BBVA Research

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 accomplanying 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%)

Updae 17.30 CET 07 January, 2015

Table1

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0,98 (0) (-7) (5) (-7)
US 5-yr 1,65 (1) (-11) (-1) (-11)
US 10-yr 2,19 (2) (-8) (-3) (-8)

Japan 10-yr 0,24 (-1) (-2) (-8) (-2)

GER 2-yr -0,38 (1) (-3) (-7) (-3)
GER 5-yr -0,11 (2) (-6) (-4) (-6)
GER 10-yr 0,55 (4) (-8) (-3) (-8)

Belgium 10-yr 0,91 (5) (-6) (5) (-6)
France 10-yr 0,92 (5) (-6) (4) (-6)
Greece 10-yr 8,7 (17) (42) (36) (42)
Ireland 10-yr 1,03 (1) (-12) (-6)
Italy 10-yr 1,56 (8) (-4) (1) (-4)
Netherlands 10-yr 0,73 (4) (-7) (0) (-7)
Portugal 10-yr 2,61 (9) (9) (16) (9)
Spain 10-yr 1,75 (7) (-2) (15) (-2)

Emerging Markets
Brazil 10-yr 15,99 (7) (-52) (33) (-52)
Chile 10-yr 4,61 (0) (-5) (-1) (-5)
Colombia 10-yr 8,84 (0) (18) (24) (18)
Mexico 10-yr 6,22 (1) (-4) (-11) (-4)
Peru 10-yr 7,41 (5) (11) (37) (11)

Poland 10-yr 2,98 (3) (4) (8) (4)
Russia 5-yr 9,86 (0) (-2) (-24) (-2)
Russia 10-yr 9,56 (0) (1) (-11) (1)
Turkey 10-yr 10,82 (-8) (35) (69) (35)

India 10-yr 7,74 (0) (-2) (-6) (-2)
Indonesia 10-yr 8,82 (0) (8) (29) (8)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 36 (1) (2) (7) (2)
France 38 (1) (2) (7) (2)
Greece 816 (13) (50) (38) (50)
Ireland 48 (-3) (-4) (-4) (-4)
Italy 102 (4) (5) (3) (5)
Netherlands 18 (0) (1,7) (3) (2)
Portugal 206 (5) (17,6) (18) (18)
Spain 120 (3) (6) (17) (6)

5-yr sovereign spreads *(against Germany)*
Belgium 10 (0) (2,9) (4) (3)
France 17 (1) (4) (3) (4)
Greece 1613 (-2) (6) (4) (6)
Ireland 25 (1) (0) (1) (0)
Italy 69 (4) (14) (13) (14)
Netherlands 4 (0) (3,1) (2) (3)
Portugal 132 (8) (21) (17) (21)
Spain 75 (4) (3) (9) (3)

2-yr sovereign spreads *(against Germany)*
Belgium 5 (-1) (0) (-3) (0)
France 5 (0) (1,1) (-2) (1)
Ireland 11 (-1) (-3) (-8) (-3)
Italy 39 (2) (7) (4) (7)
Netherlands -1 (-1) (1) (-2) (1)
Portugal 48 (3) (3) (2) (3)
Spain 38 (2) (3) (2) (3)

5-yr sovereign CDS
5-yr CDS Belgium 32 (0) (0) (-1) (0)
5-yr CDS France 25 (0) (0) (0) (0)
5-yr CDS Germany 12 (0) (0) (0) (0)
5-yr CDS Greece 1067 (0) (9) (-7) (8)
5-yr CDS Ireland 40 (0) (0) (-3) (0)
5-yr CDS Italy 99 (2) (1) (3) (3)
5-yr CDS Netherlands 15 (-1) (1) (-1) (0)
5-yr CDS Portugal 177 (4) (5) (-9) (9)
5-yr CDS Spain 92 (2) (1) (7) (3)
5-yr CDS UK 20 (1) (0) (2) (1)
5-yr CDS US 20 (0) (1) (-2) (1)

Emerging Markets
5-yr sovereign CDS
5-yr CDS Brazil 471 (-3) (-21) (25) (-21)
5-yr CDS Chile 130 (4) (3) (-1) (3)
5-yr CDS Colombia 254 (13) (15) (16) (15)
5-yr CDS Mexico 177 (7) (7) (12) (7)
5-yr CDS Peru 194 (8) (9) (3) (9)
5-yr CDS Venezuela 6708 (373) (665) (2161) (665)

5-yr CDS Poland74 (0) (2) (0) (2)
5-yr CDS Russia 312 (4) (10) (23) (10)
5-yr CDS Turkey 288 (8) (15) (15) (15)

5-yr CDS China 116 (4) (7) (13) (7)
5-yr CDS India 153 (1) (4) (2) (4)
5-yr CDS Indonesia 238 (6) (11) (12) (11)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 23,05 (11,9) (26,6) (31) (5)
VSTOXX 29,83 (13,4) (34,5) (26,5) (8)
EM EFT volatility Index 30 (13) (30) (13) (30)
Dollar/euro volatility 10,5 (3,3) (8,3) (7,6) (8)
EM FX volatility index 11 (0) (-1) (6) (-1)
Credit spread (BAA) 325 (-1,9) (2) (5,8) (2)
US bonds volatility index 72 (0) (6) (-1) (6)

Bank risk *(changes in bp)*
US banks CDS 80 (1) (5) (3) (5)
EMU banks CDS 85 (1) (1) (9) (1)
UK banks CDS 79 (1) (2) (6) (2)

Large Spanish banks CDS 143 (3) (6) (30) (6)
Medium Spanish banks CDS 167 (5) (10) (18) (10)

Greek banks CDS 1601 (-22) (-51) (120) (-51)
Russian banks CDS 387 (-10) (5) (12) (5)

Corporate risk *(changes in bps)*
US Non-financial CDS 383 (4) (2) (-3) (2)
EMU Non-financial CDS 174 (-5) (2) (28) (2)
UK Non-financial CDS 200 (1) (8) (26) (8)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 12 (0) (1) (1) (1)
UEM OIS spread 12m 36 (0) (2) (3) (2)
UEM TED spread 3m 42 (-1) (0,8) (12) (1)

US OIS spread 3m 23 (-1) (0) (7) (0)
US OIS spread 12m 59 (0) (3) (10) (3)
US TED spread 3m 42 (-1) (-3) (20) (-3)

Spain Ted Spread 3m 7 (-3) (2,8) (3) (3)

EONIA Index -0,25 (0) (-12,6) (-11) (-13)
Euribor 3m -0,14 (-1) (-1,1) (-3) (-1)
Euribor 12m 0,05 (-1) (-1) (-2) (-1)

Libor 3m 0,62 (0) (1) (13) (1)
Libor 12m 1,17 (0) (-1) (12) (-1)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 1970,4 (-1) (-3,6) (-4,5) (-4)
Dow Jones 16734,9 (-1) (-4) (-4,7) (-4)
Nikkei 17767,3 (-2,3) (-6,7) (-8,9) (-7)
FTSE 100 5948,4 (-2,1) (-4,7) (-3) (-5)
EuroStoxx 50 3087,7 (-1,6) (-5,5) (-6,4) (-6)
IBEX9057,3 (-1,5) (-5,1) (-7,9) (-5)
DAX 9992 (-2,2) (-7) (-6,4) (-7)
CAC4406,6 (-1,6) (-5) (-6,9) (-5)
MIB 20213,3 (-1) (-5,6) (-6,2) (-6)
ASE Athens 590,8 (-4,3) (-6,4) (1,5) (-6)

Bank stocks
US banks 88 (-2) (-6,4) (-8,7) (-6)
JPM 61,6 (-2) (-6,7) (-8,6) (-7)
Citi 48,8 (-2,7) (-5,8) (-8,7) (-6)
BoA 15,8 (-1,7) (-6,1) (-8) (-6)
MS 29,8 (-2,4) (-6,4) (-12,6) (-6)
GS 167,8 (-1,2) (-6,9) (-8,3) (-7)

UK banks 82,7 (-2,4) (-5,8) (-3,8) (-6)
HSBC 500,7 (-1,5) (-6,6) (-2,1) (-7)
RBS 287,6 (-2,2) (-4,8) (-1,2) (-5)
Barclays 205 (-3,2) (-6,4) (-7,7) (-6)
Lloyds 69,2 (-2,5) (-5,2) (-2,9) (-5)

EMU banks 101,6 (-2,1) (-6,2) (-5,9) (-6)
BNP 49,5 (-2,1) (-6,3) (-6,7) (-6)
Crédit Agricole 10,2 (-2,2) (-6,4) (-4,5) (-6)
Deutsche Bank 21,2 (-2) (-6) (-6,6) (-6)
ING 11,8 (-1,9) (-6,3) (-4) (-6)
Intesa 2,9 (-1,6) (-5,7) (-6,4) (-6)
SG 40 (-2,4) (-6,1) (-4,9) (-6)
Unicredito 4,7 (-2,5) (-8,7) (-9,5) (-9)

Large Spanish banks 70,4 (-1,7) (-6,7) (-11,2) (-7)
Santander 4,2 (-2,1) (-9) (-12,3) (-9)
BBVA 6,4 (-1,5) (-4,9) (-10,4) (-5)

Medium Spanish banks 77 (-2,4) (-6,6) (-11,3) (-7)
Caixabank 3 (-2,4) (-7) (-13,9) (-7)
Popular 2,7 (-3,2) (-9,9) (-14,9) (-10)
Sabadell 1,6 (-2,2) (-3,5) (-7,3) (-4)
Bankinter 6,2 (-1,7) (-5) (-7,4) (-5)
Bankia 1 (-2,5) (-8) (-13,9) (-8)

Greek banks 3,9 (-7,6) (-13,5) (-0,1) (-13)
Alpha Bank2,1 (-8,7) (-15,7) (14,1) (-16)
Pireus Bank0,3 (-7,1) (-5,8) (-43,3) (-6)
National Central Bank0,3 (-6,6) (-14) (-44,9) (-14)
Eurobank Ergasias0,9 (-6) (-9,6) (3,9) (-10)

Emerging Markets
Main equity indices
MSCI Latam 57473 (-1,07) (-3,1) (-4,8) (-3,1)
Ibovespa (Brazil) 41086 (-1,6) (-5,2) (-7,6) (-5,2)
Mexbol 41184 (-1,2) (-4,2) (-2,5) (-4,2)

MSCI EM Europe 4167 (-0,18) (-1,9) (-2,2) (-1,9)
Poland 1745 (-2,6) (-6,1) (-3,8) (-6,1)
Micex (Russia) 1749 (0) (-0,7) (1,7) (-0,7)
Ise 100 (Turkey) 71496 (0,4) (-0,3) (-2,2) (-0,3)

MSCI EM Asia 640 (-0,62) (-3,2) (-4,2) (-3,2)
Shanghai Composite (China) 3125 (-7,04) (-11,7) (-8,9) (-11,7)
Jakarta Composite (Indonesia) 4530 (-1,7) (-1,4) (1,5) (-1)

Bank stocks
Turkish banks 74 (1,1) (0,2) (-1,6) (0,2)
Akbank T.A.S. 7 (0,6) (-0,3) (-1,9) (-0,3)
Garanti 7 (0,4) (0,1) (-2,5) (0,1)
Turkiye Is Bankasi 5 (2,4) (0,9) (-0,2) (0,9)

Russian banks 144 (0) (-4,9) (1,3) (-4,9)
Sberbank 97 (0) (-4,4) (-0,2) (-4,4)
VTB Bank 0,1 (0) (-5,7) (3,8) (-5,7)

Currencies *(in percentage, positive for dollar depreciation)*

Developed Markets
EURUSD 1,085 (0,63) (-0,12) (-0,4) (-0,1)
GBPUSD 1,46 (-0,43) (-1,15) (-2,9) (-1,1)
USDJPY 118,03 (0,37) (1,82) (4) (1,8)
DXY 98,87 (0,3) (-0,2) (-0,4) (-0,2)

Emerging Markets
USDARS (Argentina) 13,92 (-0,3) (-7,7) (-43,1) (-7,7)
USDBRL (Brazil) 4,04 (-0,2) (-1,9) (-6,3) (-1,9)
USDCLP (Chile) 721,76 (-1) (-1,9) (-2) (-1,9)
USDCOP (Colombia) 3266,15 (-0,3) (-2,9) (1,3) (-2,9)
USDMXN (Mexico) 17,65 (-0,7) (-2,6) (-3,7) (-2,6)
USDPEN (Peru) 3,42 (-0,2) (-0,2) (-1,6) (-0,2)
LACI 60,98 (-0,5) (-2,6) (-6,8) (-2,6)

USDPLN (Poland) 4 (1) (-1,9) (-0,2) (-1,9)
USDRUB (Russia) 74,56 (0,2) (-2,8) (-7,3) (-2,8)
USDTRY (Turkey) 3 (0,2) (-2,7) (-3) (-2,7)

USDCNY (China) 6,59 (-0,6) (-1,5) (-2,7) (-1,5)
USDINR (India) 66,93 (-0,1) (-1,2) (-0,1) (-1,2)
USDIDR (Indonesia) 13927 (0,1) (-1) (-0,2) (-1)
ADXY 105,44 (0) (-1) (-1,4) (-1)

Commodities *(change in percentage)*

Brent 34,44 (0,6) (-7,6) (-14,5) (-7,6)
WTx 34,01 (0,1) (-8,2) (-9,3) (-8,2)
Copper 203,7 (-2,1) (-4,2) (-0,5) (-4,2)
Gold 1106,28 (1,2) (4,2) (2,9) (4,2)
Baltic Dry Index 467 (0) (-2,3) (-15,2) (-2,3)
S&P GSCI Spot commodity index 297,953 (0) (-4,4) (-6,6) (-4,4)
S&P GSCI Brent Spot 294,724 (0) (-8,1) (-15,2) (-8,1)
S&P GSCI Metals Spot 246,47 (0) (-2,6) (0,2) (-2,6)
S&P GSCI Agricultural Spot 277,491 (0) (-2,1) (-4) (-2,1)

Source: Bloomberg, Datastream and Haver

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