

## Fed's dovish tone dialed down expectations for a rate hike this year

As expected, yesterday's FOMC left interest rates unchanged and intensified its dovish stance. In addition, it revised down official projections for 2019 GDP growth and inflation. Markets are pricing a very low probability of a rate hike in 2019 in wake of weak US economic indicators, increasing concerns over global growth outlook as well as political woes. Meanwhile, the Fed intends to start slowing the pace of its balance sheet normalization process in May and conclude it in September (see).

Markets' reaction to the more dovish Fed tone came as no surprise: **US yields declined across the curve while the USD depreciated.** Despite the fall in yields, equity markets hardly rose as fears over a snag in US-China trade negotiations unnerved investors. Today, US yields remained at their lower bound, the UST 10Y yield was hovering around 2.50%; however, the USD recouped its losses on safe-haven play as trade talk concerns offset the dovish Fed. Also, US equity indices recovered from their mild losses.

Following US yields, **European yields declined across the board, while EUR/USD surpassed 1.14 post-Fed meeting.** The German 10Y Bund yield fell to around 0.05% while the Italian risk premium widened 14bps since Italy is due to sign a preliminary agreement with China on the BRI project (see). Meanwhile, European equity markets continued to trim recent gains, and the EUR depreciated on the back of the recovery of the USD.

Moreover, **on the trade front, fears over the upcoming developments remained among investors.** Ahead of a new round of trade talks, the US signaled that tariffs on China could stay for a certain period of time, a move aimed at ensuring that China remains committed to fulfilling its promises in any potential trade deal (see). Also, China's President Xi started his visit to three European countries while EU leaders will also coordinate their positions today on a series of issues they intend to raise with China at an April 9th summit (see). In this context, Chinese equity indices ended almost flat.

The **EU summit started today in Brussels, where discussions over Brexit are in the limelight.** The GBP depreciated amid uncertainty surrounding this issue (see). The EU could agree to an extension of the Brexit deadline if UK PM May's deal is put to vote again next week (see). Moreover, today, the Bank of England kept its interest rate on hold, as expected, and signaled risks to the economy if a disorderly Brexit occurs (see).

**EM currencies depreciated against the USD, with the BRL underperforming amid idiosyncratic factors (see),** even as the Brazilian Central Bank left rates unchanged at 6.50% yesterday, in line with expectations (see). Furthermore, the TRY depreciated despite the authorities raising taxes on some foreign currency deposits (see). The MXN also fell amid the cut in Mexico's growth for this year by Fitch (see).

Update 17:55 CET 21 March 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.40	0.2	-6.3	-9	-9
<b>US</b>	2.52	-0.9	-11.3	-12	-17
GER (2-yr)	-0.55	-1.7	-1.1	2	6
<b>Germany</b>	0.04	-4.3	-4.5	-6	-20
France	0.40	-5.7	-6.7	-13	-31
Spain	1.10	-6.2	-8.9	-21	-42
Italy	2.46	-6.8	-4.3	-33	-28
Portugal	1.28	-3.5	-4.9	-36	-58
Greece	3.73	-5.3	-8.6	-4	-67
Japan (2-yr)	-0.16	0.0	0.5	2	-2
<b>Japan</b>	-0.04	0.0	0.5	-1	-4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.86	15.2	2.3	-2	-38
Chile	4.00	-4.0	-7.0	-13	-25
Colombia	6.63	-0.8	-12.0	-24	-12
Mexico	7.96	-3.6	-9.3	-32	-69
Peru	4.91	-3.9	-7.1	-25	-45
Poland	2.90	0.3	1.2	23	8
Russia	8.21	-8.5	-23.3	-25	-57
Turkey	15.36	-12.0	-29.0	76	-44
India	7.36	0.0	-0.3	-1	-1
Indonesia	7.59	-12.2	-23.8	-41	-44
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	36	-1.4	-2.2	-1	-5
Italy	242	-2.5	0.2	-27	-8
Portugal	124	0.8	-0.4	-16	-32
Spain	106	-1.9	-4.4	-15	-16
2-yr sovereign spread vs Germany					
France	6	-1.1	-0.6	-6	-10
Italy	74	0.3	4.7	-24	-34
Portugal	28	-0.8	-1.1	-5	2
Spain	21	0.1	-2.7	-10	-16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	160	11.8	6	-1	-47
Chile	48	4.7	2	0	-16
Colombia	113	9.1	4	-5	-46
Argentina	744	14.1	-7	100	-62
Mexico	129	9.3	4	-6	-26
Peru	69	7.1	4	-5	-26
Poland	70	6.3	6	5	3
Russia	135	10.5	10	-7	-19
Turkey	330	22.8	12	17	-30
China	51	6.1	4	-3	-17
India	89	10.0	6	-8	-25
Indonesia	105	11.2	8	-6	-32
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.4	0	-1	-12
VSTOXX	16	1.2	2	1	-8
EM EFT volatility Index	17	0.2	0	-1	-8
Dollar/euro volatility	6	0.5	0	0	-1
EM FX volatility index	8	0.0	0	-1	-2
Credit spread (BAA) (change in bps)	231	0.9	4	2	-14
US bonds volatility index	43	-1.1	-3	-3	-24
Inflation expectations					
US Inflation expectations (5Y5Y)	2.31	-	2	12	18
EZ Inflation expectations (5Y5Y)	1.47	-	-1	3	-13
Banking 5y CDS					
US	64	4.8	2	0	-18
EZ	82	7.0	4	-14	-38
UK	68	7.0	6	-6	-26
Large Spanish	60	5.8	3	-6	-28
Medium Spanish	103	-0.1	-3	-4	-10
Corporate 5y CDS					
US Non-financial	163	4.8	2	0	-18
EZ Non-financial	81	7.0	4	-14	-38
UK Non-financial	106	9.0	7	2	-13
Interbank markets (% changes in bp)					
EONIA Index	-0.37	0	0	0	-2
Euribor 3m	-0.31	0	0	0	0
<b>Euribor 12m</b>	-0.11	0	0	0	1
Libor 3m	2.61	-1	0	-4	-19
Libor 12m	2.81	0	-5	-9	-20
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,843	0.7	1.2	2.3	13
Dow Jones	25,900	0.6	0.7	0.0	11
Nikkei	21,609	0.0	1.5	1.4	8
FTSE 100	7,355	0.9	2.4	2.5	9
<b>EuroStoxx 50</b>	3,367	-0.1	0.8	4.0	12
IBEX	9,356	-0.5	1.6	2.4	10
DAX	11,550	-0.5	-0.3	2.1	9
CAC	5,379	-0.1	0.5	4.2	14
MIB	21,373	0.2	2.4	5.7	17
ASE Athens	718	0.3	-0.3	7.6	17
<b>MSCI Latam *</b>	93,859	-0.7	0.1	0.9	9
Ibovespa (Brazil)	95,800	-2.3	-2.8	-1.9	9
Mexbol (Mexico)	43,137	0.0	3.3	0.4	4
Merval (Argentina)	34,211	-1.5	2.0	-5.7	13
<b>MSCI EM Europe *</b>	5,691	0.2	1.8	1.7	8
Poland	2,359	0.3	1.7	1.6	4
Micex 10 (Russia)	4,467	-0.2	1.5	2.0	7
Ise 100 (Turkey)	103,408	0.1	1.0	1.6	13
<b>MSCI EM Asia *</b>	873	-0.2	1.5	3.6	12
Shanghai Com (China)	3,101	0.3	3.7	12.5	24
Jakarta (Indonesia)	6,502	0.3	1.9	0.1	5
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	130.0	-1.1	-2.0	-1.6	12
JPM	102.7	-1.8	-2.5	-2.4	5
Citi	63.7	-1.0	-0.7	-1.1	22
BoA	28.2	-1.5	-4.3	-3.2	14
MS	43.0	0.0	0.8	2.0	8
GS	193.6	-0.4	-1.9	-2.5	16
<b>EZ banks</b>	76.2	-1.6	-0.8	2.9	11
BNP	43.0	-2.6	-1.8	1.9	9
Crédit Agricole	10.9	-1.7	-0.3	4.5	16
Deutsche Bank	7.4	-4.1	-5.7	-2.1	7
ING	10.7	-0.1	-1.7	-3.0	14
Intesa	2.2	-0.7	2.1	7.8	14
SG	26.6	-2.4	-1.6	6.1	-4
Unicredit	11.9	-1.7	1.6	4.4	20
<b>UK banks</b>	79.0	-2.2	-1.7	1.3	8
HSBC	630.0	1.0	1.5	-1.1	-3
RBS	248.9	-6.1	-6.4	-2.7	15
Barclays	160.6	-2.3	-2.7	1.0	7
Lloyds	63.2	-2.8	-0.9	8.3	22
<b>Large Spanish banks</b>	65.5	-1.7	1.1	4.5	12
Santander	4.3	-2.5	0.4	5.6	9
<b>BBVA</b>	5.4	-0.9	1.7	3.5	16
<b>Medium Spanish banks</b>	54.7	-1.9	-1.1	-2.8	-5
Caixabank	2.9	-1.7	-2.8	-5.8	-9
Sabadell	0.9	-3.1	-2.9	-2.0	-7
Bankinter	7.0	-1.4	0.1	0.5	-1
Bankia	2.4	-2.5	0.5	-6.5	-5
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.135	-0.5	0.4	0.1	-1
GBPUSD	1.31	-1.1	-1.4	-0.1	2
USDJPY	110.80	-0.1	0.8	-0.2	-1
DXY	96.54	0.8	-0.3	0.0	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	40.96	-0.2	-0.5	-4.1	-8
USDBRL (Brazil)	3.83	-1.3	0.5	-2.8	1
USDCPL (Chile)	669.52	-0.5	0.3	-1.9	4
USDCOP (Colombia)	3087	0.0	1.8	0.9	5
USDMXN (Mexico)	18.90	-0.3	2.2	1.3	4
USDPEN (Peru)	35.39	0.0	0.2	0.7	2
LACI	5.20	-0.5	0.9	-1.1	2
USDPLN (Poland)	3.78	-0.7	0.8	1.2	-1
USDRUB (Russia)	63.87	0.0	2.5	2.9	9
USDTRY (Turkey)	5.48	-1.0	-0.2	-3.6	-3
USDCNY (China)	6.70	-0.1	0.4	0.9	3
USDINR (India)	68.83	0.0	0.8	3.7	1
USDIDR (Indonesia)	14140	0.3	1.0	-0.3	2
ADXY	106.58	-0.2	0.3	0.3	1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	67.9	-0.8	1.0	2	26
WTx	60	0.1	2.1	7	32
Copper	289	-0.9	0.1	0	10
Gold	1306	-0.5	0.7	-3	2
S&P Spot commodity *	439	0.9	1.8	4	17
S&P Brent Spot *	581	1.3	1.7	3	27
S&P Metals Spot *	346	0.1	1.1	4	8
S&P Agricultural *	279	0.3	1.1	-3	-2

Source: Bloomberg, Datastream and Haver

\* With one day delay