

Market Comment | Risk assets dragged down by fall in oil prices & weak data in US services

Global Financial Markets Unit
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- **Disappointing macroeconomic data in the US.** US Markit services PMI preliminary data fell in February breaking 50 points benchmark against expectations of a slight increase (to 49.8 from 53.2; consensus: 53.5) reaching its lowest level since 2013. On another front, new home sales dropped in January (by 50K to 494K; consensus: 520K).
- **Federal Reserve's Stanley Fischer seems more comfortable with keeping rates constant.** He remains uncertain over whether persisting global economic woes could slow the U.S. economy down. Although Fisher said that the U.S. labour market has continued to improve (while activity and inflation are starting to pick-up), he added that a "modest overshoot" with respect to the Fed's current estimated level for full employment would help remove any remaining slack in the labour market, quickly raising inflation back to the central bank's two-percent goal.
- **The ECB's Weidmann is against further monetary policy easing** "it would be dangerous to simply ignore" the longer-term risks and side effects of loosening already highly accommodative policy
- **Portuguese parliament approved the Socialist government's 2016 budget.** The budget incorporates recent suggestions by the European Commission that compensate the reversion of public wage cuts and lower taxes for lower earners. The previous proposal of the Government (a deficit of 2.6% of GDP for 2016) has been revised to 2.2%.
- **Risk-off markets mood increased after Saudi Arabia ruled out any cut in oil output.** Oil implied volatility surged again (+6.9%, to 22.42), reflecting the increasing uncertainties about the oil price outlook, dragging both Brent (-0.7%) and WTX (-2.7%). Copper prices also fell sharply on concerns that rising stockpiles in China signal continued weak demand. Inventories in warehouses tracked by the Shanghai Futures Exchange have more than doubled to a record since the end of August. Furthermore, economic data released have failed to give support to risky assets, after the Markit PMI has shown that the US services sector has contracted in February. Equity markets fell sharply across the board, led by the commodity linked sectors (the basic resources and the energy sectors) and the banking sector (S&P: -1.3% Eurostoxx: -2.6% IBEX: -3.2% DAX: -2.9% CAC: -2.2% Nikkei: -0.8%). All equity sectors registered losses, but cyclical ones more particularly. Movements in FX have also reflected both the risk-off mood - with the safe-haven currencies appreciating against the USD in the low growth environment (JPY: +0.75% and CHF: +0.46%)- and the extended falls in commodity prices - with the commodity-linked currencies underperforming (RUB: -0.5% BRL: -0.7% MXN: -0.3% COP: -0.5% AUD: -0.31% NOK: -0.68%)-. Moreover "Brexit" concerns still weighed on the British pound (-0.53%), while the Brazilian real suffered after Moody's downgraded Brazil's sovereign rating to junk bond (Ba2) from investment grade (BBB3). On the other hand, the increase in global risk premiums boosted bond markets, especially safer bonds. US Treasury yields declined across the board (2Y: -2bp 10Y: -4bp) due to the doubts about economic growth, exacerbated by the disappointing macroeconomic data. In the same vein, European

core yields fell, led by UK (GER 10Y: -3bp to 0.15% UK 10Y: -8bp FRA 10Y: -2bp), while peripherals showed a mixed performance (ITA 10Y: 0bp SPA 10Y: -1bp POR 10Y: +6bp), with the Portuguese yield falling after the parliament approved the 2016 budget. Japanese bonds yields today registered their lowest level (at -0.063%) dragged down by the speech of Bank of Japan Governor, who hinted at the probability of more policy easing. Moreover, falling oil prices coupled with the increase in global risk premiums dragged down markets' inflationary expectations, with the 5Y5Y inflation swap reaching a new low in the euro zone (-5.1% to 1.37). In the current environment, gold attracted fresh safe-haven flows.

Update 17.30 CET 24 February, 2015

Table1

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

Index markets (changes in bp)

US
 US Dow 374 (2) (2) (1) (2) (1)
 US S&P 1,962 (16) (27) (46)
 US 10yr 1.96 (4) (4) (2) (2) (2)
 S&P 500 1,956 (11) (1) (28) (28) (28)

Japan
 Nikkei 225 23,451 (1) (1) (1) (1) (1)
 TOPIX 1,500 (1) (1) (1) (1) (1)
 Nikkei 225 23,451 (1) (1) (1) (1) (1)
 TOPIX 1,500 (1) (1) (1) (1) (1)

Europe
 France 10yr 0.65 (1) (1) (1) (1) (1)
 Germany 10yr 0.52 (1) (1) (1) (1) (1)
 Italy 10yr 1.12 (1) (1) (1) (1) (1)
 Spain 10yr 1.12 (1) (1) (1) (1) (1)
 UK 10yr 1.12 (1) (1) (1) (1) (1)
 Euro Stoxx 50 3,400 (1) (1) (1) (1) (1)
 FTSE 100 7,100 (1) (1) (1) (1) (1)

Asia
 India 10yr 8.50 (1) (1) (1) (1) (1)
 Nikkei 225 23,451 (1) (1) (1) (1) (1)
 TOPIX 1,500 (1) (1) (1) (1) (1)

Commodity
 WTI 50.00 (1) (1) (1) (1) (1)
 Brent 45.00 (1) (1) (1) (1) (1)
 Gold 1,200 (1) (1) (1) (1) (1)
 Silver 18.00 (1) (1) (1) (1) (1)
 Copper 3.50 (1) (1) (1) (1) (1)
 Iron Ore 60.00 (1) (1) (1) (1) (1)
 Soybean 12.00 (1) (1) (1) (1) (1)
 Wheat 6.00 (1) (1) (1) (1) (1)
 Corn 4.00 (1) (1) (1) (1) (1)
 Natural Gas 3.00 (1) (1) (1) (1) (1)
 Oil 50.00 (1) (1) (1) (1) (1)

Country risk (changes in bp)

US
 US 10yr 1.96 (4) (4) (2) (2) (2)
 US 5yr 1.40 (4) (4) (2) (2) (2)
 US 3mo 0.50 (4) (4) (2) (2) (2)

Japan
 Japan 10yr 0.52 (1) (1) (1) (1) (1)
 Japan 5yr 0.30 (1) (1) (1) (1) (1)
 Japan 3mo 0.10 (1) (1) (1) (1) (1)

Europe
 France 10yr 0.65 (1) (1) (1) (1) (1)
 Germany 10yr 0.52 (1) (1) (1) (1) (1)
 Italy 10yr 1.12 (1) (1) (1) (1) (1)
 Spain 10yr 1.12 (1) (1) (1) (1) (1)
 UK 10yr 1.12 (1) (1) (1) (1) (1)
 Euro Stoxx 50 3,400 (1) (1) (1) (1) (1)
 FTSE 100 7,100 (1) (1) (1) (1) (1)

Asia
 India 10yr 8.50 (1) (1) (1) (1) (1)
 Nikkei 225 23,451 (1) (1) (1) (1) (1)
 TOPIX 1,500 (1) (1) (1) (1) (1)

Index markets (changes in percentage except for I.A. spreads, bp)

US
 US Dow 0.05 (0.01) (0.01) (0.01) (0.01)
 US S&P 0.81 (0.01) (0.01) (0.01) (0.01)
 US 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 S&P 500 0.05 (0.01) (0.01) (0.01) (0.01)

Japan
 Nikkei 225 0.04 (0.01) (0.01) (0.01) (0.01)
 TOPIX 0.03 (0.01) (0.01) (0.01) (0.01)

Europe
 France 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Germany 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Italy 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 Spain 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 UK 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 Euro Stoxx 50 0.01 (0.01) (0.01) (0.01) (0.01)
 FTSE 100 0.01 (0.01) (0.01) (0.01) (0.01)

Asia
 India 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Nikkei 225 0.04 (0.01) (0.01) (0.01) (0.01)
 TOPIX 0.03 (0.01) (0.01) (0.01) (0.01)

Stock markets (changes in percentage)

US
 US Dow 0.05 (0.01) (0.01) (0.01) (0.01)
 US S&P 0.81 (0.01) (0.01) (0.01) (0.01)
 US 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 S&P 500 0.05 (0.01) (0.01) (0.01) (0.01)

Japan
 Nikkei 225 0.04 (0.01) (0.01) (0.01) (0.01)
 TOPIX 0.03 (0.01) (0.01) (0.01) (0.01)

Europe
 France 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Germany 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Italy 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 Spain 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 UK 10yr 0.02 (0.01) (0.01) (0.01) (0.01)
 Euro Stoxx 50 0.01 (0.01) (0.01) (0.01) (0.01)
 FTSE 100 0.01 (0.01) (0.01) (0.01) (0.01)

Asia
 India 10yr 0.01 (0.01) (0.01) (0.01) (0.01)
 Nikkei 225 0.04 (0.01) (0.01) (0.01) (0.01)
 TOPIX 0.03 (0.01) (0.01) (0.01) (0.01)

Commodity (in percentage, positive for dollar depreciation)

US
 WTI 0.05 (0.01) (0.01) (0.01) (0.01)
 Brent 0.04 (0.01) (0.01) (0.01) (0.01)
 Gold 0.01 (0.01) (0.01) (0.01) (0.01)
 Silver 0.01 (0.01) (0.01) (0.01) (0.01)
 Copper 0.01 (0.01) (0.01) (0.01) (0.01)
 Iron Ore 0.01 (0.01) (0.01) (0.01) (0.01)
 Soybean 0.01 (0.01) (0.01) (0.01) (0.01)
 Wheat 0.01 (0.01) (0.01) (0.01) (0.01)
 Corn 0.01 (0.01) (0.01) (0.01) (0.01)
 Natural Gas 0.01 (0.01) (0.01) (0.01) (0.01)
 Oil 0.05 (0.01) (0.01) (0.01) (0.01)

Commodity (change in percentage)

US
 WTI 0.05 (0.01) (0.01) (0.01) (0.01)
 Brent 0.04 (0.01) (0.01) (0.01) (0.01)
 Gold 0.01 (0.01) (0.01) (0.01) (0.01)
 Silver 0.01 (0.01) (0.01) (0.01) (0.01)
 Copper 0.01 (0.01) (0.01) (0.01) (0.01)
 Iron Ore 0.01 (0.01) (0.01) (0.01) (0.01)
 Soybean 0.01 (0.01) (0.01) (0.01) (0.01)
 Wheat 0.01 (0.01) (0.01) (0.01) (0.01)
 Corn 0.01 (0.01) (0.01) (0.01) (0.01)
 Natural Gas 0.01 (0.01) (0.01) (0.01) (0.01)
 Oil 0.05 (0.01) (0.01) (0.01) (0.01)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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