

Market Comment | New low in oil prices dissolves early rebound in equity markets

Global Financial Markets Unit

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- **Inflation data in China disappoint.** December's industrial price index released over the weekend continued to trend down (at a rate of -5.9% YoY) amid depreciatory pressures on the CNY. On the bright side, both inflation and core inflation remained stable in December, as expected (at 1.6% and 1.5% YoY, respectively).
- **New record-lows in commodity prices dissolved earlier rebound in equity markets, in which volatility remains high after last week's plunge.** Commodities plunged once again amid misgivings about the global economy, with oil prices falling to their lowest levels since 2004 (Brent: USD31.73/bbl, WTI: USD31.59/bbl) while the price of copper falling to a six-year low (-2.1%). European equity markets managed to maintain early gains over most of today's session and despite another slump in China's equity indices (CSI 300 -5%). Yet the fall in oil prices dragged them down, ending the session with losses across Europe (Euro Stoxx: -0.2%, DAX: -0.2%, IBEX-35: -0.3%, CAC: -0.5%). Meanwhile, US equity remains stable ahead of the start of the 4Q15 corporate earnings report season, which begins this afternoon with Alcoa. On bond markets, US treasury yields increased (10Y: +3bp). In the same vein, European yields rose, notably in the periphery (GER 10Y: +3bp, FRA 10Y: +4bp, ITA 10Y: +6bp, SPA 10Y: +9bp, POR 10Y: +4bp). As a result, peripheral risk premia increased, led by Spain (ITA: +3bp, SPA: +6bp, POR: +1bp). The 10Y yield spread between Spain and Italy has widened by 3bp today. On FX markets, the USD showed a mixed performance against other major currencies, reversing the trend of the last few days (EUR: -0.35%, JPY: -0.19%, GBP: +0.21%). Meanwhile, EM currencies depreciated against the US dollar (RUB: -1.6%, BRL: -0.6%, CLP: -0.5%, MXN: -0.1%), continuing last week's trend, conditioned by the deterioration in commodity prices.

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Table1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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