Market Comment | European markets extend gains ahead of the ECB meeting

Global Financial Markets Unit 20 Apr 2016

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- Positive existing home sales data in the US. In the US existing home sales increased by more than
 expected in March (to 5.33M from 5.07M; consensus: 5.30M) reflecting the improvement in the housing
 market.
- Turkey's Central Bank cuts interest rate. The new governor of Turkey's Central Bank started his
 mandate with a cut in the overnight lending rate by 50 bps to 10.0%. This decision was taken due mainly
 to the slowdown in inflation. Meanwhile, the one-week repo rate and the overnight borrowing rate remain
 unchanged at 7.5% and 7.25% respectively.
- BoE official maintains dovish tone. Mr. McCafferty argued that no immediate increase in interest rates is needed; he prefers to wait to see "dissipation of the external forces holding down headline inflation, or renewed wage growth" before hiking rates. He also stated that the upward trend in interest rates would be a slower path than in the previous cycle.
- In a session with no significant macroeconomic data releases, high volatility in Chinese financial markets was not enough to derail the recent positive market mood ahead of tomorrow's ECB meeting. The main Chinese indices had been falling during the day, reaching 4.0% in a very volatile session, but in the end they partly recovered previous losses (Shanghai: -2.3% Shenzhen: -4.4%). This sharp reversal may have been influenced by the words of Jun Ma, Chief Economist with the PBoC, who said that the improvement shown by the latest macroeconomic data could lead to a slower pace in the implementation of new easing measures. Additionally, technical factors may have been another dragger today - investors may have been taking their profits after the recent sharp recovery. Despite the poor performance in China, the European equity indices held their positive mood, particularly lbex, boosted by the banking sector (Eurostoxx: +1.0% IBEX: +2.1% DAX: +0.7% CAC: +0.6% MIB: +1.2%). Meanwhile, the US remained almost unchanged at the time of writing. Oil prices fluctuated, in line with the volatile context expected after the disappointing outcome of the Doha meeting. Early in the session oil prices fell after Kuwait's oil workers ended their strike, but they recovered later after US inventories proved lower than expected (Brent: +0.8% Wtx: +0.4%). In bond markets, European yields remained unchanged ahead of tomorrow's ECB meeting, in which we do not expect changes after last month's measures and the slight easing of uncertainty and volatility in the financial markets. However, the central bank could retain its dovish communication and reiterate its commitment to the full implementation of its measures and its readiness to do more if needed. In the same vein, US treasury yields remained stable. On FX markets, the USD appreciated slightly against other major currencies (EUR: -0.26% GBP: -0.13% JPY: -0.17%). EM currencies showed a mixed performance against the US dollar (RUB: +0.5% BRL: -0.3% CLP: +0.2% MXN: +0.2% COP: 0%). The Turkish lira appreciated (+ 0.7%) despite the interest rate cut. On the other hand, investors welcomed Argentina's return to global markets. The Argentine government issued USD16.5 billion in international markets to settle debt with holdouts, resume the payments of the restructured debt and finance part of the fiscal deficit. The orders reached USD 70bn. The treasury



issued bonds at different maturities (3, 5, 10 and 30 years) with coupons ranging from 6.25% to 8%. This is the largest issue made by an emerging country and marks the return of Argentina to the international capital markets.

Update 17.3 CET 20 April, 2016 Table 1

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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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