

## Market Comment | The US payrolls data slashed the odds a June rate hike in the US

Global Financial Markets Unit 03 Jun 2016

- **Disappointing US payrolls data.** Nonfarm payrolls data surprised negatively in May, lowering its increasing path (rising by 38K; consensus: 160K; previous: 123K data revised from 160K), while manufacturing payroll dropped by more than expected (by -10K; consensus: -2K; previous: 2K data revised from 4K). Meanwhile, the unemployment rate was the only positive news, falling by more than estimated (to 4.7% MoM; consensus: 5.0%). On another front, the ISM non manufacturing composite declined in May by more than expected (by 2.8 points from 52.9; consensus: 55.3) while factory orders rose in April in line with estimates (at 1.9% MoM).
- Euro zone Markit composite PMI final data were revised upwards and finally showed a slight increase in May (by 0.1 points to 53.1; consensus: 52.9) and services PMI also rose (by 0.2 points to 53.3; consensus: 53.1). By country, the German composite increased below estimates (by 0.9 points to 54.5; consensus: 54.7) while services also improved without surprises (to 55.2 from 54.5). In France, composite and services PMI rose by less than expected (Composite: to 50.9 from 50.2; consensus: 51.1; Services: to 51.6 from 50.6; consensus: 51.8). Meanwhile, Spanish composite dropped by less than expected (by 0.4 points to 54.8; consensus: 54.2) and services rose unexpectedly (by 0.3 points from 55.4; consensus: 54.0), while in Italy both composite and services declined by more than expected (Composite: to 50.8 from 53.1; consensus: 52.5. Services: to 49.8 from 52.1; consensus: 51.5).
- The US payrolls data slashed the odds a June rate hike in the US. Weak US payrolls increased cyclical risk premiums and decreased the probability of an FOMC rake hike in June (close to zero), boosting US bond markets and dragging down equity markets across the board at the end of the week. Furthermore, (i) the release of worse-than-expected economic indicators in China during the week coupled with the ongoing devaluation trend in CNY, (ii) the cut in the OECD's growth outlook and (iii) the increased probability of Brexit contributed also to the increase in risk aversion in financial markets. On the other hand, the OPEC meeting and the ECB monetary policy meeting ended with no significant news. As expected, the OPEC failed to reach a supply deal, while the ECB said that despite the inching up of inflation and the growth outlook, the downside risk remains. Brent crude ended the week slightly below US\$50 pb. (Brent: US\$49.55/pb).
- On bond markets, the downward trend in US treasury yields intensified in all its tenors after today's payrolls data (2Y: -13 bps, 10Y: -14 bps) due to the decrease in the implied probability of a Fed rate hike in June (to 4% from 30%). In the same vein, European core yields dropped, although by less than in the US (GER 10Y: -7 bps, FRA 10Y: -5 bps). Meanwhile, peripherals showed a mixed performance, with Portugal increasing sharply even above Greece-, in a week in which the ECB did not reinstate the Greek waiver it will decide on it once prior actions have been implemented- (GRE 10Y: +4 bps, ITA 10Y: -2 bps, SPA 10Y: -1 bps, POR 10Y: +13 bps).
- The decrease in the implied probability of a Fed rate hike in June (and July) strongly dragged the



**USD**, which depreciated against its major peers with the exception of GBP (EUR: +1.99%, GBP: -0.67%, JPY: +3.28%). Furthermore, the British pound's volatility extended its increase, reaching its highest level since 2009 (to 20.50% from 16.59% last Friday) due to the publication of new polls - Guardian and ICM - which showed the voters' preference for leaving the EU. Moreover, the Japanese yen appreciated, after Prime Minister Abe told lawmakers to delay the increase in the consumption tax, suggesting that Japan may make more use of fiscal policy instead of easing monetary policy. The EM currencies appreciated against the US dollar, with the exception of the Mexican peso and Russian Ruble (RUB: -0.1%, BRL: +1.8%, CLP: +0.4%, COP: +1.5%, MXN: -1.0% TRY: +1.7%) due mainly to the weak USD.

• The increase in cyclical risk premiums weighed on equity markets, with the fall in yields failing to offset uncertainty about cyclical concerns. The European indices decreased across the board (EuroStoxx: -2.6%, IBEX: -3.4%, DAX: -1.7% CAC: -2.1%) with the banking and energy sectors leading the falls. In the same vein, US equity markets also declined (S&P: -0.3%, Dow: -0.8%). In Asia, the Nikkei dropped (-1.1%) dragged down by the Japanese yen's appreciation.

Update 17.15 CET 03 June, 2016 Table 1



## Debt markets (changes at daily, we Debt markets (changes in bp) Excellent Historia; US 2-yp 0.78 (-11) (-12) (4) (-27) US 5-yp 1.78 (-12) (-13) (162) US 16-yr 1.71 (-16) (-14) (-16) Japan 10-yr 4.1 (1) (2) (1-36) GER 2-yr -0,53 (-1) (-1) (-4) (-19) GER 5-yr -0,41 (-3) (-3) (-8) (-36) GER 10-yr -0,07 (-4) (-7) (-13) (-56) Belgium 19-yr (4,07 (4) (-1) (-15) (-50) Belgium 19-yr (4,67 (-4) (-5) (-51) (-51) France 19-yr (4,67 (-4) (-5) (-15) (-57) Grance 19-yr (7,67 (-6) (-4) (-4) (-7) Tally 19-yr (-3,4 (-6) (-2) (-16) (-25) Metherlands 19-yr (-2,67 (-4) (-3) (-15) (-51) Portugal (1-yr) (-3,7 (-7) (-13) (-2) (-6) Spain 19-yr (-4,7 (-1) (-1) (-13) (-30) Emerging Markets Brazil 10-yr 12,82 (-17) (-42) (-7) (-389) Chile 10-yr 4,55 (-2) (-2) (14) (-11) Colombia 10-yr 7,80 (-1) (-19) (-23) (-77) Mexico 10-yr 6,11 (-7) (1) (21) (-16) Peru 10-yr 6,31 (0) (-3) (-5) (-100) India 10-yr 7,49 (0) (2) (6) (27) Indonesia 10-yr 7,86 (4) (1) (10) (49) Country risk (changes in bp) Country Visis (consequence on popular \*\*Lay recovering a proposal against Germany) Bergiam 39 (9) (2) (2) (3) (3) France SS (-1) (2) (-1) (-1) Greece 72 (5) ((1) (-1) (1) Heistand GF (6) (4) (-4) (15) Hay 127 (1) (-5) (3) (6) Matheritands 22 (9) (8,7) (2) (5) Fortugal 31 (5) ((1) (5) (15) (122) Spain 140 (2) (6) (0) (00) Spain 140 (2) (6) (0) (00) (00) Eye Soverign genedic (agginst Gene Beigins 6) (1) (2) (2) (0) France 21 (1) (2) (2) (8) Gened 1403 (3) (3) (8) (8) Irisiand 33 (1) (2) (1) (8) Irisiand 33 (1) (2) (1) (8) Irisiand 30 (1) (2) (1) (2) International 6 (0) (1,7 (2) (-1)) Formigal 23 (6) ((14) (19) (12) Spain 10 (2) (4) (8) (16) Imaging Matchs Say awariga CSS Say CSS final 345 (6) (1) (5) (148) Say CSS final 345 (6) (1) (5) (148) Say CSS final 345 (6) (1) (5) (15) Say CSS final 345 (6) (1) (15) (15) Say CSS final 566 (5) (6) (6) (15) (15) Say CSS final 566 (5) (6) (6) (15) (15) Say CSS final 566 (5) (6) (6) (14) (15) Say CSS final 567 (6) (6) (16) (17) (47) Say CSS final 567 (6) (6) (16) (17) Say CSS final 567 (6) (6) (16) (17) Say CSS final 567 (6) (16) (17) 5-yr CDS China 123 (-2)(0)(-7)(15) 5-yr CDS India 164 (0)(4) (2)(16) 5-yr CDS Indonesia 191 (-1) (2) (2)(-36) Date (14% (Stangers in to) (15% (15%)) US berks COS (15% (15%)) US berks COS (15% (15%) (15%)) US berks COS (15%) (15%) (15%) US berks COS (11%) (15%) (15%) US berks COS (114%) (15%) (15%) US berks COS (15%) (15%) (15%) (15%) Medium Spanish berks COS (177 (1) (12%) (12%) (15%) Repulsion batch COS (15%) (12%) (15%) (14%) Repulsion batch COS (15%) (12%) (14%) Interbank markets (changes in bp) UEM OIS spread 3m 5 (0) (0) (+1) (-2) UEM OIS spread 12m 36 (0) (0) (+1) (7) UEM TED spread 3m 33 (0) (0,2) (-3) (-7) US OIS spread 2m 27 (5) (7) (2) (4) US OIS spread 2m 27 (5) (7) (2) (4) US OIS spread 12m 80 (8) (11) (5) (24) US TEO spread 2m 40 (4) (4) (4) (4) (5) Spain Ted Spread 3m 6 (9) (4,9) (2) (2) EONA Index -0,23 (9) (1,9) (1) (-23) Eurobo 12m -4,28 (9) (4,0) (41) (-11) (-13) Eurobo 12m -4,02 (9) (6) (9) (4) Liber 3m 0,68 (0) (1) (5) (7) Liber 12m 1,33 (0) (2) (10) (15) Stock markets (Changes in percer Developed Markets Early stocks US banks 82.4 (3.8) (3.6) (6.4) (12) JPM 85.9 (2.5) (2.4) (1.8) (3) DBA 81.3 (4.5) (4.7) (1) (14) DBA 81.3 (4.5) (4.7) (1) (14) BBA 82.3 (3.6) (4.6) (4.7) (4.7) DB 154.8 (2.8) (3) (3.3) (14) Legon (A.) (4,0) (4,3) (4,9) ( Large Spanish banks: 65.2 (-3.1) (-6.9) (0.9) (-14) Santander: 4 (-3.7) (-8) (-0.2) (-11) BBNA: 5,7 (-2.6) (-6.1) (1.9) (-16) 88 VA. 5,7 (2,8) (4,1) (1,9) (18) Medium Spanish banka 6,5 (2,5) (2,9) (2,6) (19) Carisabank 2,4 (4) (4,2) (1,5) (35) Popular 1,6 (4,5) (19,6) (47) Soboleti 1,5 (2,2) (6) (3,6) (7) Bankinter 6,7 (1,9) (2,7) (5,2) (2) Bankin 6,8 (3,5) (5,9) (1,7) (29) berrios 0,8 (-3,5) (-3,7) (-1,7) (-29) Greek banks 4,3 (2,9) (-1,5) (22,3) (-5) Appha Bank2,4 (2,6) (-1,2) (22,3) (-3) Finsus Bank0,3 (5) (-4,2) (5) (-2) Mational Central Bank0,3,6; (-2,2) (-3,3) (-6,6) (-16) Eurobank Er Freedring Bladfells Bladford (1997) Bladford ( MSCI EM Asia 658 (8,12) (1,8) (1,9) (4,4) Shanghai Composite (China) 2039 (8,46) (4,2) (1,8) (17) Jakarta Composite (Indonesia) 4554 (0,4) (0,5) (0,6) (6) Bank stocks Turkish banks 00 (2,8) (8,3) (4,9) (8,1) Abbank T.A. S. 8 (2,7) (9,6) (2,8) (19,4) Geomb 8 (3,4) (5,5) (4,4) (8,5) Turkiye is Bonkola (4,2) (4,4) (4,3) (5,5) Russian banks 171 (9) (1) (5,4) (12,8) Sbetteak 132 (4,3) (4) (9) (00,2) VTB Bank 3, (6,8) (4,1) (2,3) (4,4) (1 Developed Microsts EURUSD 1,134 (1,06) (1,99) (1,3) (4,4) GBPUSD 1,45 (0,71) (4,67) (0,2) (1,4) USDJPY 106,69 (2) (3,28) (0,3) (11,3) DOY 94,11 (1,5) (1,5) (-1) (4,6) Emerging Markets USDARS (Argentina) 13,9 (9) (0,2) (2,4) (-7,5) USDARS (Argentina) 3,5 (-7,3) (-1,5) (0,1) (-16,5) USDORL (Brazi) 3,55 (-7,3) (-1,5) (0,1) (-16,5) USDOCOP (Celembin) 3005 (2) (-5,4) (-7,7) USDANN (Brasion) 18,68 (-7,1) (-1,4 ACON\*\*\* 107.84 (0.7) (0.6) (4.4) (0.6) (1.5) (1.





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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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