

## Market Comment | Rebound in European equity market after yesterday's Wall Street gains

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- Financial markets turmoil increases expectations of G-20 meeting, which will take place in Shanghai on February 26-27. Ahead of the meeting the IMF has published a report in which it warns that the risk of economic recovery being derailed has increased, and it has urged broad-based and internationally coordinated policy response. The IMF recommends keeping accommodative monetary policies and giving fiscal policy more space in DMs. Fiscal buffers and exchange rate flexibility might be used by EMs to smooth the slowdown (see). US and Chinese economic leaders also support an expansion of monetary policy. However, disparate economic realities and a dysfunctional international financial system will limit the scope of commitments that can be achieved in Shanghai (see)
- Positive durable goods orders in the US. Durable goods orders surged in January (by 4.9% MoM; consensus: 2.9%), the improvement also was shown without transportation, increasing by 1.8% MoM (consensus: 0.3%). On the other hand, US jobless claims rose more than expected in the week ended 20 February (by 10K to 272K; consensus: 270K).
- Dovish mood rules in Fed's members' tone. Robert Kaplan, head of the Dallas Federal Reserve, warned about interest rate rises in a context of increasing external risks. He argued that the Fed could maintain the rates on hold for longer. The USD appreciation is also an important source of concern: "We have to be sensitive to the fact that the dollar, all things being equal, is going to tend to be stronger. We are going to have to be sensitive to the impact we have on that." In the same line, St. Louis Fed President James Bullard focused on the lack of inflation, saying "I regard it as unwise to continue a normalization strategy in an environment of declining market-based inflation expectations," and adding that the current 5y inflation break-even level "represents an erosion of central bank credibility with respect to the inflation target," Dennis Lockhart, Atlanta Fed's president, also pointed out that the FOMC will be dependent on data to continue with the process of interest rate normalization, while low energy prices and concerns about China outlook increase the complexity of decision making. He also warned about the health of the banking system in a context of increasing interest rates: "Rising rates will create challenges in managing net interest margins and risks."
- Eurozone CPI final data in January was revised down unexpectedly, increasing by 0.3% YoY (BBVAe and consensus: 0.4%) Household credit stood at 1.9% YoY in January, while non-financial corporate credit increased in January (0.4% YoY, previous 0% YoY). On another front, Spanish GDP 4Q15 final data confirmed growth of 0.8% QoQ.
- Rebound in European equity market after yesterday's Wall Street gains. Despite the new slump in China's equity market (Shanghai: -6.4% Shenzhen: -7.3%), the European equity markets were able to recover a large part of yesterday's slump, underpinned by yesterday's rebound in US market at the end



of the session - led by the rise in oil prices to a level close to US\$35 per barrel for Brent, on the back of EIA weekly data. The positive US new orders figures released today, and the dovish tone of Fed officials also encouraged the rebound in European equity indices (Eurostoxx: +1.9% IBEX: +2.4% DAX: +1.7% CAC: +2.2%). Nonetheless, yesterday's rally in the US equity market has faded today as the sharp fall in the Chinese equity market renewed concerns about the global outlook and financial stability (S&P and DJ: +0.1%). On bond markets, US treasury yields continued decreasing (2Y: -3bp 10Y: -5bp) helped by the dovish tone of some Fed members. Meanwhile, European yields remained almost unchanged across the board with the exception of Portugal (POR 10Y: -14bp), which declined, favoured by yesterday's approval of the 2016 budget. In FX markets, the USD showed a mixed performance against the other major currencies, (EUR: +0.18% GBP: +0.13% JPY: -0.36%). EM currencies appreciated against the US dollar, showing some rebound on Fed members' dovish comments (BRL: +0.5% MXN: +0.2% COP: +0.8% CLP: +0.6%), with the exception of Russian rouble (RUB: -0.5%), which was undermined by oil prices (Brent: -1.6% Wtx: -2.3%).

Update 17.30 CET 25 February, 2015 Table1



## Debt markets (changes in bp) Developed Bitriets 15 2-y 0,72 (3) (5) (12 (33) 15 5-y 1,16 (4) (4) (27) (60) 15 10-y 1,7 (5) (4) (28) (47) OER 2yr -0.54 (-2) (-2) (-8) (-19) OER 5-yr -0.36 (-3) (-4) (-11) (-31) OER 10-yr -0.13 (-2) (-9) (-31) (-50) Belgium 19-yr (1,5 (2) (-9) (51) (-50) Belgium 19-yr (0,51 (-2) (-7) (-55) (-54) France 19-yr (0,51 (-2) (-9) (-94) Grance 10-yr (0,55 (-1) (17) p6) (227) Instand 19-yr (1,65 (-1) (17) p6) (227) Instand 19-yr (1,61 (-3) (-6) (-6) Metherlands 19-yr (1,61 (-6) (-6) (-6) Portugel (10-yr (1,7) (-6) (-6) (-6) Spain 19-yr (1,6 (-2) (-10) (-4) (-17) India 10-yr 7,88 (5) (14) (7) (12) Indonesia 10-yr 8,28 (0) (24) (-20) (-46) Country risk (changes in bp) Country Visis (consequence on popular \*\*Lay recovering a proposal against Germany) Berjam 50 (8) (2) (8) (16) France 37 (1) (1) (2) (18) (38) France 37 (1) (1) (2) (18) (38) 184 (14) (16) (13) (18) (38) 185 (14) (16) (16) (18) Matherizards 16 (6) (2,2) (6) (19) Fortugal 232 (12) (11) (60) (11) Spain 147 (8) (1) (38) (33) Spain 147 (8) (4) (68) (23) Sys coverige spared (Against Germany) Beginn 9 (9) (47) (3) (1) France 17 (1) (6) (4) (4) Beginn 19 (1) (4) (1) Bridge 14 (4) (4) (16) (18) Bridge 14 (4) (4) (16) (16) Bridge 14 (4) (16) (16) Spain 12 (4) (16) (17) Spain 12 (4) (16) (17) 2/y soverings spende (against Germany) Betjum 8 (1) (1) (8) (8) Betjum 8 (1) (1) (8) (8) Iridan 31 (-1) (8) (7) Iridan 31 (-1) (8) (7) (17) Iridan 31 (-1) (8) (7) (17) Iridan 31 (-1) (8) (7) Iridan 31 (-1) (8) (8) Iridan 31 (-1) (8) Iridan 3 Imaging Markets Syst Sovering CDS Syst CDS Result 436 (-13) (27) (-60) (-53) Syst CDS Result 436 (-13) (27) (-60) (-53) Syst CDS Result 436 (-13) (-17) (-10) (-10) Syst CDS CTHs 119 (-1) (-17) (-10) (-10) Syst CDS Mexico 166 (-12) (-16) (-17) (-17) Syst CDS Mexico 166 (-12) (-16) (-17) (-17) Syst CDS Mexico 1700 (-12) (-17) (-17) (-17) Syst CDS Result 30 (-17) (-17) (-17) Syst CDS Result 30 (-17) (-17) (-17) Syst CDS Result 30 (-17) (-17) (-17) 5yr CDS China 135 (-1) (2) (5) (27) 5yr CDS India 175 (2) (5) (1) (27) 5yr CDS Indonesia 237 (1) (4) (-15) (10) Sea school collection (1976) (1976) Shark (48) (Stageges in to) US bearls COS (1980) (1)11(1981)(3) US bearls COS (1980) (1)1(1981)(3) UK bearls COS (1980) (1)1(1981)(3) UK bearls COS (1980) (1)1(1981)(3) Medium Spanish bearls COS (1980) (1)1(1981)(37) Medium Spanish bearls COS (2080) (1971) (1981) Republic bearls COS (1980) (1971) (1981) Republic bearls COS (1980) (1971) (1981) Interbank markets (changes in bp) UEM OIS spread 3m 15 (1) (0) (1) (4) UEM OIS spread 12m 41 (1) (0) (1) (5) UEM TED spread 3m 42 (0) (10.4) (9) (1) US OIS spread 3m 23 (0) (0) (1) (1) US OIS spread 12m 71 (2) (-1) (5) (15) US TED spread 3m 31 (1) (-1) (0) (-14) Spain Ted Spread 3m -1 (1) (-4,2) (-8) (-EONA Index -0,25 (0) (-0,3) (-1) (-12) Euribor 3m -9,2 (0) (-0,6) (-4) (-7) Euribor 12m -9,02 (0) (0) (-4) (-6) Liber 3m 0,63 (0) (2) (1) (2) Liber 12m 1,15 (0) (1) (0) (2) Stock markets (Changes in percents Developed Markets SIDCA (IMBAIN) (COMPANIES OF DECIMAL PROPERTY OF THE COMPANIES OF THE COMP Earlt stocks US banks 73,4 (0,7) (4,1) (4,8) (22) JPM 56,4 (0,4) (2,5) (-1,3) (-15) DBA 12,2 (0,2) (4,7) (4,6) (-26) BBA 12,2 (0,2) (4,7) (4,7) (-26) WS 24,2 (2,2) (1,1) (4,9) (-24) GS 146,7 (0,8) (4,7) (-5) (-19) MS 34.2(2.1(11.449))240 MS 34.2(2.2(11.1449))240 MS 448.3(1.449).440 MS 448.3(1.449).4 BBNA JA (19) (-3.7) (-7) (-19) Medium Spanish banks 64.4 (1) (-2.5) (-11.2) (-22) Cainabank 2.5 (1) (-2.7) (-11.1) (-2.3) Popular 2.1 (0.5) (-3.1) (-12.1) (-3.3) Sabadel 1.4 (0.7) (-2.2) (-6.7) (-14) Bankiner 5.9. 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\*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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