## Market Comment | Cyclical concerns and weak company profits drag on risk assets

Global Financial Markets Unit 03 May 2016

BBVA Research

- Worse than expected PMI data in China. China manufacturing PMI data dropped in April against estimates of their remaining unchanged (by 0.1 points to 50.1; consensus: 50.3), while the Caixin China PMI manufacturing data released today showed a decline in April, deepening its contraction (to 49.4 from 49.7 points; consensus: 49.8).
- According to Lockhart, two rate hikes are still possible this year. Dennis Lockhart, Atlanta Fed
  president, considers that this year could see two rate hikes in the US, although global uncertainties such
  as Brexit are weighing on the FOMC decision. "Two rate hikes are certainly possible. We have enough
  (Fed policy) meetings remaining, but it depends entirely on how the economy evolves" he said.
- European Commission revised downward its growth and inflation forecast. Euro zone growth forecasts were cut by 0.1 percent in both 2016 and 2017, to 1.6 and 1.8 per cent respectively, although Pierre Moscovici said that "Growth in Europe is holding up despite a more difficult global environment." The inflation forecast was also revised downwards (to 0.2% from 0.5% in 2016, and to 1.4% from 1.5% in 2017).
- Benoît Cœuré, an executive board member of the ECB, defended the low interest rates saying that ECB "had proof that markets functioning below zero does not imply different logics and mechanisms. Or as I said elsewhere, there is life below zero." However, he pointed that the advantages of low interest rates could disappear if the ECB cut the deposit facility rate further. "We would not take it to absurdly low levels" he added as regards the deposit facility rate. On another front, **Yves Mersch warned about the impact of Brexit on economic confidence**, which could be sharper than quantifiable impact, "While the quantifiable impact [of Brexit] could be, I would say, digested in a pure macroeconomic modelling terms, there will be also confidence factors," he said.
- Chinese confidence data hit markets. Worse than expected confidence data in China triggered sharp movements in financial markets. The optimism shown during last month, supported among others by the recent green shoots in China, is fading on the back of fresh disappointing confidence data. The European Commission's downward revisions of growth and inflation in the euro zone may also have fuelled the early falls. Consequently, demand for safe-haven assets increased: gold prices recovered some ground after last month's poor performance, -reaching their highest level since January 2015 while core economies' yields decreased, led by the US (US 10Y: -9 bps GER 10Y: -7 bps UK 10Y: -7 bps). Against this backdrop, risk assets registered an abrupt correction: equity indices dropped across the board (Euro Stoxx: -1.9% IBEX: -2.7% DAX: -1.9% CAC: -1.6% S&P: -1.2%) dragged down by the banking sector (Eurostoxx Banks: -3.5%) along with other cyclical sectors (Basic Resources: -3.2% Autos: -2.6%). The release of worse-than-expected profits at some major European banks (UBS and Commerzbank) and in the automobile company BMW, coupled with the cut in euro zone growth and inflation forecasts, weak economic data in China and the higher euro, have been the main drivers behind today's euro zone equity



falls. Moreover, this uncertain context set a negative feedback loop for the Italian banking sector, increasing doubts about the effectiveness of the Italian recapitalisation fund. Peripheral risk premia widened in Europe (ITA: +6 bps SPA: +6 bps POR: +7 bps). In the same line, commodity prices fell ahead of oil inventories data, which will be released today. On FX markets, the USD showed a mixed performance against its major peers, partly offsetting its first-half losses (EUR: -0.18% GBP: -0.9% JPY: +0.14%). The GBP was dragged down by the doubts about Brexit and by the disappointing macroeconomic data, while the euro reached 1.16 - its highest level since August 2015 - in the beginning of the session, helped by last week's disappointing 1Q16 US growth and the lack of explicit signals of further FOMC interest rate hikes, while the cut in the euro zone growth and inflation outlook had a dampening impact on the euro. EM currencies depreciated against the US dollar (RUB: -2.3% BRL: -1.8% CLP: -1.1% COP: -2.1% MXN: -1.9%) due to the plunge in commodity prices (Brent: -2.5% Wtx: -3.0% Copper: -2.3%) and weak manufacturing data in China.

Updae 17.30 CET 03 May, 2016 Table 1

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[Current level and changes at daily, weekly, monthly and annual frequencies)	
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BoA 14.3 (3.2) (5.3) (5.4) (45) MS 26.4 (3.1) (4.0 (3.6) (47) SS 182 (2.5) (2.3) (1.4) (40) (K banas 789 (2.7) (5.8) (2.2) (-3)
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$ \begin{array}{l} UU \mbox{ in } (0, (\Delta_2), (\mathcal{I}, \mathcal{I}_2), (\mathcal{A}, (\mathcal{I}, \mathcal{I}_2)) \\ W^{(0)} & (\mathcal{I}_2, \mathcal{I}_2), (\mathcal{I}_1, (\mathcal{I}_2)) \\ W^{(0)} & (\mathcal{I}_2, \mathcal{I}_2), (\mathcal{I}_2, (\mathcal{I}_2), (\mathcal{I}_2)) \\ W^{(0)} & (\mathcal{I}_2, (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2)) \\ W^{(0)} & (\mathcal{I}_2, (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2), (\mathcal{I}_2)) \\ W^{(0)} & (\mathcal{I}_2, (\mathcal{I}_2), (\mathcal{I}_2$
50 32,6-43,6(-7,1)(-7,3)(-2,1) Winnedta 31,(-4)(-7,13)(-4,1)(-43) Large Spanish banks 66,1(-4,3),(+12,3)(-6,8)(-12) Bannatore 42,4-43,6(-4,16,4)(-4) 6504,5,57,(-6),(-4,4)(-4,4)(-5)
88 NA, 5,7 (3,8) (-15,4) (-0,5) (-18) Medium Spanish banka: 68,3 (-1,1) (-10,2) (-1,3) (-16) Calabates (-2,6 (-1,3) (-1,3) (-2,7) (-23) Popular (-2,2 (-4,7) (-1,4) (-1,2) (-20)
Makes Service Market Rest & 37.14().1420 Market Science 37.14().1420 Pergent 27.24().1441().1220().001 Beautine 17.14().14().1220().001 Beautine 17.14().14().1220().001 Beautine 17.14().14().14().14().14().14().14().14()
Onexi and 3.4 (b) (10.13) (2) (7) (20) And Savis 20 (7) (20) (7) Pinna Bardo 20) (7) (7) (7) (4) Inima Cardon Bardo 20) (4) (7) (2) (2) Extension Extension Bardon 20) (4) (7) (20) Extension Extension Bardon 20) (4) (7) (4) (4) Extension Extension Bardon 20) (4) (7) (4) (4) Extension Extension Bardon 20) (4) (7) (4) (4) Extension Extension Bardon 20) (4) (4) (4) (4) Extension Extension Bardon 20) (4) (4) (4) Extension Extension Bardon 20) (4) (4) (4) Extension Extension Bardon 20) (4) (4) (4) (4) Extension Extension Extensio Extension Extension Extension Extensio Extension
Historyalt (all relations)           MSG1 Latan 68216 (44.46) (1.6) (1.5) (1.5)           Msexpa (Retain) 555 (4.9) (-1) (5.9) (21.2)           Mexbell 45222 (4.9) (-0.3) (-1,7) (5.4)
MSCI E III Europe 4639 (4), 37 (4, 9) (1,7) (9,2) Poland 1998 (0) (4, 9) (4), 71 (2,2) Micros (Russia) 1953 (5) (0, 3) (5,2) (10,9) Ber 100 (Takkey) 60179 (3,3) (5,2) (-1,5) (15)
an (nor (normal) serve (social (social (social)) MSCIEIM Ania 652 (social) (social) (social) (social) Emorphic Company (head) (social) (social) (social) (social) Jakunta Companiile (Indonesia) 4512 (social) (social) (social)
Early decks Tarking besides 423 (-4,2) (-4,5) (1,5) (-1,6) (-4,2) (-4,
Vietnike § 6 Borkinski § (-4.6) (2.5) (1.1) (-0.4) Russian basts 165 (0) (2.1) (6.7) (6.6) Sobetani (-7.4) (7) (2.1) (1.3) (22) VIE Bank 4, (0) (2.2) (4(2)) (21)
Currencies (in percentage, positive for dollar depreciation)
TURBED 1351 (4.18) (7.91)(-1.16) 0000PT 105 (4.16,40) (9.27) (2.2) (1.3) 0000PT 105 (4.16,40) (9.16) 0000PT 105 (4.16,40) (9.16) 0000PT 105 (4.16) (9.16) 0000PT 105 (4.16) (1.16) (1.16) 0000PT 105 (4.16) (1.16) (1.16) 0000PT 105 (4.16) (1.16) (1.16) 0000PT 105 (4.16) (1.16) (1.16) 0000PT 105 (4.16) (1.16) (1.16) (1.16) (1.16) 0000PT 105 (4.16) (1.16) (1.16) (1.16) (1.16) (1.16) 0000PT 105 (4.16) (1.1
UDDATE         Very Services (14.2 (0.1))         B(14)(4.8.1)           USDCUC         Theory HMUBIL         (1.1)         (1.1)         (1.1)           USDCUC         Theory HMUBIL         (1.1)<
USDPLN Poland 3,82 (4,6) (1,3) (2,4) (2,6) USDRUB Russini 6(7,5 (2,2) (2) (4,8) USDRUF Russini 6(7,5 (2,2) (2) (4,8) USDRY (Turkey) 2,85 (1,5) (4,9) (2,4)
USDCNY (Chros) 6.49 (4, 3), (1), (4, 2), (3) USDIRR (mode) 69, 41 (0), (0), (4, 3), (2, 4) USDIRR (mode) 69, 3138 (4, 2), (1), (4, 2), (4, 4) 4000 (106, 1) (4, 3), (0), (4, 5), (1, 5)
Commodities (change in percentage) Dent 44(49 (2,5) (2,3) (150) (150) Vir. 43,44 (3) (4) (4) (11) (173) Desper 229 (42,3) (4) (8) (22) (53) Desper 229 (42,3) (4) (4) (4) (4) (4) (4) (4) (4) (4) (4
Common/Using (rdspage to paracelappi) mit, 44(48)(25)(25)(25)(4)(4)(11)(7)2) mit, 44(41)(4)(11)(7)2) Bette Crower (25)(4)(4)(11)(7)2) Bette Crower (25)(4)(4)(11)(22)(4)(11)(12)(12)(12)(12)(12)(12)(12)(12)(12
pair up u Agricultural Spot. 305,282 (0,1) (2) (7,8) (7,7)

## 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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