

Market Comment | Fed's dovish tone offsets extended falls in commodity prices

Global Financial Markets Unit
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- **The BoJ extended the average maturity of the JGB purchases.** The BOJ decided to maintain its overall target of annual asset purchases at around JPY80trn, but it will extend the average remaining maturity of the Bank's JGB purchases from 7-10 to 7-12 years from 2016. The central bank also announced that it "will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY3trn and about JPY90bn respectively". The BoJ Governor, Haruhiko Kuroda, said that "We've taken steps to supplement QQE so that we can expand the programme without hesitation if needed," adding that the policy is being effective, in that "many firms have become proactive in making investment in physical and human capital" ([see](#)).
- **The US Services PMI retreated in December.** The December preliminary services PMI decreased more than expected (53.7, consensus 55.9, previous month 56.1). The employment and new business sub-indices moderated against the previous month.
- **Fed's dovish tone offsets extended falls in commodity prices.** The ongoing negative dynamic in commodity prices was partially offset by the dovish tone of the Fed, despite the monetary authority having started the process of interest rate normalisation. As was expected, the rate hike in US was of 25bp and the dovish undertone in the statement confirms our expectation of a cautious and gradual approach. It contributed to prevent further deterioration of EM, although some commodity prices (such as oil) reached multi-years lows, dragged down by worse-than-expected inventories data. As well, it also contributed to decrease the implied volatility in equity market (VIX:-17.4%). Nonetheless, the US sovereign curve inched up slightly in all tenors in the week (2Y: +9bp, 10Y: +9bp), boosting the European sovereign yields (GER 10Y: +2bp, FRA 10Y: +4bp, ITA 10Y: +3bp, SPA 10Y: +7bp, POR 10Y: +4bp). Meanwhile, the Bank of Japan's new measures - increasing both the monthly purchases and the maturity of holdings - inched the yields down (JPY 10Y: -3bp). Equity markets also received the Fed's dovish tone well, partially recovering last week's falls during this week, with the sole exception of Japan (Nikkei: -1.3%), which was dragged by today's appreciation by the yen (S&P: +0.7%, Euro Stoxx: +1.7%, IBEX: +0.9%, CAC: +1.5%, DAX: +2.3%). On FX markets, the USD appreciated against other major currencies (EUR: +1.24%, GBP: +2.01%, JPY: +0.42). Meanwhile, the Chilean peso appreciated, after the Chilean central bank unexpectedly increased its main monetary policy rate by 25bp ([see](#)) (CLP: +1.3%). Along the same lines, the Mexican peso regained some ground after the expected 25bp interest rate increase ([see](#)) (MXN +2.3%). The remaining EM stood broadly unchanged or even appreciated during last week (TRY: +2.4%, COP: -0.3%), with a few exceptions such as BRL (-0.8%), that was undermined by increasing idiosyncratic risk that drove the Fitch rating agency to downgrade the sovereign risk to high yield. On another front, there were institutional announcements affecting the FX market: i) the PBoC announced the China Foreign Exchange Trade System and a new RMB index, and

ii) Argentina lifted the “cepo” and liberalised the currency to equate the official exchange rate (determined by authorities) with the unofficial ‘street’ exchange rate (-37% against USD). Last but not least, the commodity prices continued their ongoing downward trend, with oil clearly breaking the psychological barrier of USD40/bbl (Brent: -2.7% to USD36.89/bbl and WTI: -2.4% to USD34.78/bbl).

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Table1

Fuente: BBVA Research

Current level and changes at daily, weekly, monthly and annual frequencies

Index markets (changes in bps)

Eurozone	
US 2yr	6.96 (2) (9) (0)
US 5yr	4.89 (1) (14) (0)
US 10yr	2.21 (1) (9) (4)
Japan	
US 2yr	0.26 (1) (6) (1)
US 5yr	-0.92 (2) (5) (4)
US 10yr	0.54 (0) (5) (2)
Belgium	
France 10yr	0.88 (2) (5) (8)
France 10yr	0.54 (4) (7) (7)
Germany 10yr	0.45 (4) (5) (10)
Germany 10yr	0.45 (4) (5) (10)
Italy 10yr	1.82 (2) (1) (3)
Italy 10yr	1.57 (4) (3) (1)
Netherlands 10yr	0.22 (4) (2)
Portugal 10yr	2.49 (2) (4) (2)
Spain 10yr	1.49 (2) (7) (4)
Emerging Markets	
Brazil 10yr	16.11 (2) (2) (0)
China 10yr	4.83 (0) (3) (4)
Colombia 10yr	8.87 (1) (4) (2)
India 10yr	8.17 (4) (2) (1)
Russia 10yr	7.22 (1) (2) (6)
Taiwan 10yr	2.82 (4) (2) (1)
Russia 5yr	10.34 (3) (2) (4)
Russia 10yr	8.85 (2) (5) (2)
Turkey 10yr	18.33 (4) (1) (5)
India	
India 10yr	7.72 (4) (4) (4)
Indonesia 10yr	7.1 (4) (2) (8)

Country risk (changes in bps)

10yr sovereign spreads (against Germany)	
Belgium	20 (2) (2)
France	34 (0) (2)
Germany	0 (0) (0)
Italy	161 (2) (1)
Netherlands	15 (1) (4)
Portugal	185 (1) (4)
Spain	113 (4) (4)
5yr sovereign spreads (against Germany)	
Belgium	14 (1) (4)
France	15 (1) (4)
Germany	0 (0) (0)
Italy	27 (0) (4)
Netherlands	1 (0) (2)
Portugal	120 (1) (2)
Spain	78 (2) (2)
3yr sovereign spreads (against Germany)	
Belgium	7 (0) (2)
France	9 (0) (2)
Germany	0 (0) (0)
Italy	41 (2) (2)
Netherlands	0 (0) (2)
Portugal	48 (1) (2)
Spain	42 (1) (2)
Sovereign CDS	
US 10yr	33 (0) (2)
US 5yr	28 (0) (2)
US 3yr	25 (0) (2)
US 10yr	42 (0) (2)
US 5yr	37 (0) (2)
US 3yr	34 (0) (2)
US 10yr	18 (0) (2)
US 5yr	16 (0) (2)
US 3yr	15 (0) (2)
US 10yr	18 (0) (2)
US 5yr	16 (0) (2)
US 3yr	15 (0) (2)
Emerging Markets	
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
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US 10yr	161 (1) (4)
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US 3yr	111 (1) (4)

Comd risk

US 10yr	162 (2) (2)
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US 5yr	135 (1) (4)
US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)

Interbank markets (changes in bps)

US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)

Stock markets (Change in percentage)

US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)

Commodity prices (change in percentage)

US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
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US 10yr	161 (1) (4)
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US 3yr	111 (1) (4)
US 10yr	162 (2) (2)
US 5yr	136 (2) (2)
US 3yr	112 (2) (2)
US 10yr	161 (1) (4)
US 5yr	135 (1) (4)
US 3yr	111 (1) (4)

Fuente: BBVA Research

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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