

Market Comment | Global markets take a breather after last week's rally.

Global Financial Markets Unit 27 Oct 2015

- Tentative fiscal deal in the US could enhance medium-term fiscal stability.
 Congressional leaders and the White House reached a tentative fiscal deal that would raise the budget spending for the next two years. The document is still a "discussion draft" and the deal will need to be approved by House of Representatives and the Senate over the next few days. If it is finally approved, it could bring an unexpected fast end to the budget problem, one of the main sources of uncertainty in the US in the medium term.
- **Mixed data in the US.** US durable goods orders dropped in September less than expected (by -1.2% MoM; consensus: -1.5%). However, ex transportation they decreased unexpectedly (by -0.4%; consensus: 0.0%) and capital goods orders (non-defence, ex air) also declined unexpectedly (by -0.3% MoM; consensus: +0.2%). On another front, the Conference Board consumer confidence index dropped in October against expectations of increasing (by 5.0 points to 97.6; consensus: 102.9). Meanwhile, the Richmond fed manufacturing index rose more than estimated (by 4.0 points to -1.0; consensus:-3.0)
- **Disappointing money supply data in the eurozone.** The eurozone M3 money supply rose in September less than expected (by 4.9% YoY; consensus: 5.0%). The increase in loans to the private sector slowed against the previous month (+0.6% YoY).
- · Global markets take a breather after last week's rally. The uncertainty concerning the conclusions of the Fed's FOMC, whose meeting started today, contributed to halt last's week rally on global financial markets. Nonetheless, the statement of the Bank of Japan -due at the end of this week - is also a relevant event after the dovishness shown by the ECB at its last meeting, which has been reinforced today by Peter Praet, highlighting that the ECB has "no taboos" in terms of its unconventional asset purchases to fulfill its inflation target. On another front, the market expectations of an increase in the US weekly oil supply dragged oil prices down again (Brent: -1.6%, WTI: -2.1%), also hampering other commodities (copper: -0.7%). Against this backdrop, European equity markets dropped, led by the materials and energy sectors. The worst performer among the main indices was the IBEX-35, driven by the medium-size bank sector due to a new European regulation - although it is not yet binding concerning the cap on mortgage floors (Euro Stoxx: -0.6%, DAX: -0.7%, IBEX-35: -1.2%, CAC: -0.7%). In the same vein, US equity markets also dropped (S&P 500: -0.3% at the time of writing) due to the worsethan-expected macroeconomic data and the fall in the energy stocks. On bond markets, US treasury yields decreased slightly today (2Y: -2bp, 10Y: -4bp). Meanwhile, European yields also dropped with the exception of Portugal again (GER 10Y: -6bp, FRA 10Y: -5bp, ITA 10Y: -5bp, SPA 10Y: -4bp, POR 10Y: +2bp). Ob the FX markets, the USD showed a mixed performance against other major currencies (EUR: -0.05%, GBP: -0.29%, JPY: +0.65%). Meanwhile, EM currencies depreciated against the USD, especially those most linked to oil prices, which plunged today (RUB: -2.8%, MXN: -0.2%, COP: -0.7%, CLP: -0.3%, TRY: -0.6%)



Update 17.00 CET 27 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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