

# Market Comment | Global markets tumble on weak Chinese data

Global Financial Markets Unit 01 Sep 2015

- Weaker August PMIs point to China's growth woes. China's official PMI (released by NBS today) fell
  below the 50.0 watershed level to 49.7 in August, in line with the market expectation (consensus: 49.7 vs.
  previous: 50.0) The August reading of the official PMI has registered its lowest level since 2012,
  indicating that the economy is mired in contractionary territory. Manufacturing activities have not shown
  any recovery sign yet, despite the authorities' increased efforts of monetary easing. (see)
- **Disappointing US manufacturing data.** ISM manufacturing in August dropped more than estimates (by 1.6 points to 51.1; consensus: 52.5), whereas ISM prices paid decreased in line with estimates (by 5.0 points to 39.0; consensus: 39.0). Meanwhile, Markit's US manufacturing PMI in August rose unexpectedly (by 0.1 points to 53.0; consensus: 52.9). On the other hand, construction spending in July rose by 0.7%, more than expected (consensus: 0.6%).
- Mixed economic data in Europe. Markit's eurozone manufacturing PMI in August dropped against estimates of remaining unchanged (by 0.1 points to 52.3; consensus: 52.4). By country, the German Markit manufacturing PMI increased against an expectation of remaining unchanged (by 0.1 points to 53.3; BBVAe and consensus: 53.2), whereas in France it diminished, surprising estimate (by 0.3 points to 48.3; BBVAe and consensus: 48.6). The Italian Markit manufacturing PMI dropped by 1.5 points to 53.8, more than estimated (consensus: 55.0), while the Spanish figure also dropped unexpectedly (by 0.4 points to 53.2; consensus:53.6). The eurozone's unemployment rate rose in July less than estimated (by 10.9%; BBVAe and consensus: 11.1%). The German figure for change was a larger fall than estimated (to -7K from 9K; consensus: -4K), and unemployment claims rate rose in line with estimates (by 6.4%; consensus: 6.4%). Meanwhile, Italian GDP WDA in 2Q15 rose more than estimated (by 0.3% QoQ and 0.7% YoY; consensus: 0.2% MoM and 0.5% YoY).
- Lagarde sees weaker than expected global economic growth. The head of the IMF, Christine Lagarde, said that: "Overall, we expect global growth to remain moderate and likely weaker than we anticipated last July." She also warned about the impact on emerging economies of China's slowdown and the intention of a US interest rate hike. The IMF in July forecast global growth at 3.3% this year, slightly below last year's 3.4%, due to a slower recovery in advanced economies and a further slowdown in emerging nations.
- Global markets tumble on weak Chinese data. Asian stock markets closed in the red after the China PMI data, led by Tokyo. The Nikkei was -3.8 % and the Shanghai and the Shenzhen fell 1.2% and 4.6% respectively. Dragged by Asian equities and also helped down by weak European economic data, major European indices traded lower across the board (Euro Stoxx: -2.8%, CAC:-2.8%, Ibex-35:-2.9%). On bond markets, safe-haven flows are pushing US treasury yields down (US 10Y: -4bp) and European core yields also dropped after yesterday's rebound by the bund (GER 10Y: -0.9bp, UK 10Y: -2.6bp). In the



periphery, yields are rising with the exception of Greece, where they are falling (SPA 10Y: +3bp, ITA 10Y: +3bp, POR 10Y: +7bp, GRE 10Y: -10bp). On FX markets, concerns about the Chinese economic outlook encouraged a movement to safe havens among the developed currencies, and JPY (+1.1%) and EUR (+0.4%) both appreciated against the USD. Because of the global uncertainty, commodity prices dropped again, led by oil, which fell 6.0% to USD 50.88/bbl, and copper was also down, by -1.3%. Thus some EM currencies, especially those linked to commodity prices, were the worst performers today (RUB: -3.5%, BRL: -1.4%, COP: -1.5%).

### **ECB Thursday meeting**

- At its 3 September meeting, we expect no change to the ECB's monetary policy stance, but the central bank it is likely to reiterate its commitment to the full implementation of its measures and its readiness to do more, if needed.
- Economic indicators over the last month suggest the continuation of steady but moderate growth in 3Q15, while the inflation rate remained stable despite the drop in oil prices. Regarding growth, the PMIs suggest that activity has regained strength in August, pointing to GDP growth of around 0.4% QoQ. Incorporating the preliminary GDP estimate for the 2Q15 of a slight slowdown of the guarterly growth, to 0.3% QoQ after 0.4% QoQ in 1Q15, we maintain our projection of 1.5% growth in 2015, with a risk to the downside linked to the slowdown in China and the lower than expected depreciation of the euro. Regarding inflation, despite the drop in energy prices, inflation in August did not slow down and surprised slightly upwards by remaining at 0.2% YoY. This was mainly due to higher prices of fresh food and nonenergy industrial goods - partly reflecting the pass-through of the euro weakening over the last year - that offset the deceleration in energy prices. In this context, medium- to long-term inflation expectations (measured by the 5Y5Y swaps), fell back to near 1.6% in parallel with the fall in the oil price, although they have recovered to levels close to 1.75% after the inflation data for August were published. Regarding the staff forecasts for this month, although the inflation performance was in line with June's assessment, inflation projections are likely to be revised slightly down in 2015 and somewhat more in 2016 (from 0.3% and 1.5% respectively), driven by weaker oil future prices and a stronger euro than was incorporated three months ago. On economic growth, we expect minor revisions, if any, as the ECB expects non-standard measures to support activity, mainly domestic demand - with robust signs in Germany and the periphery - which could offset lower global demand. Nevertheless, downside risks are likely to be highlighted with more emphasis than in previous meetings.
- Regarding the EAPP (expanded asset purchase programme), the ECB will probably provide an assessment on how the programme is working. Since 9 March, when the ECB also started buying sovereign bonds, the ECB had purchased a total of EUR289.5bn of bonds issued by Euro area governments until 28 August, and some EUR64.4bn of private sector debt (since March), achieving and surpassing for several months the ECB's EUR60bn monthly target of debt purchases (In August the central bank probably will not achieve the monthly target as it is typically a month with lower issuances, and therefore greater volatility). The ECB members have continued to underline that the PSPP is flexible enough to be adapted if needed. In particular, the Executive Board member Peter Praet emphasised that the recent developments in the world economy and commodity prices have increased the downside risks for prices, paving the way for the possibility of adjusting the programme if inflation advances slower than expected for the bank's goal of lifting inflation. However, we consider that it is too early to see any signal from the ECB on this front.



Table1



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\*CDS, EMBI & MSCI indices with one day delay \*\*Credit spread (BAA) with two days delay

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