Market Comment | Oil prices and supportive central banks help risk assets

Global Financial Markets Unit 01 Mar 2016

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- In the US, the ISM manufacturing increased in February. ISM manufacturing index rose in February more than expected (by 1.3 points to 49.5; consensus: 48.5) although it continues below the 50 points benchmark. Price component was one of the best performers (+5.0 points) but it still stands at a very low level of 38.5 points.
- In the EZ, manufacturing PMI declined in February. Final manufacturing PMI data for the EZ was revised slightly upwards (by 0.2 points to 51.2) although relative to the previous month manufacturing activity declined (previous: 52.3). By country, in Germany dropped (by 1.6 points to 50.5) while in France PMI increased (to 50.2 from 50.0). Meanwhile, Spanish and Italian manufacturing PMI declined in February more than expected (to 54.1 from 55.4 and to 52.2 from 53.2 respectively).
- Also in China the slowdown of manufacturing is ongoing. China's manufacturing PMI dropped again in February against expectations of its remaining unchanged (by 0.4 points to 49.0) continuing the contraction in activity. Thus, PMI reached its lowest level since February 2009, although the data were dragged by the seasonal effects of the Lunar year holiday. (see)
- William Dudley of the Federal Reserve of NY expressed concerns about US growth and inflation expectations. The markets turnoil and concerns about emerging economies have increased the risks in US growth and inflation expectations. "At this moment, I judge that the balance of risks to my growth and inflation outlooks may be starting to tilt slightly to the downside," Mr Dudley said. About inflation, he considers that the low energy prices and the high dollar could put back the Fed's 2 percent target. Moreover, "past experience shows that it is difficult to push inflation back up to the central bank's objective if inflation expectations fall meaningfully below that objective" he added.
- Equity markets extended rebound, despite the worse-than-expected manufacturing data in China, as yesterday's monetary easing announced by the Chinese central bank suggests that the authorities have beefed up their efforts to spur growth. Stable oil prices also helped the recovery in equity prices. In addition, the lack of negative surprises from the US and the increasingly cautious tone of monetary policy officials regarding the effects of the EM slowdown in US economy, also gives some support to equity indices. Against this background, risk assets were in a positive mood, with equity and EM assets improving, while safe-haven assets declined. European equity markets continued rising today led by the DAX, which yesterday was the only one that closed down (Eurostoxx: +1.7% IBEX: +1.7% DAX: +2.3% CAC: +1.2% and FTSE +0.8% dragged down by Barclays sharp declines 8.15%). In the same vein, both US and Asian indices increased (S&P: +1.5% Dow:+1.4% Nikkei: +0.4% Shanghai: +1.68%). On bond markets, safe-haven yields rose (US 10Y: +8bps GER 10Y: +4bps), while European peripheral yields showed a mixed performance (ITA 10Y: -4bps SPA 10Y: -4bps POR 10Y: +3bps). On FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.25% GBP: +0.11% JPY: -1.05%). EM currencies appreciated against the US dollar (RUB: +2.2% BRL: +1.6% CLP: +0.5% COP:



+1.0% MXN: +1.4% TRY: +0.9%), mainly those most linked to oil prices, which increased today (Brent: +2.5% Wtx: +1.7%).

Update 17.30 CET 01 March, 2015 Table1

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[Current level and changes at daily, weekly, monthly and annual frequencies] Debt markets (changes in bp) Evolution To a D12 (changes) Include
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India 10-yr 7,61 (42) (-18) (-18) Indonesia 10-yr 8,27 (1) (9) (1) (-48)
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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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