

# Market Comment | Equity rally halts ahead of February's Payrolls

Global Financial Markets Unit  
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- **China's PMI dropped in February.** China PMI composite declined in February, breaching the 50 point barrier (to 49.4 from 50.1) dragged down by the decrease in the services PMI (by 1.2 points to 51.2).
- **Mixed data in the US.** The ISM non-manufacturing composite inched down less than expected in February (by 0.1 points to 53.4; consensus: 53.1), performance across subcomponents of the index was quite mixed, with business activity increasing while new orders decreased. Furthermore, according to PMI, services activity continued to contract in February, unexpectedly (by 0.1 points to 49.7; consensus: 50.0). In addition, factory orders rose in January by less than estimated (by 1.6% MoM; consensus: 2.1%). Turning to the labour market, US jobless claims rose in the week ended 20 February against estimates of no change (by 6K to 278K; consensus: 207K), while productivity declined by less than previously reported in 4Q15 due to increases in output.
- **Composite PMI deteriorated in February in Europe.** February final composite and services PMI data for the EZ were revised slightly upwards (by 0.6 points to 53.0 and by 0.3 to 53.3 respectively) although they still declined relative to the previous month (previous: both 53.6). By country, in Germany composite dropped (by 0.4 points to 54.1) while services increased (to 55.3 from 55.0). Meanwhile in France both PMI decreased breaking the 50 point threshold. In addition, Italian and Spanish composite PMI declined in February.
- **Fed's Kaplan: Fed has to be patient with interest rate tightening process.** Dallas Fed president suggested that the Fed has to be patient before continuing with the tightening process. "While I believe that excessive accommodation carries a cost in terms of distortions and imbalances in hiring, asset allocation and investment decisions, I also believe that, at this juncture, the Fed needs to show patience in decisions to remove accommodation." He also remarked on the need to carry out "analyses of cyclical as well as secular trends," before the next rate-hike.
- **Brazil's recession continued in 4Q15.** GDP in 4Q15 dropped by more than our expectations and more than the market consensus (by -1.4%QoQ; BBVAe: -1.1%, consensus: -1.6%). The contraction was due to the fall in investment and private consumption. Public consumption also contracted in 4Q1. However, external demand contributed positively, with imports plunging while exports dropped slightly. We expect the recession to continue in the first quarters of 2016 and GDP to fall by 3.0% this year. ([see](#))
- **Turkey's Inflation retreats on non-core items.** Monthly consumer price inflation remained nearly stable (-0.02%) in February in contrast to the market consensus of an increase by 0.3%. Annual headline inflation fell to 8.78% in February from 9.58% in January thanks to surprisingly negative food inflation (the lowest February reading since the start of the series since 1994) and favourable base effect on energy inflation

- **Consolidation in financial markets after a strong rally.** This week's rally, favoured by the improved outlook for the US economy, the rise in oil prices and the continuing accommodative stance adopted by the major central banks came to a halt today, as volatile oil prices and macroeconomic figures released did not provide market support. With major equity indices still retaining wide gains since their lowest level of 2016, investors seem to be waiting ahead of tomorrow's US payroll figures. The gradual fall in the main financial asset classes also caused a moderate increase in demand for safe-haven assets such as gold, although industry prices for commodities such as copper, highly related with the global economic cycle, also continued their upward trend (x%) helped by the depreciation of the US dollar. Equity markets dropped slightly in Europe and in the US (S&P: -0.4% Eurostoxx: -0.5% IBEX: -0.1% DAX: -0.4% CAC: -0.4%) waiting for tomorrow's payroll data release in the US. However, Asian markets continued to rise today (Nikkei: +1.3% Shanghai: +0.35%) despite the negative PMI data in China. On bond markets, US treasury yields remained almost unchanged after the last few days' increases. Meanwhile, European yields dropped slightly across the board led by Portugal (GER 10Y: -4 bps FRA 10Y: -3 bps ITA 10Y: -4 bps SPA 10Y: -4 bps POR 10Y: -5 bps). On FX markets the USD depreciated against all major currencies with the exception of the Japanese yen, which remained almost unchanged (EUR: +0.81% GBP: +0.65%). EM currencies appreciated against the USD dollar (BRL: +1.9% COP: +0.4% TRY: +0.4% IDR: +0.5%), except for the Russian rouble and the Mexican peso (both by -0.4%), which were dragged down by the high volatility in oil prices (Brent: +0.4% WTx: +0.8%).

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Table1



\*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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