Market Comment | Worsening macroeconomic data hit the financial markets this week

Global Financial Markets Unit 06 May 2016

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- Negative surprise in non-farm payrolls. In the US, non-farm payrolls slowed in April, increasing by less than expected (by 160K; consensus: 200K; previous: 208K). However, manufacturing payrolls rose unexpectedly (by 4K; consensus: -5K). As a result, the unemployment rate remained unchanged at 5.0%, whereas the forecast had been for a slight decrease (to 4.9%); meanwhile wages rose in April above estimates (by 2.5% YoY; consensus: 2.4%).
- Mixed tone from Fed members. The Fed's Bullard considers that the issues which weigh on the Fed's interest rate decisions have diminished. "International influences...appear to be waning during the first half of 2016," he said. In the same line, the Fed's Williams thinks that this year could see more than two rate hikes. The policy makers "said two or three rate hikes this year. I think that's a reasonable view," he added. On another front, Dennis Lockhart doubts there will be a decision to raise interest rates in June. "I think we should keep the option open but I'm very much at the moment sort of on the fence and it will depend how the data come in," he said.
- Worsening macroeconomic data hit the financial markets this week. Uncertainty increased in financial markets on the back of recent developments in the macroeconomic field. The negative trend in financial markets which began last week persisted during the current week. First the worse-than-expected confidence data in China partly stifled the recent optimism caused by green shoots last month. The cycle of defaults in China one of the main worries in the economy also contributed to the global spread of risk aversion. Without significant fresh news regarding the Fed's policy stance, today's release of worse-than-expected US employment data was the main event of the week. It helped to fuel the safe-haven movement in financial markets that has been present all week.
- Against this backdrop, safe-haven yields fell sharply (US 10Y: -8 bps GER 10Y: -11 bps) due to global growth concerns. The worse-than-expected employment data in the US also contributed to reducing the probability of a rate hike in June (to 4% from 12% at the beginning of the week). European peripheral yields showed a mixed performance (ITA 10Y: -2 bps SPA 10Y: -3 bps POR 10Y: +8 bps).
- High volatility in commodity prices has persisted during the week, especially in oil prices, and the causes are not related to market sentiment; rather, it happened due to events close to oil supply: early in the week the larger-than-expected inventories data in the US and also the news about OPEC, which was said to be heading for its June meeting with no plan to limit supply caused a drop. The mid-week rally, boosted by the wildfire in Alberta, Canada, which has halted production in the region and led to the shutting off of some oil pipelines, and by confrontation between regional and national government oil companies in Libya regarding competencies to manage oil exports, was not enough to offset the falls earlier i8nthe week. (Brent: -5.7% Wtx: -2.7%). In the same line, copper prices plunged this week (-5.7%).

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- In equity markets, the combination of increased global risk and the worse-than-expected company earnings results (they were mixed, and although several companies beat market expectations the general picture suggests weak earnings) contributed to drag shares down across the board (S&P: -0.8% Euro Stoxx: -2.9% IBEX: -3.3% DAX: -1.5% CAC: -2.9%). The European indices were also undermined by the negative feedback loop from the Italian banking sector after increasing doubts about the effectiveness of the Italian recapitalisation fund (European banks: -5.9%). In Asian markets, Japan's indices fell despite markets being close for several days (Nikkei: -3.6%), while in China they remained almost unaltered during the week (-0.9%).
- In FX markets, the USD appreciated against other major currencies over the week despite today's depreciation. The GBP (-1.09%) was dragged down by the ongoing doubts about Brexit and by the disappointing macroeconomic data. The euro topped 1.16 against the USD during the week its highest level since August 2015 but ended the week depreciating by -0.37% to 1.141 USD. EM currencies depreciated against the US dollar (RUB: -1.5% BRL: -2.6% CLP: -0.9% COP: -4.0% MXN: -4.2%) hampered by the deterioration in commodity prices. In addition, the Turkish lira depreciated sharply against the USD (-4.4%) after the resignation of its Prime Minister Ahmet Davutoglu from AKP. (The party is going to choose a new leader on May 22. Equity indices reacted strongly to the announcement (-8.1%). CDS and bonds also tracked the increase in political uncertainty (5YCDS +27 bps, 10Y yield +59 bps in the week).

Update 16.30 CET 06 May, 2016 Table 1

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$\begin{array}{l} 68 & 158,9 \ (0,4) \ (3,2) \ (2,4) \ (+2) \\ (16 \ bards & 694 \ (0,5) \ (4,7) \ (7) \ (7) \ (21) \\ (160 \ 4322 \ (4) \ (4,5) \ (2,9) \ (45) \\ (160 \ 5324, \ (6) \ (4,5) \ (2,5) \ (45) \\ (160 \ (4,5) \ (2,5) \ (4,5) $	
$ \begin{array}{l} {\rm ENU \ barris \ 0.5 \ 0.5 \ (.4,9) \ (.2,1) \ (.24) \\ {\rm EVU \ barris \ 0.5 \ 0.5 \ (.4,9) \ (.4,2) \ (.5,1) \$	
Large Spanish banks: 65,3 (1,7) (4,3) (7,4) (-13) Santander 4, 1 (1,1) (-7,6) (12,2) (-16) BBVA: 5,7 (2,2) (-5,2) (3,7) (-16)	
Medum Spanish banks 68,9 (1,6) (6,8) (2,9) (-16) Calculates 2,4 (2) (6,8) (-1,6) (-24) Popular 2,1 (2,1) (+60,1) (17) (-30) Sabadell 1,6 (1,1) (-6,0) (10,8) (-3) Beniol 0, 8, 2 (2,1) (-4) (-2) (-27)	
Oreck banks 3,8 (0,2) (11,4) (22,7) (-16) Afeba Bank2, 1 (-3,6) (5,4) (-22,2) (-36) Finusa Bank3,0,2 (-1), (5,4) (-23) (-1) National Central Bank3, 2 (-2) (10,8) (25,2) (-26) Eurotenic Ergmank3 (-2) (3) (16,2) (22,2) (-17) Ermenging Markets	
Misic equity indices MSCI Laten 66488 (4.11) (-3,3) (2,5) (12,1) Bowapa (Brazi) 51021 (0,4) (-3,7) (7,8) (10,7) Mexbal 45127 (0) (-1,4) (-0,3) (5)	
MSCIE IN Unges 447 (4.29(-(3)) (5.2) (5.9) More R303 (6) (5.2) (-(5.9) (-(3.9)) More R303 (6) (52) (-(5.2) (-(3.9)) More R000 (1966) (7247 (-(5.2) (-(3.1)) (-(3.0)) MSCIE IN Auste 847 (-(3.29) (-(3.0)) (-(3.0)) (-(3.0)) MSCIE IN Auste 847 (-(3.29) (-(3.0)) (-	
$\label{eq:linear} \begin{split} & \operatorname{Envis} \ \operatorname{dec}(A, T) \ (+2, 2$	
Currencies (in percentage, positive for dollar depreci	afon)
EURUSD 1441 (0.941 (0.277) (0.1) (0. BOPUSD 1441 (0.921) (1.959 (2.)) (0.1) (0. USDIPY (0.074) (0.44) (0.27) (2.7) (11.2) DOY 55.77 (0.1) (0.27) (0.7) (4.5) (USDBRS Argentination USDBRS Argentination USDBRS Argentination (2.6) (0.2) (1.5) (0.2) (1.5) USDBRS Argentination (2.6) (0.2) (1.5) (1.	
USDBAS Appendixes A (26) (4) (7) (9) (2,5) (4)(2) USDBAS Appendixes Appendixes Appendixes USDBAS Appendixes Appendixes Appendixes Appendixes USDBAS Appendixes A	
USDCNY (China) 6,5 (0,2) (4,3) (4,2) (0) USDINR (India) 66,5 (0) (4,3) (4,2) (4,6) USDIDR (Indinesia) 13348 (0) (-1,3) (4,8) (3,2) ADXY 107,53 (0,1) (4,8) (4,6) (0,9)	
Commodities (change in percentage) Term 450 (b) (c) (13) (13) *** 450 (b) (c) (14) (c) (b) Get 377 (b) (b) (c) Get 377 (b) (b) (c) Get 377 (b) (b) (c) Get 377 (b) (b) (c) (c) (c) Get 377 (b) (b) (c) (c) (c) (c) (c) (c) Get 378 (b) (c) (c) (c) (c) (c) (c) (c) (c) Get 303 (b) (c) (c) (c) (c) (c) (c) (c) (c) Get 303 (b) (c) (c) (c) (c) (c) (c) (c) (c) (c) (c	



*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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