## Market Comment | Cautious mode remains: Fed minutes and oil price in the spotlight

Global Financial Markets Unit 06 Apr 2016

BBVA Research

- Services PMI improved in China. China's Services Caixin PMI improved in March and stands at 52.2 points (from 51.2 points in February, consensus: 51.4 points). This improvement completes a positive month for Chinese confidence, after last week's positive manufacturing confidence data. Both indices topped the 50 points threshold.
- Better-than-expected industrial production in Germany. German industrial production dropped in February by less than expected (by -0.5% MoM; consensus: -1.8%).
- Cautious mode remains: Fed minutes and oil price in the spotlight. After yesterday's negative session in financial markets due among other factors to Lagarde's pessimistic view - warning of "a new mediocre" phase characterized by very low economic growth - risky assets registered a positive performance although doubts still remain. China's better-than-expected confidence data released last night was not enough to mute completely the risk-off mood in financial markets. Oil prices registered significant gains after the smaller-than-expected US oil inventories, but remained below the 40 USD/pb threshold (Brent: +3.9% WTx: +4.5%). Meanwhile, main equity indices registered a mild increase across the board, helped by the energy sector (Eurostoxx: +0.7% IBEX: +0.2% DAX: +0.7% CAC: +0.8% S&P: +0.6% Dow: +0.4%) but they are still far from recovered from recent losses. Moreover, the European banking sector remained underperformed. After the dovishness shown by both the FOMC and Yellen (in her last speech), the release of the latest FOMC minutes later today will be a key hint of the Fed's pace in the interest rate normalization process. The markets assigned almost zero probability to an April ratehike, while assigning a 20% chance of an increase in rates in June. Safe-haven yields inched up (US 10Y: +3 bps GER 10Y: +2 bps) after yesterday's drop, while European peripheral yields rose again, led by Portugal (ITA 10Y: +1 bp SPA 10Y: +2 bps POR 10Y: +4 bps). In Fx markets, the USD showed a mixed performance against other major currencies, highlighting the Japanese Yen, which appreciated again showing the persistence of defensive mode in financial markets (JPY: +0.3% GBP: -0.4%). EM currencies appreciated slightly against the US dollar (RUB: +0.6 % BRL: +0.3 % COP: +0.2%) due to the recovery in oil prices.

Update 17.30 CET 06 April, 2016 Table1



(Current level 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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