Market Comment | Brussels attack sparks risk aversion but it faded at the end of the day

Global Financial Markets Unit 22 Mar 2016

BBVA Research

- **Mixed data in the US.** The Richmond Fed manufacturing index rose in March, beating expectations (to 22 points from -4; consensus: 0). Meanwhile, manufacturing PMI preliminary data increased by less than expected in March (by 0.1 points to 51.4; consensus: 51.9).
- Fed's Lockhart and Williams think that FOMC could raise interest rates in April. Federal Reserve Bank of Atlanta President Dennis Lockhart considers that there are some reasons for tightening monetary policy in April - improvement in the labour market, low oil prices and stabilisation of the housing market. "In my opinion, there is sufficient momentum evidenced by the economic data to justify a further step at one of the coming meetings, possibly as early as the meeting scheduled for the end of April," he said last night. In the same line, John Williams, San Francisco Fed president, also said that macroeconomic improvement could trigger a rate hike soon.
- Both Services and Manufacturing PMIs improve in the EZ in March. Euro zone composite PMI preliminary rose in March against estimates of its remaining unchanged (by 0.7 points to 53.7) due to the unexpected improvement in services (to 54.0 from 53.3; consensus: 53.3) and the increase in manufacturing PMI in line with estimates (by 0.2 to 51.4). By country, German composite PMI remained unchanged at 54.1 and above market expectations (it rose in services PMI and declined in manufacturing, reaching a 16-month low). Meanwhile, French composite PMI increased and surpassed the 50 points threshold (to 51.1 from 49.3; consensus: 49.7) helped by the increase in services. On another front, German IFO business climate rose above estimates in March (by 1.0 points to 106.7; consensus: 106.0). Meanwhile, ZEW showed a mixed performance: ZEW expectations rose less than forecast in March (by 3.3 to 4.3; consensus: 5.4), while ZEW current situation dropped against estimate of increase (by 1.6 points to 50.7; consensus: 53.0).
- Brussels attack sparks risk aversion in financial markets, although it smothered at the end of the session. Brussels airport and metro stations were rocked by almost simultaneous explosions early this morning and they formed the backdrop for remaining events today. The publication of better-than-expected macroeconomics data helped to relieve the global increase in risk aversion in financial markets caused by the renewed terrorist threat. Initially, markets reacted as usual to these kinds of events: demand for safe-haven assets increased automatically after the attacks, while the more risky assets such as equity indices dropped, driven by sensitive sectors (the airlines and entertainment sectors were the most punished). Nonetheless the first sharp reaction faded as the session went by. In this context, European indices were able to recover a sizeable part of this morning's drop at the end of the day and some indices even closed in positive territory (Eurostoxx: -0% IBEX: -0.5% DAX: +0.3% CAC:-1%). US equities remained stable today, while Asian markets showed a mixed performance (Nikkei: +1.9% Shanghai: -0.6%). On bond markets, yields remained almost unchanged despite the sharp reaction of safe-haven bonds this morning (US 10Y: -2 bps GER 10Y: -2bps SPA 10Y :-1 bps POR 10Y: -1 bps). On FX markets, the USD appreciated against major currencies, especially against GBP. Markets are



factoring in an increased likelihood of the UK's voting to leave the EU following the Brussels terror attacks (EUR:-0.3 % GBP:-1.11 %). EM currencies appreciated against the US dollar (RUB:+0.5% BRL:+1% COP:+0.8 % CLP+0.5% MXN:+0.4%) underpinned by the ongoing positive trend in oil prices (Brent:+0.2% Wtx:+3.6%) while waiting for API weekly data.

Update 17.30 CET 22 March, 2015 Table1



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Fuente: BBVA Research



[Current level and changes at daily, weekly, monthly and annual frequencies] Debt markets (changes in bp)
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vouvur maxmmen 13184 (42) (42) (42) (44) (40) 400° 19732 (0.1) (1.1) (2.3) (4.3) Commodilies (change in percentage) Percent 416 (40) 75 (42) (1.2) (4)
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54P 05CL Mediat Spot 280: 552 (0) (1.9) (4.3) (+15.4) 53P 05CL Agricultural Spot 280: 552 (0) (0.7) (4.2) (+10.5) Source Riconteg, Closement and Hove



Fuente: BBVA Research



(Current level and changes at daily, weekly, monthly and annual frequencies)
Debt markets (changes in bp)
(13 2ar 1987)(2) (11) (11) (16) (15 5 yr (13) (1) (13) (14) (23) (15 19yr (14) (21) (14) (23) (16 19yr (14) (24) (16) (23)
2000 129/4 − 10 (12) (5) (-14) (6R 24) − 4.60 (13) (5) (-30) (6R 16) − 4.3 (-1) (6) (0) (-23) (6R 16) − 24.2 (-110) (-33)
0ER 10yr 821 (2) (11) (1) (33) Belgium 10yr 88 (2) (11) (8/(2)) Fance 10yr 11 (20/(2) (11) (16/(2))
Regime Virg (1, 12, 13, 12) Other Virg (1, 22)
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Nathaninski 9 (-) (-) (-27) (3) (-6) Portugal 271 (1) (43) (-20) (80) Span 122 (1) (2) (-20) (15)
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Syr CDS Greece 1001 (-76) (-67) (-154) (-256) Syr CDS Related 40 (0) (-6(-2)) (-15) Syr CDS Relat 42 (0) (0) (-15) (-15)
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Credit (16) Strategy (16) V H (12) Strategy (16)
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Stock markets (Changes in percentage) Developed Markets Main equity indices
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$ \begin{array}{l} \mbox{constraints basis } T_{2}(2,4) < (2,1)(7,1)/240 \\ \mbox{constraint} 2(4,4) < (2,1)(2,1)/240 \\ \mbox{from} 2(4,2) < (2,1)/240 \\ \mbox{from} 2(4,2) < (2,1)/240 \\ \mbox{from} 1(7,2)/240 \\ \mbox{from} 1(7,2)/240$
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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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