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otp Research

Daily Report – Global Markets

STOCK EXCHANGE	Close	Daily chg. (%)	Weekly chg. (%)
DJIA	18 138	0,22	-0,56
S&P500	2 133	0,02	-0,96
Nasdaq100	4 808	0,11	-1,15
Russell2000	1 212	-0,27	-3,07
Stoxx600	340	1,29	0,09
DAX	10 580	1,60	0,85
FTSE 100	7 014	0,51	-0,44
CAC40	4 471	1,49	0,47
ATX	2 418	1,47	1,15
IBEX35	8 768	1,85	1,67
Nikkei 225	16 900	0,26	0,46
Hang Seng	23 085	-0,64	-3,22
SSEC	3 064	-0,01	0,51
SENSEX	27 741	0,24	0,24
RTS	983	-0,50	-1,90
Bovespa	61 767	1,06	1,08

FX MARKET	Close	Daily chg. (%)	Weekly chg. (%)
EUR/USD	1,0969	-0,79	-1,40
EUR/CHF	1,0863	-0,35	-0,68
GBP/USD	1,2185	-0,54	-1,40
USD/JPY	104,26	0,08	0,66
AUD/USD	0,7599	-0,16	-0,09
USD/CAD	1,3157	0,14	-0,12
USD/RUB	62,93	0,13	1,82

RISK INDICATORS	Close	Daily chg (bp)	Weekly chg (bp)
VIX	16,1	-0,6	2,6
CDS 5Y PIIS	16	-1,6	-7,2
CDS 5Y Italy	118	-2,1	-6,5
CDS 5Y Belg.	123	0,0	-1,1
iTraxx 5Y EU	19,7	-1,2	0,0
US TED Spread	73,8	0,0	3,1

Source: Reuters, OTP Research

Summary

- Friday's trading was fairly optimistic.
- US inflation may run higher than 2%, Janet Yellen's speech suggested.
- The USD has firmed against the key currencies.

Janet Yellen's Friday speech gave guidance about the future of interest rates in the USA. In the current environment, huge supply is facing a relatively weak demand, which leads to persistently low inflation, she said. In her opinion, this process can be reversed by letting inflation go beyond the target rate, via increasing the aggregated and narrowing labour market. The IMF expects 2.3% average inflation in 2017. The above speech of the Fed chair suggests that the interest rate path next year may be more cautious than the Fed currently expects. Nevertheless, this statement does not rule out or annihilate the possibility of a rate hike in December. Besides, Janet Yellen pointed out that the Fed decisions should take into consideration not only the general public, but also the individuals in it. She brought up the example of homeowner's massive losses during the financial crisis, owing to plunging property prices. This remark may suggest that property price bubbles cause fewer headaches these days than before.

Italy's Banco Popolare and Banca Pop di Milano announced their merger, marking the beginning of the biggest consolidation in Italy's and Europe's banking system. This creates a bank with market value of EUR 5.7 billion, balance sheet total of EUR 171 billion, and total staff of 25,000 people. That said, the political situation, the high capital requirement standards, and the EUR 360 billion non-performing loan portfolio (a major problem for Italy's banking system) makes further bank mergers unlikely in the near future.

The euro area cannot rely only on the ECB in kick-starting growth, France's president said. Countries running budget surplus (e.g. Germany) should start fiscal easing, Mr Hollande went on, while those struggling with deficit and high debt levels should improve their competitiveness and further reduce their debts. These are in line with Mario Draghi's former messages, urging structural reforms, adding that those who can should rejuvenate growth through fiscal stimulus.

The USD gained 0.8% against the EUR on Friday. The firming took place gradually from the beginning of Friday, and was not affected by the data released later or by Janet Yellen's speech. The US dollar's steady appreciation versus the yen pushed the USD/JPY to 104.4, before a reversal came; the pair closed at 104.2, consistent with 0.5% USD firming.

This morning's trading in Asia began somewhat gloomily. The Hang Seng was seen 0.6% in the red, and the SSEC edged marginally lower, while the Nikkei made small gain.

GOV'T BOND MARKET	Yield (%)	Daily chg (bp)	Weekly chg (bp)
US 2Y	0,84	-1	-1
US 10Y	1,79	4	6
JP 2Y	-0,27	-1	1
JP 10Y	-0,05	0	0
GER 2Y	-0,66	1	1
GER 10Y	0,04	0	4

CENTRAL BANKS' RATES	Rate (%)	6M Consensus	1Y Consensus
Fed Funds	0,5	0,75	1,25
ECB Rate	0,00	0,00	0,00
BOE Rate	0,25	0,25	0,25
BOJ Rate	0,10	0,10	0,10
SNB Target	-0,75	-0,75	-0,75

MONEY MARKET	Rate (%)	Daily chg (bp)	Weekly chg (bp)
US 3M Libor	0,88	0	1
US 2Y Swap	1,03	-1	-3
US 5Y Swap	1,28	0	3
EUR 3M Euribor	-0,31	0	-1
EUR 2Y Swap	-0,21	-1	0
EUR 5Y Swap	-0,06	2	1
GB 3M Libor	0,40	0	1
GB 2Y Swap	0,58	1	1
GB 5Y Swap	0,73	4	10
JP 3M Libor	-0,01	0	1
JP 2Y Swap	-0,08	1	1
JP 5Y Swap	-0,08	0	0
CHF 3M Libor	-0,73	0	1
CHF 2Y Swap	-0,66	1	1
CHF 5Y Swap	-0,54	2	2

COMMODITIES	Close	Daily chg. (%)	Weekly chg. (%)
Oil Brent	52,0	-0,15	-2,33
Gold	1 250	-0,59	-0,36

Source: Reuters, OTP Research

In the small hours of Friday, China released positive macroeconomic statistics, showing growth in both inflation and the producer price index. UK construction production disappointed, while the USA published a mixed bag of data. Business inventories and the University of Michigan's consumer sentiment index missed expectations, retail sales were in line with them, while the federal budget balance has topped forecasts.

Today's statistical releases include the final reading of eurozone inflation and monthly data from the USA. The most important event of the day is Fed vice-chairman Stanley Fischer's speech at the Economic Club of New York. It will be particularly interesting in the light of Janet Yellen's recent hint that the Fed may be willing to temporarily tolerate above-2% inflation.

	COUNTRY	DATE	INDICATOR / EVENT	FACT	CONSENSUS	PREVIOUS
Friday	CN	Sep	CPI (yoy, %)	1,9	1,6	1,3
	CN	Sep	PPI (yoy, %)	0,1	-0,3	-0,8
	GB	Apr	Construction output (yoy, %)	0,2	1,5	-1,5
	US	Sep	Retail trade (mom, %)	0,6	0,6	-0,3
	US	Apr	Business inventories (mom, %)	0,2	0,2	0
	US	Oct	University of Michigan, consumer confidence (points)	87,9	91,9	91,2
	US	Sep	Federal Budget (bn USD)	33,0	25,0	-107,0
Monday	EZ	Sep	Inflation (final, yoy, %)		0,4	0,4*
	US	Nov	New York Fed Manufacturing Index (point)		1,0	-2,0
	US	Sep	Industrial production (mom, %)		0,2	-0,4
	US	Nov	Stanley Fischer speaks at the Club of New York		-	-

Source: Reuters, OTP Research

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