

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

Global Financial Markets Unit  
24 Feb 2016

- **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



\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

\*\*\*S&P GSCI with one day delay

## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.