

Market Comment | Last week's relief rally halted ahead of the next week relevant events

Global Financial Markets Unit 16 Oct 2015

- **Mixed data in the US.** US industrial production dropped in September in line with estimates (by -0.2% MoM, August -0.1% MoM and July +0.8% MoM), mining output continued to decline, dragged by the fall in commodity prices, while manufacturing fell (-0.1%) and capacity utilisation rose more than expected (by 77.5%; consensus: 77.3%). University of Michigan sentiment rose more than estimates (by 4.9pt to 92.1; consensus: 89.0), with both current conditions and expectation indices improving.
- **Negative data in the eurozone**. Eurozone final CPI confirmed the drop in the headline inflation in September (-0.1% YoY, August +0.1% YoY). Meanwhile, core inflation remained stable at 0.9% YoY for the third month in a row. On the other hand, exports continued falling in August for the third consecutive month (-1.3% MoM, July -0.7% MoM), while imports fell (by 0.2% MoM, July -1.4% MoM); as a result the trade surplus decreased in August more than expectations (to EUR19.8bn; consensus: EUR21.5bn, July 22.4bn).
- of Last week's relief rally halted ahead the week's relevant next events (ECB meeting) and economic data (the Chinese 3Q GDP figure). The release of the worsethan-expected Chinese imports (amplifying the "recessionary trade surplus"), resulting from a mix of weak exports and even weaker imports, coupled with disappointing prices data early this week, fueled the global concerns and hit risk assets across the board and also commodity prices. The US data during the week were mixed, while the negative effect of worse-than-expected retail sales and industrial prices was offset by September's inflation prints. Nonetheless, the weekly balance in both bond market and commodity prices indicates that last week's relief rally halted after disappointing data and ahead of the next week's relevant events and economic data. Against this backdrop, US treasury yields dropped during the week (2Y: -3bp 10Y: -6bp), due to the weekly decrease in the probabilities of a rate hike in December 2015 as implied by the Fed fund futures. Despite a slight rebound at the end of the week, the probabilities are still below 1/3 (30.6% at December's meeting). In the same vein, European yields also dropped, led by Italian bonds and with the exception of the Portuguese (GER 10Y: -6bp, FRA 10Y: -6bp, ITA 10Y: -8bp, SPA 10Y: -6bps, POR 10Y: +4bp). The peripheral risk premia increased in Portugal (POR: +9.8bp), due to political uncertainty after the parliamentary elections. On equity markets, the Europeans remained unchanged (Euro Stoxx: +0.1%, DAX: -0.2%, CAC: -0.2%, MIB: +0.1%), with the exception of the Ibex-35 (-1.2%), dragged mainly by oil sector companies slumping at the beginning of the week. Meanwhile, US equity markets also stayed flattened (+0.6%) and Asian markets had a mixed performance (Nikkei: -0.8%, Shanghai: +6.5%). On commodity markets, the prices plunged led by oil prices (dragged down by worse-than-expected US oil inventories) after last week's rebound (Brent: -5.0%, WTI:-5.6%, copper: -0.6%). Despite the commodity price rebound lost steam, EM currencies showed a mixed performance against the USD (BRL: -2.0%, TRY: +0.5%, MXN: +0.2%, COP: -0.6%, CLP: +0.6%). The US dollar depreciated against most major developed currencies (GBP: +0.82%, JPY: +0.86%), undermined by the low probabilities that markets assign to a rate hike this year. Despite the high volatility during the week, EUR remained broadly unchanged against USD on the back of the dovish



tone of Ewald Nowotny's statement yesterday.

Update 16.00 CET 16 October, 2015
Table1



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

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