## Market Comment |Fed's dovishness weighs on the US dollar and yields

Global Financial Markets Unit 01 Apr 2016

BBVA Research

- Better-than-expected non-farm payrolls in the US. US non-farm payrolls increased above estimates in March (by 215K; consensus: 205K; previous: 245K). However, manufacturing payrolls dropped unexpectedly (by -29K; consensus: 2K). As a result, the unemployment rate increased slightly (to 5.0%; consensus: 4.9%) although wages rose in March (by 2.3% YoY) after the last fall. On another front, ISM manufacturing rose in March by more than expected, moving above the 50-point threshold (by 2.3 points to 51.8; consensus: 51.0). In addition, University of Michigan sentiment improved above estimates (by 1.0 points to 91.0; consensus; 90.5).
- March PMI outturns see green shoots of economic recovery. China's NBS PMI increased significantly in March, up from 49 to 50.2, surpassing the watershed level for the first time since July 2015; while Caixin Manufacturing PMI surged to 49.7. Manufacturing activities have shown significant signs of recovery due to the pick-up of domestic and external demand and the authorities' stepped-up efforts of monetary easing and fiscal expansion. (see)
- Euro zone manufacturing PMI improves in March. Euro zone manufacturing PMI final data were revised upwards, increasing in March (to 51.6 points from 51.2; consensus: 51.4). By country, Germany also saw revised improvement this month (by 0.2 points to 50.7; consensus: 50.4), while French PMI remained unchanged in contraction as expected (at 49.6 points). Meanwhile, in Spain it dropped by more than expected in March (by 0.7 points to 53.4; consensus: 54.0) and Italian PMI rose above estimates (to 53.5 from 52.2; consensus: 52.5).
- Fed's dovishness weighs on the US dollar and yields. Fed Chair comments and the US economic data release coupled with commodity prices were the main market drivers this week. Regarding the first, Yellen's dovish speech contributed to offsetting the recent hawkish comments from some Fed officials. She reinforced the Fed's cautious mood, despite the potential impact of global developments on the US economy, which she said "will most likely be limited". She remarked that "the return to 2 percent inflation could take longer than expected and might require a more accommodative stance of monetary policy than would otherwise be appropriate". In conclusion - in Yellen's words - "The future path of the federal funds rate is necessarily uncertain because economic activity and inflation will likely evolve in unexpected ways". However, the better-than-expected US labour data, released today, helped to cushion the sharp depreciation of the US dollar and the decrease in expectations of rate-hike caused by Yellen's dovish tone. That said, US treasury yields declined in all tenors (2Y: -10 bps 10Y: -12 bps) and implied probabilities of a rate hike in June fell from 40% to 20%. In the same vein and pulled down by the US curve, European yields inched down led by some peripherals (GER 10Y: -4 bps FRA 10Y: -7 bps ITA 10Y: -9 bps SPA 10Y: -9 bps POR 10Y: -5 bps), narrowing their risk-premiums (SPA: -5 bps ITA: -5 bps). The USD depreciated against other major currencies, mainly the euro (EUR: +1.62% GBP: +0.3% JPY: +0.7%), with the EUR hovering around 1.14 USD, although part of this depreciation was offset today after better-than-expected payrolls. Even the EM currencies appreciated against the USD (BRL: +1.8% CLP:



+1.3% COP: +0.9% MXN: +0.4%). The other main driver was the high volatility in oil prices. This volatility spread across the risky assets more correlated with commodity prices such as some emerging currencies and cyclical sectors in equity markets. Oil prices remained hovering around 40 USD pb during the week until today, when Saudi Arabia's official made its participation in the agreement to freeze oil production conditional on Iran's participation. Consequently, Iran remains as the main hurdle to reaching an agreement in next month's meeting. Against this backdrop, commodity prices plunged, especially oil prices, (Brent: -4.5% Wtx: -6.6% Copper: -2.6%). European equity markets fell (Eurostoxx: -2.0%, S&P500 IBEX: -2.8%) dragged down mainly by the energy and financial sectors. Meanwhile, US indices stayed almost unchanged despite Yellen's dovish tone. Asian markets showed a mixed performance, with the Chinese index rising slightly on better-than-expected PMI data and a new intervention of PBoC appreciating the currency against the USD, while Japanese equities plunged, hampered by the worst business sentiment data since 2013 (Shanghai: +1.0% Nikkei: -4.9%).

Update 17.30 CET 01 April, 2016 Table 1

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Fuente: BBVA Research



(Current level and changes at daily, weekly, monthly and annual frequencies)	
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USDCHY (Chao) 6.44 (-3.4) (3.6) (1.1) (-4.4) USDNR (hady 66 (25 (0) (64) (-5) (-4.6) USDNR (hadves) (27 (5) (5) (4) (-1(-5.3) AGXY (18) 24 (-5.2) (-5) (-2.3) (-4.5)	
CommonReg (Analysis preventing) (Mark 2414) (Analysis (Analysis) Mark 2414) (Analysis) Mark 2414) (Analysis) (Mark 2414) (Analysis) (Mark 2414) (Analysis) (Mark 2414) (Analysis) (Mark 2414) (Analysis) (Mark 2414) (Analysis) (Mark 2414) (Mark 2414) (Mark 2414) (	
Democrymense. 423 (0) (b. 7) (28. 1) (46. 1) 5847 GSC1 (50 commodyl rokus 233 414 (0) (-1.4) (5.8) (-22.8) 5847 GSC1 Neur Spot. 545.234 (0) (-1.7) (8.2) (-20.7) 5847 GSC1 Neuri Spot. 545.234 (0) (-1.7) (8.2) (-20.7)	
ad BP GSCI Approximation Spart 28:229(6)(12)(14)(122)) Second Boonley, Calestana and He we	



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[Current level and changes at daily, weekly, monthly and annual frequencies) Debt markets (changes in bp) Developed Markets
10
Japan 19-yr 4-06 (3) (1) (3) (-3) (-39) 0E R Syr - 4-8 (8) (0) (7) (-38) 0E R Syr - 4.35 (-1) (-3) (5) (-36) 0E R Syr - 14 (-2) (-4) (-5) (-40)
GER 10yr 0.14 (2) (4) (7) (40) Belgium Tolyr 0.5 (1) (4) (30) (33) France Tolyr 1.2 (2) (42) (1) (39)
Beginn Hay 65 (11) (4) (10) (23)           Taske Hay 17 (22) (22) (11) (20)           Taske Hay 17 (22) (22) (11) (20)           Test Hay 17 (22) (22) (11) (20)           Test Hay 17 (22) (22) (11) (20)           Test Hay 17 (22) (22) (12) (12) (12)           Test Hay 17 (22) (22) (12) (12) (12)           Test Hay 17 (22) (22) (12) (12) (12)           Test Hay 17 (12) (12) (12) (12) (12)           Test Hay 17 (12) (12) (12) (12) (12) (12) (12) (12)
Transmitting (Jack Hart) Darke (Say + 4.0 Sc) (Sa) (-1) (-1(2) (-173)) Darke (Say + 4.0 Sc) (Sa) (-1) (-1(4)) Darketo (Say + 4.0 Sc) (-1(4)) (-1(4)) (-1(4)) Medico (Say - 5.87 (-1) (-1(4)) (-1(4)) (-1(4))) Medico (Say - 5.87 (-1) (-1(4)) (-1(4))) Medico (Say - 5.87 (-1(4))
Madoo 1947 (5.87 (2)) (41) (43) (13) Peru 1947 (5.87 (2)) (41) (44) (150) Peru 1947 (5.87 (2)) (41) (44) (150)
Poland 10yr 2,82 (3) (-7) (-8) (30) Russia 5yr (18) (3) (-10) (28) (-801) Russia 10yr (90 (4) (3) (28) (-822) Tarkey 10yr (3 74 (2) (-28) (-40) (-187)
india 1947 7.47 (0) (-4) (-42) Indonesia 1947 7.8 (-2) (-16) (-56) (-23) Country risk (changes in bp)
Developed Minish 1997 movember (general de leganistat Germany) Belgiano 30 (19) (40) (41) (77) Transa 33 (41) (3(3) (4)
Interpact Based         Interpact Based           Interpact Based
Syntaword(s)         Syntaword(s)
Hand 3 (0)(-2)(-2)(-2) Hay Co (0)(-2)(-4)(-3)(-4) Harburanda - (-0)(-0.7)(-2)(-10) Portugal 214 (-2)(-4)(-2)(-1) (-2)(-2)(-2)(-2)(-2)(-2)(-2)(-2)(-2)(-2)
An exercise sector and a foguinal Germany) Delayare 3 (0) (-1) (-2) (0) Transe 5 (-1) (-14) (-6) (-2)
2γ morning metal ( pipele (miss)) Trans 17 ( pi(γ)) Trans 17 ( pi(
S-y soverega CDS S-y CDS Bigland 47 (-1) (2) (-4) (-2) S-y CDS Fance 33 (1) (-3) (-14) S-y CDS Fance 33 (1) (-3) (-14)
regn succe serverble 10007 (12) (-b) (-6220) (-1944) 5-yr CDS treakend. 60 (3) (1) (4) (40) 5-yr CDS Nethersdands 25 (0) (20) (-1) (-4) 5-yr CDS Nethersdands 25 (0) (20) (-1) (40)
Section 2013         Section 2013           Section 2014         Section 2014
Syr CDS Venezania 5866 (58) (-42) (-289) (1522) Syr CDS Poland06 (-1) (-2) (-5) (-16) Syr CDS Flamins 70 (-5) (-16) (-50) (-160) Syr CDS Tunkey .251 (-2) (-12) (-28) (60)
Syr CDS Turkey 231 (2)(-13)(-33)(-33) Syr CDS Exhan 122 (1)(-7)(-14)(-23) Syr CDS Indone 1107 (-1)(-3)(-2)(-2) Syr CDS Indone 140 (1)(-30)(-23)(-23)
Credit milk
Earth (tele (changes (n Ap) 15 basis CDS 15 (1) (-(4), (2)) 19 U anisha (CD : 101 (1) (4), (4) (5)(2) 19 K basis CDS : 129 (-1) (-2) (-3) (50)
Large Spanish banka CDS 128 (1) (3) (-25) (50) Medium Spanish banka CDS 201 (12) (7) (-11) (55)
Greek banks CDS 1670 (-17) (30) (-16) (786) Russian banks CDS 352 (-11) (2) (-13) (-155) Concomite Talsk (charges in dost
Corporatio risk (charges /r bps) US Non-Amanaid CDS 535 (6) (3) (376) EN Non-Amanaid CDS 537 (1) (2) (44) (116) UK Non-Amanaid CDS 191 (2) (2) (-7) (78)
Interbank markets (changes in bp) Etti 03 sysred 3n 10 (3)(4)(4)(5) Etti 03 sysred 3n 30(1)(3)(-2) Etti TED sysred 3n 34 (3)(2,5)(-4)(10)
UE M TED spread 3n 34 (d) (2.5) (-4) (10) US OB spread 3n 24 (d) (1) (1) (10) US OB spread 3n 71 (-5) (1) (2) (07) US TED spread 3n 44 (-5) (5) (d) (10)
Spain Ted Spread 3m -1 (0) (3.4) (-10) (-8)
EOMA Index: 43.6 (t) (4.6) (4.7) (4.6) Eurote 3m. 42.6 (t) (4.3) (4.14.22) Eurote 32m. 40 (t) (t) (2.13) Liter 5m. 63.6 (t) (t) (1.67)
Lear (bit) (b)((-1)(37) Lear (bit) (-2)(2)(2)(56) Stock markets (Changes in percentage)
State state
FTBE 100 6115.2 (-1) (0.1) (-0.5) (-7) EuroBinnov 50 2027.8 (-2.6) (-2) (-2.1) (-7) BERGET 47 (-2.6) (-2.6) (-7) DAX 5924.5 (-2.4) (-1.3) (-0.5) (-1)
CAURZPE 5 (-2.5) (-1.2) (-3.4) (0) MB 17759.6 (-2) (-2.2) (-2.5) (-7) AGE Attence 9 (-1.2) (2.3) (8.4) (-31)
Bank stycku           Stanks TP(4/2) (+2) (+2) (+2) (+2) (+2) (+2) (+2) (+
804 53 4 (47) (-1 新後1) (25) MS 247-(-12) (-4 新(45) (-3) OS 155.6 (-4 新) (-7) (-8) (-28) 
UK banks 68:1(4.5)(-15)(-7:1)(-31) HBC 425(-51)(-2(-4.5)(-30) BBC 516(-4.7)(-2)(-31)(-4.5) BBC 516(-4.7)(-2)(-31)(-4.5) BBC 516(-51)(-2)(-31)(-4.5) BBC 51(-51)(-51)(-4.5) BBC 51(-51)(-4.5)(-4.
Serger Sci. (SSF) (SER) (STR) (STF) (SF) ENU Banks 82.7 (L17) (G.5) (G.1) (L17) BNP 43.7 (L13) 07 (G.3) (L1) (SF) decision 8 (L15) (L11) (G.7) (L13)
$ \begin{array}{l} \mbox{trial} & 8.2 > 14.7 (-3.6) (-4.8) (-5.7) \\ \mbox{trial} & 5.2 > 14.7 (-3.6) (-4.8) (-5.7) \\ \mbox{trial} & 5.2 > 14.7 \\ tr$
Large Spanish batka (53.5 (2.1) (4.8) (7.1) (37) Santandar 3.8 (2.1) (4.6) (6.3) (46) SIVA 5.7 (2.2) (4.9) (7.8) (27)
$\label{eq:second} \begin{split} & \text{Hom}(a) = 174 + 6.71 + 6.14 + 6.(24) \\ & \text{Constants} = 2.8 + 6.03 + 7.14 + 6.04 + 6.04 \\ & \text{Product} = 2.8 + 6.04 + 6.04 + 6.04 \\ & \text{Product} = 1.8 + 6.04 + 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 + 6.04 \\ & \text{Bound in the } 6.04 \\$
Open Levin         3.4 (2) (4.1) (15) (27)           Priva & Bavicy 2.2 (24) (15) (25) (25)         1.0 (25) (25) (25) (25) (25) (25) (25) (25)
Non equity indices NSCI clame 69533 (-1.47) (0.7) (8.4) (-1.3) Mexesa (Biss2) 4714 (6.27) (0.7) (-0.6) Mexed 45519 (-0.6) (-6.1) (2.2) (5.7)
Marca Control (1/4) (1/4) (1/4) Prind 1070 (1/4) (1/1) (2/1) Prind 1070 (1/4) (1/4) (2/1) (2/1) Micros (Quanta) 1044 (1/4) (1/4) (2/1) Micros (Quanta) 1044 (1/4) (1/4) (1/6) (2/1) Micros (Quanta) 1044 (1/4) (1/4) (1/6) (1/4)
Micas (Jolana) (144 (-14)(146)(21)) Mica (Campania (155 (-13)(1(1))(14)) Mica (Campania (155 (-13)(1(1))(14)(-13)) Sanaghai Campania (Cham) (150 (150 (15)(-15))) Sanaghai Campania (Indonamia) (445 (15(15))(15)) (1(-7)) Janat Campania (Indonamia) (445 (15(15))(15)) (1(-7))
Carlos Bacco Martín La Tarlas (21 (-2.1) (-2.6) (-1.6.6) Martín (-2.7.6, 8.6 (-1.6) (-3.6) (-3.6, 4.1) Ganarda (-2.3, 1.1) (-7.6) (-4.5) Tarlaye In Bacchani (52.6) (-2.6) (-2.2) (-2.2.6)
Russian banka 153 (-3) (-1.2) (1.2) (52.6) Santasis 107 (-2.3) (-1.3) (1) (95.2) VTB Bank 0.1 (-3.9) (0) (1.5) (10)
Currence in percentage, positive for dollar deprecision) territoria (13): UNINES 135 (0.28): 0.28): 0.4(-2); 005097 (12): 0.23 (0.24); 0.4(-2); 005097 (12): 0.23 (0.24); 0.5(-2); 0.5(-24); 0.24); 0.5(-2); 0.5(-24); 0.24); 0.5(-2); 0.5(-24); 0.24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(-2); 0.5(-24); 0.5(
International Entropy           CIDARSE Register 101         44.00         41.01         51.00
νοδογεία (με μερ.) 38 (-1,3) (-8) (μ.) (-20,6) (Lef 40.9 (-)) (-8.9) (-7,7) (-22) (Lef 40.9 (-)) (-8.9) (-7,7) (-22) (Lef 40.9 (-)) (-8.9) (-7,7) (-22) (Lef 40.9 (-)) (-8.9) (-7,7) (-2,7) (Lef 40.9 (-)) (-8.9) (-7,7) (-7,7) (Lef 40.9 (-)) (-7,7) (-7,7) (-7,7) (Lef 40.9 (-)) (-7,7) (-7,7) (-7,7) (-7,7) (Lef 40.9 (-)) (-7,7) (-7,
CLOUDER (Market Bill Sch (2) (4) (3) (3) (3) (3) (3) (3) (3) (3) (3) (3
USDDR (Inderesia) 15167 (0.5) (0.6) (1) (4.3) ADXY 19824 (4.2) (0.9) (2.3) (4) Commodities (change in percentage)
Communities (Revise in prevention) (Communities (Revise in a prevention) (Communities (Revise in a second
non men - 1 (197(194)(199(194)) Edit (brd) index 320 44 (0) (b.0) (6.1) (6.1) Edit (brg) index 420 16) (5.7) (6.1) (4.6) (5.6) (42.6) 54P (5551) Spet commodly index 323.440 (b) (-1.4) (5.6) (42.6) 54P (5551) Spet 53.432.24 (0.1.7) (6.2) (-3.7)
SAP GSC1 Heals Spot 230.04 (0) (4.2) (-1.6) (21.6) SAP GSC1 Apercultural Spot 232 (23.5) (-1.2) (-1.4) (-1.2.2) Source Recording, Catastana and Hwar



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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