)
 EUR CDS Peru 166 (1) (1) (1) (1)
 EUR CDS Venezuela 870 (1) (1) (1) (1)

EUR sovereign CDS

EUR CDS Belgium 20 (2) (1) (1) (1)
 EUR CDS China 18 (1) (1) (1) (1)
 EUR CDS India 153 (1) (1) (1) (1)
 EUR CDS Korea 238 (1) (1) (1) (1)
 EUR CDS Mexico 238 (1) (1) (1) (1)
 EUR CDS Russia 18 (1) (1) (1) (1)
 EUR CDS Taiwan 238 (1) (1) (1) (1)
 EUR CDS USA 18 (1) (1) (1) (1)
 EUR CDS Venezuela 238 (1) (1) (1) (1)

Credit risk

UK 23 (2) (1) (1) (1) (1) (1) (1)
 US 23 (2) (1) (1) (1) (1) (1) (1)
 US 10yr 23 (2) (1) (1) (1) (1) (1) (1)
 US 5yr 23 (2) (1) (1) (1) (1) (1) (1)
 US 3m 23 (2) (1) (1) (1) (1) (1) (1)

Bank & deposits risk

US banks CDS 86 (1) (1) (1) (1)
 EU banks CDS 101 (1) (1) (1) (1)
 UK banks CDS 79 (1) (1) (1) (1)

Large European banks CDS

Large European banks CDS 142 (1) (1) (1) (1)
 Italian Spanish banks CDS 107 (1) (1) (1) (1)

Other banks CDS

Other banks CDS 161 (1) (1) (1) (1)
 Russian banks CDS 207 (1) (1) (1) (1)

Corporate risk (changes in bp)

US Non-financial CDS 306 (1) (1) (1) (1)
 EUR Non-financial CDS 374 (1) (1) (1) (1)
 UK Non-financial CDS 208 (1) (1) (1) (1)

Interest rate markets (changes in bp)

EUR 5yr swap 3m 12 (1) (1) (1) (1)
 EUR 10yr swap 3m 38 (1) (1) (1) (1)
 EUR 10yr swap 10 42 (1) (1) (1) (1)

US 5yr swap 3m

US 5yr swap 3m 23 (1) (1) (1) (1)
 US 10yr swap 10 39 (1) (1) (1) (1)
 US 10yr swap 10 42 (1) (1) (1) (1)

US 10yr swap 10

US 10yr swap 10 7 (1) (1) (1) (1)
 ECU 10yr swap 10 14 (1) (1) (1) (1)
 ECU 10yr swap 10 14 (1) (1) (1) (1)

Labour market

Labour 1m 62 (1) (1) (1) (1)
 Labour 12m 137 (1) (1) (1) (1)

Stock markets (changes in percentage)

Spain monthly returns
 S&P500 107.4 (1) (1) (1) (1)
 Dow Jones 107.4 (1) (1) (1) (1)
 Nikkei 107.7 (1) (1) (1) (1)
 FTSE 100 108.4 (1) (1) (1) (1)
 Euro Stoxx 50 107.7 (1) (1) (1) (1)
 MSCI EAFE 107.7 (1) (1) (1) (1)
 DAX 107.7 (1) (1) (1) (1)
 CAC40 107.7 (1) (1) (1) (1)
 NYSE 107.7 (1) (1) (1) (1)
 ASX 107.7 (1) (1) (1) (1)

Bank stocks

US banks 107.7 (1) (1) (1) (1)
 JPM 107.7 (1) (1) (1) (1)
 Cit 107.7 (1) (1) (1) (1)
 BofA 107.7 (1) (1) (1) (1)
 WFC 107.7 (1) (1) (1) (1)

EUR banks

EUR banks 107.7 (1) (1) (1) (1)
 HSBC 107.7 (1) (1) (1) (1)
 BNP 107.7 (1) (1) (1) (1)
 Santander 107.7 (1) (1) (1) (1)
 Barclays 107.7 (1) (1) (1) (1)

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Other banks

Other banks 107.7 (1) (1) (1) (1)
 Citigroup 107.7 (1) (1) (1) (1)
 Wells Fargo 107.7 (1) (1) (1) (1)
 Bank of America 107.7 (1) (1) (1) (1)
 JPMorgan Chase 107.7 (1) (1) (1) (1)

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US stocks

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 JPMorgan Chase 107.7 (1) (1) (1) (1)

Commodities (in percentage, positive for dollar depreciation)

EURUSD 1.00 (1) (1) (1) (1) (1) (1)
 USDJPY 1.00 (1) (1) (1) (1) (1) (1)
 USDGBP 1.00 (1) (1) (1) (1) (1) (1)
 USDCHF 1.00 (1) (1) (1) (1) (1) (1)

Commodity

US Oil 107.7 (1) (1) (1) (1)
 US Gas 107.7 (1) (1) (1) (1)
 US Coal 107.7 (1) (1) (1) (1)
 US Wheat 107.7 (1) (1) (1) (1)
 US Corn 107.7 (1) (1) (1) (1)

Commodity

US Oil 107.7 (1) (1) (1) (1)
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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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