

Market Comment | Quiet market ahead of this week's events

Global Financial Markets Unit 04 Apr 2016

- Negative factory data in the US. US factory orders dropped in February in line with estimates (by -1.7% MoM). Durable goods orders plunged by more than expected (by -3.0% MoM; consensus: -2.8%) as well as ex transportation factory data, which surprised the consensus forecast negatively (by -1.3% MoM; consensus: -1.0%).
- Euro zone unemployment rate moderates in February. The euro zone unemployment rate declined slightly (to 10.3%) in line with estimates, after a slight upward revision of the previous month's rate (to 10.4% from 10.3%).
- Eric Rosengren thinks the markets are too pessimistic about the Fed's tightening path. The Boston Fed president considers that the market is excessively pessimistic in expecting only one interest rate hike within this year. In the same line as other Fed member, Rosengren reiterated that if economic data supported the US economy, the FOMC would raise its interest rates gradually. "I personally expect that a stronger economy, at essentially full employment and with gradually rising inflation, will lead to more tightening than is currently priced into the futures market expectations for the next two years," he said
- Peter Praet showed the ECB's commitment to its inflation target.New measures will be implemented if necessary. The ECB's Peter Praet warned about the risk of low inflation over a long period of time, "The prolonged period of low inflation we are in today has increased the risks that inflation misses might become persistent, which would be deeply damaging for the economy," and considered that the ECB will do the necessary in order to reach its 2% inflation target, "This is why we have reacted so forcefully to secure our objective and will continue to do so in the future if necessary," he said.
- Quiet market ahead of this week's events. Although last week's high volatility environment persists due among other factors to the volatility of commodity prices there were no significant changes in financial markets at the end of the week's first session. The monetary policy stance of developed countries' central banks continued as a significant source of uncertainty, although the latest developments point to clear dovishness on both sides of the Atlantic. Today's official interventions Praet from the ECB and Rosengren from the Fed had relatively little effect on markets, which are waiting for the ECB's and Fed's minutes to be released later this week. Against this backdrop, yields in developed markets remained almost unchanged today while the Bund hovered around 0.13%, very close to record lows this year (US 10Y: 0 bps GER 10Y: -1 bps FRA 10Y: 0 bps ITA 10Y: +2 bps SPA 10Y: +2 bps POR 10Y: +2 bps). Peripheral yields increased slightly due to the (very limited) contagion from the rebound in Greek yields. Greek yields soared (10Y yield +36 bps), after IMF managing director Christine Lagarde stated that the ongoing negotiations "are still a good distance away from having a coherent programme", increasing concerns about reaching a deal on a reform package in April. The agreement would pave the way for the delivery of the next loan tranche from the euro zone bailout and debt relief. In



July Greece has to face EUR3.5bn of bond and loan maturities. Moreover, during the week the media published that state collateral for sovereign bond issues, including the bonds of some private companies, comes to €14.52 billion. On FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.1% JPY: +0.38% GBP: +0.29%) while appreciating against EM currencies (RUB: -0.8% BRL: -1.3% CLP: -0.2% COP: -1.1% MXN: -0.7%). They were dragged down by deteriorating commodity prices (Brent: -0.9% Wtx: -0.4% Copper: -0.7%) continuing last week's trend in a high volatility context. Equity markets stayed almost unchanged across the board.

Update 17.30 CET 04 April, 2015 Table1

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vel and changes at daily, weekly, monthly and annual frequencies

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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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