

Market Comment | Expansive measures in China offset worsening inflation data in Europe

Global Financial Markets Unit 29 Feb 2016

- **PBoC cut the reserve requirement ratio for banks.** China's central bank cut the reserve requirement ratio for the fifth time in a year by 50bp to 17%, this decision was taken to extend system liquidity and to encourage an "appropriate growth" in the credit market.
- Negative inflation in February and moderation in core in EZ, worse than expected Eurostat's flash estimate was below our expectations, as the national data anticipated late last week, noting that inflation fell by 0.5pp to -0.2% YoY in January (BBVA Research and consensus: 0% YoY). A greater fall in energy prices and lower unprocessed food prices partly explain the 0.3pp reduction in headline inflation, but the negative surprise came from a greater moderation in services inflation and, in particular, non-energy industrial goods, which explain the remaining 0.2pp of the falling prices and send core inflation to 0.8% YoY from 1% YoY in January (see)
- G20: recognition of global risks yet no coordinated actions. G20 meeting recognized that challenges facing the global economy are increasing: the downward risk to the global economy have increased, fueled by high volatility in financial markets, capital outflows, commodity prices dynamics and geopolitical tension among others factors. Nonetheless, they did not agree on coordinated actions (as advised by the IMF), only saying that they "will continue to explore policy options to support growth and financial stability". With respect to FX policy, a key issue in the policy agenda, the G20 said that: "we will carefully calibrate and clearly communicate our macroeconomic and structural policy actions to reduce policy uncertainty, minimize negative spillovers and promote transparency".
- Expansive measures in China offset worsening inflation data in Europe. China was the main market driver today, although the lack of coordinated action in the G20 did not help markets either today. The PoBC established a depreciated exchange rate against USD (twice within a week), fuelling concerns about a erratic managing of fx policy and rattling equity markets across the board, with the Asian registering sharply falls (Shanghai: -2.9% Nikkei: -1.0%) and dragging European indexes at the beginning of the session. Nonetheless, letter in the morning, the European equity markets rebounded, after the the PoBC announced a new cut in reserve requirement ratio for banks - a new expansive measure that showed the strong commitment of authorities to maintain the pace of growth-. At the end of the session, most European equity markets managed to end the session in positive, despite disappointing price data in Eurozone (Eurostoxx:+0.6% IBEX:+1.3% DAX:-0.2% CAC:+0.9% S&P:+0.5% Dow:0.4%). Low growth environment and negative inflation rates, weighed on markets inflation expectations in the Eurozone (5Y5Y forward inflation swap declined to 1.36% from 1.40% on Friday), while Eurozone yields decreased across the board led by the sharp decline in Portugal (GER 10Y:-4 bp FRA10Y:+2bp ITA 10Y:-5bp SPA 10Y:-4bp POR 10Y:-9bp). Moreover, the 10Y German yield reached its low since spring of 2015 (0.13%), while the 9Y German bond showed a negative yield (-0.014%). FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.6% GBP:+0.38% JPY:0.96%). EM currencies appreciated against the US dollar (RUB +1.5% BRL: 0.5% MXN:+1.1% COP:+0.8% TRY:1.1%) boosted



by the positive trend in oil prices (Brent: 2.6% Wtx: 2.3 %).

Update 17.30 CET 29 February, 2015 Table1



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Fuente: BBVA Research



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|Current level and changes at daily, week | Debt markers (changes in bp)| | Everlaged labories | 18 2 or 8 81 (1) (8) (4) (4) | 18 5 or 12 (8) (1) (46) (42 | 18 16 or 17 (2) (4) (23) (43) | Japan 16 or 06 (1) (6) (25) (39) GER 2-yr -0.57 (-2) (-4) (-12) (-47) GER 5-yr -0.41 (-4) (-7) (-15) (-42) GER 10-yr -0.11 (-4) (-7) (-30) (-43) GE H TUSP GT.1 (4) (-7) (-30) (-43) Bedgium 10-yr 0.59 (-4) (-6) (-26) (-24) France (0-yr 1.52 (2) (-5) (-11) (25) Greece 15-yr 15-22 (-4) (-5) (-5) (-6) (-7) Hart (0-yr 1.5) (-5) (-6) (-7) Hetheriands 10-yr 0.25 (-4) (-6) (-25) (-44) Fortigal 15-yr 2.98 (-6) (-46) (-5) Spain 10-yr 1.53 (-4) (-12) (-6) (-6) Poland 10-yr 2,96 (1) (2) (22) (44) Bussis 5-yr 9,73 (4) (35) (44) (447) Bussis 10-yr 8,81 (3) (27) (47) (349) Turkey 15-yr 16,27 (13) (23) (35) (240) India 10-yr 7,63 (46) (45) (46) (36) Indonesia 10-yr 8,28 (9) (11) (48) (44) Indianesia 1-byr 52/9 () (171,149) 44) Country risk (changes in picture) 1-byr inversity project (changes in p Spain 142 (0) (4) (21) (25) Sys according spreads (against Germany) begins 9 (0) (1) (4) (4) France 17 (0) (1) (1) (1) Gence 1843 (4) (7) (5) (510) Initial 46 (1) (2) (11) (5) Initial 46 (1) (2) (11) (5) Initial 46 (1) (2) (11) (5) Initial 47 (2) (2) (2) Initial 47 (2) (2) (2) Spain 96 (4) (2) (1) (3) Spain 96 (4) (2) (1) (3) 5-yr CDS Poland93 (-2) (-2) (4) (23) 5-yr CDS Russia 325 (-10) (-11) (2) (-151) 5-yr CDS Tutkey 381 (1) (0) (31) (119) S-yr CDS China 133 (-1) (-4) (6) (47) S-yr CDS India 172 (-2) (2) (6) (1) S-yr CDS Indonesia 233 (-1) (-6) (-5) (77) um sema CUS 130 (-2) (9) (44) (02) Large Spanish banks CDS 164 (-7) (-9) (14) (87) Medium Spanish banks CDS 226 (-7) (-9) (02) (112) Greek banks CDS 1650 (-12) (165) (655) Russian banks CDS 415 (-9) (-19) (-9) (-172) Corporate risk (changes in bps) US Nes-fearcial CDS 865 (-14) (-12) (165) (506) ENU Non-fearcial CDS 327 (72) (122) (140) (220) UK Nes-fearcial CDS 206 (-6) (-6) (-9) (93) Table 10 (2017) Indices S89599 1957 4 (0.5) (6.6) (3.4) (5) 089599 1957 4 (0.5) (6.6) (3.4) (5) 084491 19528 4 (0.1 (0.5) (6.5) (9.5) MAKET 19528 5 (0.5) (9.7) (1.6) (9.5) PESE 100 695 (9.7) (1.6) (9.7) (1.6) (9.7) EES 2044 4 (0.7) (9.7) (1.6) (9.7) (1.6) (9.7) MAKET 19528 4 (0.7) (1.7) (1.7) (2.7) MS 19528 4 (0.7) (1.7) (1.7) (2.7) MS 19528 4 (0.7) (1.7) (1.7) (2.7) MS 19528 4 (0.7) (1.7) (2.7) MS 19528 4 (0.7) (3.7) (2.7) MS 19528 4 (0.7) (3.7) (2.7) MS 2054905 5 (1.7) (3.7) (3.7) MS 2054905 5 (1.7) (3.7) (3.7) Bonk stocks US backs 157 (0.1) (6.5) (2.4) (24) pM 57.4 (4.2) (-2) (0.2) (-3) CB 38.7 (6.4) (6.4) (-1.6) (-27) BoA 12.8 ((8.9) (2.2) (-5.3) (-38) 85 25.1 (-0.4) (2.1) (-5.5) (-55) GS 149.9 (-4.2) (-6.7) (-4.6) (-23) 05 (45 \(\phi \) Large Spanish banks 64.1 (1.6) (1.9) (0.5) (36) Santasder 3.6 (1.8) (2.2) (2.2) (46) BBVA 5.9 (1.5) (1.7) (2.5) (25) Import Makest Man Quity Indices MSCI Later SS71 (4.2) 0.2 (5.7) (+12) Messel (4541 (4.2) 0.2 (5.7) (+12) Messel (4541 (6.4) (5.2) (4.6) (1.12) (+4.1) Messel (4541 (6.4) (5.2) (4.6) (1.6) (5.6) MSCIE M Exope 454 (6.4) (1.6) (5.6) (6.2) Point (4541 (4.1) (4.1) (5.6) (5.2) Micox (Muses) 196 (1.2) ((1.5) (5.12) Micox (Muses) 196 (1.2) ((1.5) (5.12) Micox (Muses) 196 (1.2) ((1.5) (5.12) MSCI EM Asia 619 (1.01) (-0.3) (2.2) (-13.9) Shanghai Composite (China) 2655 (-2.85) (-6.2) (1.2) (-16.9) Jakarta Composite (Indonesia) 4771 (0.5) (1.3) (3.7) (-9) Early Models Turkish banks 77 (8.2) (4.2) (2) (23.2) Abbank T.A.5.7 (4.3) (3.3) (5.9) (44.7) Gamel T (6.3) (4.8) (9.1) (5.1) Turkiya is Banksis (1.6) (6) (9.1) Russian banks 15.4 (6) (9.1) (4.2) (32.9) Russian banks 152 (1.2) (2.4) (7.6) (52.2) Shartask 167 (6.7) (3.7) (6.7) (94.6) VTB Sank 0.1 (9.7) (3.7) (6.9) VIB Sea O. 12 (6 1) (2.5) (ed.) Currencies (in percentage, positive for dollar depreciation) Bittercoped blanks EURISS 1487 (48) (1.47) (47) (47) (48.2) GRISS 1.487 (48) (1.47) (47) (47.2) GRISS 1.28 (1.48) DOV 98.23 (2.2)(-1,0-2,7)(-8)) LEGICAL PROPERTY OF THE PROPER USDCNY (China) 6.55 (4.2) (4.5) (4.4) (4.5) USDNY (china) 6.42 (4.3) (3.3) (4.3) (4.5) (4.5) USDNR (nda) 60.42 (4.3) (5.3) (4.5) (5.5) (3.6) (4.5) USDNR (ndonesia) 12375 (0.1) (6.5) (3.6) (4.6) ADXY 195.4 (6.1) (4.3) (6) (6.5) ADDV 154.4 (1) (4) (3) (6.6) Commodified (Indexper preparatings) Bert 256.7 (3) (5 (5.5) (1) (2.7) Bert 256.7 (3) (3 (5.5) (1) (3.7) Bert 256.7 (3) (3 (5.5) (1) (3.7) Bert 256.7 (3 (5.5) (1) (3.7) Bert 256.



Fuente: BBVA Research

*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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