

## Market Comment | Chinese 4Q GDP give financial markets a breather

Global Financial Markets Unit 19 Jan 2016

- Chinese 4Q GDP (6.8% YoY) led the annual growth to 6.9% for 2015. China's GDP continues to decelerate, increasing by 6.8% YoY in the 4Q15 which was in line with our forecast (BBVAe: 6.8%, consensus: 6.9%). This increase was the lowest since 1Q09, and we therefore expect new easing measures to support growth. In addition, it is important to consider that China is in the process of rebalancing the economy towards the service sector, which has contributed 50.5% of total GDP. On another front, retail sales in December rose at a slower rate (by 11.1% YoY; consensus: 11.3%; previous: 11.2%), while industrial production growth dropped to 5.9% YoY from 6.2% in the previous month (consensus: 6.0%). (see)
- IMF cut world GDP growth forecasts for 2016 and 2017. The IMF foresees a more moderate recovery in the world's GDP growth in the coming years. The organisation now forecasts 3.5% GDP growth in 2015, while it cut 0.2 percentage points from the GDP growth forecasts in both 2016 and 2017 (to 3.4% in 2016 and 3.6% in 2017). The IMF warned that growth will be uneven across countries: "advanced economies will see a modest recovery, while emerging market and developing economies face the new reality of slower growth."
- Positive macroeconomic data in Europe. Eurozone CPI final data confirmed the improvement in December (by 0.2% YoY; BBVAe and consensus: +0.2% YoY, previous: 0.1% YoY). Meanwhile, Germany's CPI remained unchanged from the previous month (at 0.3% YoY; BBVAe and consensus: +0.3%YoY). On another front, the German ZEW survey's current situation in January improved unexpectedly (by 4.7 points to 59.7; consensus: 53.1) and the ZEW survey expectations dropped less than expected (by 5.9 points to 10.2; consensus: 8.0).
- Mild rebound due to positive macroeconomic data and the increasing expectations of further easing in China. The release of the Chinese 4Q GDP figures (in line with expectations) and the better-than-expected macroeconomic data in Europe were the main pillars that supported today's gains on the financial markets. The wording of the Chinese authority, which showed itself to be proactive and willing to adopt new measures if the economy needs, also reinforced the rebound. Consequently, commodity prices reacted positively to this news (Brent: +3.1% copper: +2.3%) and relieved some of the pressure from assets that are highly correlated with the trend in commodity prices, and which in recent weeks had been suffering from the uncertainty concerning global demand. Against this backdrop, the European equity markets opened more than 2% up but these early gains diluted progressively until the indexes ended the day around +1.5%: Euro Stoxx: +1.5%, DAX: +1.4%, IBEX: +1.0%, CAC: +1.9%). Medium-sized banks continued to act as the main drag on markets after Reuters reported that the ECB could "recommend" some European banks how to deal with bad loans. The bank could advise on how to restructure some non-performing loans, increase provisions, change internal practices and even create a 'bad bank'. Both Asian and US indices rose today (S&P 500: +0.7%, Nikkei: +0.5%, Shanghai: +3.2%), primarily thanks to the absence of any negative surprises in China's GDP release. On the bond markets,



there was low volatility in US Treasury yields in all tenors (2Y and 10Y: +2bp), after yesterday's public holiday closure. In the same way, European yields remained almost unchanged, with the exception of Spain (GER 10Y: +2bp, SPA 10Y: -3bp). On FX markets, the USD appreciated slightly against other major currencies (JPY: -0.36%, GBP: -0.54%), while those most linked to oil prices appreciated against the US dollar (AUD: +0.9%, NOK: +1.2%, CAD: +0.31%). EM currencies appreciated slightly (RUB: +1.1%, CLP: +0.6%, MXN: +0.2%, TRY: +0.1%).

Update 17.30 CET 19 January, 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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