

### Market Comment|The downturn in oil prices compromises last week's rebound in risk assets

Global Financial Markets Unit 25 Jan 2016

- US Dallas Fed manufacturing activity index plunged against estimates of an improvement (to -34.6 points from -21.6; consensus: -14.5).
- Disappoining macroeconomic data in Europe. Germany's IFO business climate dropped in January more than expected (by 1.3 points to 107.3; BBVAe: 108.5, consensus: 108.4), mainly due to the decline in IFO expectations (by 2.2 points to 102.4; BBVA: 104.6, consensus: 104.1), while the current assessment sub-index also declined (by 0.3 points to 112.5; BBVAe: 113.0, consensus: 112.6). On another front, Italian retail sales rose in November less than estimated (by 0.3% MoM; BBVAe: 0.6%, consensus: 0.5%), remaining below the 3Q15 average.
- The downturn in oil prices compromises last week's rebound in risk assets. There was a renewed drop in oil prices after last week's sharp rebound. The rebound of oil prices that pushed the risk assets during the second half of last week was partially offset by today's fall (Brent: -4.4%, WTI: -5%). Nonetheless, the price is still above the USD30/bbl threshold (Brent: USD30.78/bbl and WTI: USD30.59/bbl). The worse-than-expected macroeconomic data in both Europe and the US also hampered financial Markets, contributing to a reversal in equity prices, reinforcing the safe-haven sentiment and undermining the most sensitive EM currencies. The market is also awaiting this week's Fed's monetary policy meeting to discover how it will address the most recent events on the financial markets (mostly those related to China and oil prices) in its wording. Against this backdrop, European equity markets dropped across the board (Euro Stoxx: -0.7%, DAX: -0.3%, IBEX:-1.8%, CAC: -0.6%), led by peripheral indices and especially by the banks. The banking sector is currently being hampered by doubts about the regulatory framework. Meanwhile, US equity indices also fell (S&P: -0.7% and Dow: -0.5%). However, Asian markets rose slightly today (Nikkei: 0.9%, Shanghai: 0.75%). On bond markets, US treasury yields decreased slightly (10Y: -3bp) ahead of this week's FOMC meeting. European yields remained almost unchanged (GER 10Y: -1bp, FRA 10Y: -2bp, ITA 10Y: -1bp, SPA 10Y: -2bp). On FX markets, the USD depreciated against other major currencies (EUR: +0.36%, JPY: +0.19%). Conversely, EM currencies depreciated against the US dollar, mainly those which are most correlated with oil prices (RUB:-2.1%, COP: -2.4%, MXN: -0.6%, CLP:-0.7%).

#### **FOMC preview:**

 FOMC Won't Increase Rates Again in January and May Downplay Next Move. The chances of another rate increase announcement at the January FOMC meeting (Wednesday) are slim to none, with the dust still settling from December's liftoff. We are just over a month past the first rate hike so there has been little opportunity to assess the impact in the real economy. Data releases in the coming months will be more telling, though from what we have seen so far, upcoming reports are unlikely to be



overwhelmingly positive. The problem is that the latest FOMC projections from December suggest four rate increases in 2016, meaning we may see one in March if the Fed sticks to this plan. However, our expectations are for only two increases this year, considering the time needed to assess the impact from each rate move as well as the slow and uncertain start to 2016. Market expectations have also declined sharply in the past month. Renewed volatility in global financial markets has the potential to spook FOMC members again (as was the case in September), and we may see some of this come up in meeting discussions. Unfortunately, we won't have revised FOMC projections until March, so it will be important to monitor closely the meeting discussions as well as additional Fedspeak. For now, the FOMC will really need to work on their communication in order to maintain a smooth policy normalization strategy. (see)

Update 17.30 CET 25 January, 2015 Table1

# BBVA Research

[Current level and changes at daily, weekly, monthly and annual frequencies]
Debt markets         (changes in bp)           Constructed         Electronic           US 2-yr<0.56 (2)(1+(2))(1+(3))
Japan 10-yr 0.23 (-1) (1) (-6) (-4)
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(Current level and changes at daily, weekly, monthly and annual frequencies)
Debt markets (changes in bp)           Investigation function           55-2yr 0.86 (0)(1)(-13)(-16)           55-2yr 0.86 (0)(1)(-13)(-16)           55-2yr 0.86 (0)(1)(-13)(-16)           55-2yr 0.86 (0)(1)(-13)(-16)           55-2yr 0.86 (0)(-12)(-12)(-16)           55-2yr 0.86 (0)(-12)(-12)(-12)(-16)           55-2yr 0.86 (0)(-12)(-12)(-16)           55-2yr 0.86 (0)(-12)(-12)(-12)(-16)           55-2yr 0.86 (0)(-12)(-12)(-16)           55-2yr 0.86 (0)(-12)(-12)(-12)(-12)(-12)(-12)(-12)           55-2yr 0.86 (0)(-12)(-12)(-12)(-12)(-12)(-12)(-12)(-12
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Given banks 3.2 (f): 1( $\leq$ 59) ( $\leq$ 36 ( $\leq$ 39) $<$ 440 ( $\leq$ 40) ( $\leq$ 37) ( $=$ 37) (
Trearging Markets Nais equity Indices VSC Laten 6406 (1.32) (0.6) (4.7) (7.5) Boessa (Texa) 3003 (4) (2.1 (-15.0) (-12.3) Model (4445 (2.6) (2.1 (-4.0) (-2.6)
MSC11 ML compete 409 (0,47) (2,3) (4, 1) (4,6) Pointed 173 (6, 1) (3) (4) (7) News (Russey) 173 (7) (5) (5) (5) (2,5) New 130 (Russey) 1735 (6) (4) (4) (4,7) (1,7) New 130 (Russey) 1735 (6) (4) (4) (4,7) (1,7)
MSCI E M Aola 804 (2.33) (0.4) (0.5) (0.5) Shanghai Composite (Chan) 2039 (0.75) (0.6) (-18.7) (-17) Jakuta Composite (Indonesia) 4506 (1.1) (0.5) (-0.4) (-2)
$\label{eq:linear} \begin{array}{l} \mbox{Introduct} & \\ \mbox{Introduct} \mbox{Int} (3,5) (4,7) (4,4) (4,7) \\ \mbox{Albank T, A, S, 7 (0,3) (4,3) (4,1) \\ \mbox{Operative for $A$ (1,6) (4,3) (4,1) \\ \mbox{Introduct} \mbox{Introduct} (3,3) (4,1) \\ \mbox{Introduct} \mbox{Introduct} (3,3) (4,1) \\ \mbox{Introduct} \mbox{Introduct} (3,3) (4,3) \\ \mbox{Introduct} Introd$
Velocity (1 (2) (2) (2) (2) (2) (2) (2) (2) (2) (2)
Currencies (in percentage, positive for dollar depreciation)
$\begin{array}{l} (24) \\ (2$
Emerging Narietts VSDARS (surgestine) 13.01 (47) (42.8) (6.8) (46.8) VSDARL (Brcs) (49.01) (1.4) (47) (43.0) VSDCLP (Chile) 728.68 (4.7) (1.5) (4.9) (4.7)
USDBCH         USDBCH<
USDPLH (Poland) 4.12 (0.2) (-0.7) (-0.7) USDRUB (Russia) 79.72 (-2.1) (-0.5) (-1.34) (-0.9) USDTRV (Turkey) 3.02 (-0.6) (-0.4) (-3.4)
USDCNY (China) 6 58 (0) (0) (4 6) (4 7)
USDCRVY (China) 6.58 (0) (0) (-1.6) (-1.3) USDRR(mode) 67.34 (-3.2) (-2.5) (-2.5) USDRR(mode) 13883 (-4.7) (-0.3) (-1.8) (-6.5) ADXY 165.39 (0) (0.4) (-1.4) (-1.7)
비준단 // Finance 158 (0) (0) - 5 (6) - (1 ) (1) (2) (2) (2) (2) (2) (2) (2) (2) (2) (2
VICOVYCANE (450 (0) 51 46(-1, 1)         10000YCANE (450 (0) 51 46(-1, 1)         10000YCANE (450 (0) 51 51 51 51 51 51 51 51 51 51 51 51 51
CommonDises (Datapose in parcentago) Density 3124 (4/17) (2616) (4/17) WT, 32 (9) (4/17) (2616) Density 3124 (4/17) (4
0000 Y (2004 84 (0) (0) (0) (1) (1) (1) (1) (1) (1) (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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