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# Market Comment | Fed's FOMC boosts bonds and drags the US dollar

Global Financial Markets Unit
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- **The Fed's stance is now aligned with the markets.** Committee revises down expected policy path to two rate hikes in 2016. Rates unchanged and some downward revisions to projections, but strong employment. FOMC will "monitor inflation developments closely" as transitory factors fade. All meetings are "live" but June and December seem most appropriate for rate increases. (see)

- **Positive manufacturing and labour data in US.** US jobless claims increased less than expected in the week ended 11 March (to 265K from 258K; consensus: 268K). In addition, JOLTS job openings increased above estimates (to 5541K from 5281K; consensus: 5,500K). On another front, Philadelphia manufacturing jumped in March (by +12.2 points, consensus -1.7, previous month -2.8), led by new orders, shipments and working hours, suggesting a positive performance of the manufacturing sector in 2Q16. Meanwhile, the Conference board leading index rose in February below estimates (by 0.1% MoM; consensus: 0.2%).

- **European CPI declined in February** by less than our estimates (by -0.2% YoY; BBVAe: -0.4%, consensus: -0.2%). This fall was due mainly to lower prices of energy, food and services.

- **Bank of England left its interest rate unchanged at 0.5% and maintained the asset purchases programme as was expected, in a unanimous decision.** The BoE expects to increase interest rates in 2017.As regards inflation, "the MPC judges that inflation expectations remain well anchored, though it remains watchful for signs that low inflation is having more persistent second-round effects on wages." Meanwhile the Swiss National Bank left its interest rate unchanged at record-low levels (-0.75%) while Norges Bank decided to cut interest rates by 25 bps to 0.5%, "The current outlook for the Norwegian economy suggests that the key policy rate may be reduced further in the course of the year," said the governor of the central bank.

- **Cautious tone in yesterday's FOMC had a significant impact on sovereign bonds and FX markets, but a relatively mild impact on equity markets.** The US curve went down across all tenors, with the 2Y and 10Y yield showing sharp falls since Tuesday (2Y: -14 bps 10Y: -11bps), also driving European sovereign yields lower (GER 10Y: -8 bps FRA 10Y: -8 bps ITA 10Y: -6 bps SPA 10Y: -8 bps POR 10Y: -11 bps). The USD depreciated against major currencies, to 1.13 EURUSD, depreciating further against other major currencies (EUR: +0.93% GBP: +1.6% JPY: +1.35%). The EM's currencies appreciated (RUB: +1.5% BRL: +3.1% MXN: +1.1% COP: +2.4% CLP: +2.4%), underpinned also by the sharp rebound in oil prices (Brent: % Wtx: %), supported among other factors by USD depreciation. Volatility in equity markets remains high. Despite the early gains, European equity markets ended the session registering losses with the exception of Ibex (Eurostoxx: -0.6% IBEX: +0.2% DAX: -0.9% CAC: -0.5% MIB: -0.7%), dragged by the banking sector (-2.2%) on concerns about negative interest rates. Furthermore, the stronger euro also dragged European export sector stocks, while the positive performance of the energy and basic resources sectors failed to offset the drop in the rest of the sectors.

The US equity indices benefited from increased expectations of low interest rates for longer (S&P: +0.6% Dow: +0.8%), while Asian markets showed a mixed performance (Nikkei: -0.2% Shanghai: +1.2%).

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Table1

**(Current level and changes at daily, weekly, monthly and annual frequencies)**

## Debt markets *(changes in bp)*

**Developed Markets**

US 2-yr 0,86 (1) (-6) (14) (-18)
US 5-yr 1,38 (0) (-7) (16) (-38)
US 10-yr 1,9 (-1) (-4) (12) (-37)

Japan 10-yr -0,04 (4) (-3) (-7) (-31)

GER 2-yr -0,47 (-2) (-2) (5) (-13)
GER 5-yr -0,29 (-4) (-5) (1) (-24)
GER 10-yr 0,23 (-8) (-8) (-4) (-40)

Belgium 10-yr 0,62 (-8) (-10) (-17) (-35)
France 10-yr 0,57 (-8) (-11) (-8) (-42)
Greece 10-yr 8,72 (-16) (-40) (-238) (44)
Ireland 10-yr 0,83 (-8) (-12) (-20)
Italy 10-yr 1,27 (-6) (-19) (-36) (-33)
Netherlands 10-yr 0,33 (-7) (-8) (-9) (-46)
Portugal 10-yr 2,86 (-11) (-28) (-69) (34)
Spain 10-yr 1,43 (-8) (-16) (-32) (-34)

**Emerging Markets**

Brazil 10-yr 14,32 (-36) (-21) (-195) (-220)
Chile 10-yr 4,43 (-1) (-1) (-2) (-23)
Colombia 10-yr 8,45 (-6) (-8) (-78) (-20)
Mexico 10-yr 6,02 (-11) (-14) (-6) (-25)
Peru 10-yr 7,09 (-2) (-10) (-54) (-21)

Poland 10-yr 2,86 (-7) (-5) (-18) (-9)
Russia 5-yr 9,18 (-33) (-19) (-120) (-70)
Russia 10-yr 9,1 (-31) (-17) (-113) (-45)
Turkey 10-yr 9,8 (-24) (-15) (-70) (-67)

India 10-yr 7,52 (-5) (-11) (-26) (-24)
Indonesia 10-yr 7,64 (-15) (-25) (-35) (-111)

## Country risk *(changes in bp)*

**Developed Markets**

**10-yr sovereign spreads** *(against Germany)*

Belgium 39 (1) (-2) (-13) (5)
France 34 (0) (-4) (-5) (-2)
Greece 849 (-7) (-33) (-234) (84)
Ireland 60 (1) (-4) (-17) (8)
Italy 104 (2) (-12) (-32) (7)
Netherlands 10 (1) (-0,6) (-5) (-6)
Portugal 263 (-2) (-20,1) (-65) (74)
Spain 120 (1) (-8) (-28) (6)

**5-yr sovereign spreads** *(against Germany)*

Belgium 6 (2) (1,4) (-4) (-1)
France 13 (1) (-1) (-5) (0)
Greece 1631 (4) (5) (-1) (24)
Ireland 32 (3) (-1) (-8) (6)
Italy 57 (-1) (-5) (-31) (2)
Netherlands -2 (1) (-0,8) (-3) (-2)
Portugal 202 (-3) (-24) (-75) (92)
Spain 65 (-1) (-5) (-31) (-7)

**2-yr sovereign spreads** *(against Germany)*

Belgium 6 (0) (-1) (-2) (2)
France 6 (2) (-0,9) (-5) (3)
Ireland 13 (2) (-5) (-15) (-1)
Italy 46 (1) (5) (-12) (14)
Netherlands 0 (1) (-2) (-4) (2)
Portugal 111 (-3) (-2) (-61) (66)
Spain 51 (1) (4) (-6) (16)

**5-yr sovereign CDS**

5-yr CDS Belgium 45 (1) (-4) (-1) (14)
5-yr CDS France 32 (1) (-2) (-5) (6)
5-yr CDS Germany 18 (1) (-2) (-4) (5)
5-yr CDS Greece 1149 (23) (-147) (-101) (90)
5-yr CDS Ireland 57 (0) (-9) (1) (17)
5-yr CDS Italy 117 (0) (-12) (-19) (22)
5-yr CDS Netherlands 24 (1) (-4) (4) (9)
5-yr CDS Portugal 247 (-1) (-26) (-62) (79)
5-yr CDS Spain 91 (1) (-11) (-18) (2)
5-yr CDS UK 35 (1) (-2) (2) (16)
5-yr CDS US 20 (0) (0) (-2) (1)

**Emerging Markets**

**5-yr sovereign CDS**

5-yr CDS Brazil 419 (1) (26) (-54) (-73)
5-yr CDS Chile 102 (-1) (-3) (-33) (-25)
5-yr CDS Colombia 220 (-10) (-14) (-86) (-18)
5-yr CDS Mexico 164 (-4) (-8) (-54) (-6)
5-yr CDS Peru 155 (-6) (-14) (-63) (-30)
5-yr CDS Venezuela 5646 (-506) (-95) (-5574) (-397)

5-yr CDS Poland87 (-2) (-3) (-10) (15)
5-yr CDS Russia 289 (0) (-9) (-61) (-13)
5-yr CDS Turkey 256 (-1) (-12) (-46) (-18)

5-yr CDS China 116 (-4) (-12) (-22) (8)
5-yr CDS India 155 (2) (-2) (-21) (7)
5-yr CDS Indonesia 193 (-8) (-10) (-46) (-34)

## Credit risk

**Risk indicators** *(changes in percentage except for BAA spreads, bp)*

VIX 13,86 (-7,5) (-23,2) (-42,5) (-4)
VSTOXX 22,75 (-1,5) (-19,3) (-32,1) (1)
EM EFT volatility Index 24 (0) (-6) (-30) (5)
Dollar/euro volatility 8,7 (-3,1) (-17,5) (-26,3) (-10)
EM FX volatility index 12 (0) (0) (-9) (3)
Credit spread (BAA) 326,4 (1,2) (-3,4) (-34,6) (3)
US bonds volatility index 74 (0) (-8) (-15) (9)

**Bank risk** *(changes in bp)*

US banks CDS 89 (1) (-8) (-34) (14)
EMU banks CDS 103 (5) (-22) (-46) (19)
UK banks CDS 113 (6) (-16) (-30) (36)

Large Spanish banks CDS 111 (4) (-29) (-69) (-26)
Medium Spanish banks CDS 190 (3) (-26) (-50) (33)

Greek banks CDS 1765 (24) (-9) (40) (113)
Russian banks CDS 405 (23) (-4) (-76) (23)

**Corporate risk** *(changes in bps)*

US Non-financial CDS 490 (-1) (-14) (-98) (109)
EMU Non-financial CDS 241 (1) (11) (22) (68)
UK Non-financial CDS 187 (0) (-9) (-33) (-5)

## Interbank markets *(changes in bp)*

UEM OIS spread 3m 11 (0) (0) (-4) (0)
UEM OIS spread 12m 37 (1) (3) (-3) (4)
UEM TED spread 3m 30 (0) (-6,2) (-1) (-11)

US OIS spread 3m 26 (0) (3) (2) (3)
US OIS spread 12m 72 (-1) (6) (1) (16)
US TED spread 3m 36 (2) (4) (2) (-9)

Spain Ted Spread 3m 0 (-3) (-10,8) (-4) (-5)

EONIA Index -0,34 (0) (-9,7) (-10) (-21)
Euribor 3m -0,23 (0) (-0,5) (-5) (-10)
Euribor 12m 0 (0) (2) (1) (-6)

Libor 3m 0,64 (0) (1) (2) (3)
Libor 12m 1,24 (0) (3) (11) (7)

## Stock markets *(Changes in percentage)*

**Developed Markets**

**Main equity indices**

S&P500 2039,7 (0,6) (2,5) (7,6) (0)
DowJones 17457,6 (0,8) (2,7) (7,8) (0)
Nikkei 16936,4 (-0,2) (0,5) (5,5) (-11)
FTSE 100 6201,1 (0,4) (2,7) (5,8) (-1)
EuroStoxx 50 3043,1 (-0,6) (2,4) (7,9) (-7)
IBEX8978,8 (0,2) (2,4) (10,3) (-6)
DAX 9892,2 (-0,9) (4,1) (8,3) (-8)
CAC4442,9 (-0,5) (2,1) (8,1) (-4)
MIB 18608 (-0,7) (2,7) (9,7) (-13)
ASE Athens 567,2 (-0,8) (0,6) (17,5) (-10)

**Bank stocks**

US banks 77,9 (0,1) (0,9) (4,8) (-17)
JPM 58,5 (-0,7) (-0,1) (0,3) (-11)
Citi 42,4 (0,4) (2,4) (9) (-18)
BoA 13,2 (-0,6) (-0,3) (8) (-21)
MS 25,4 (0,9) (2,9) (7) (-20)
GS 151,5 (0,6) (0,3) (1,6) (-16)

UK banks 72,4 (-1) (1,3) (2,3) (-17)
HSBC 449,2 (-1,7) (0,8) (0,2) (-16)
RBS 230,9 (-1,5) (4,1) (-7,6) (-24)
Barclays 160,6 (-2,1) (0,4) (-0,5) (-27)
Lloyds 69,3 (0,7) (0,5) (14,5) (-5)

EMU banks 90,1 (-2,2) (-0,1) (11,8) (-17)
BNP 45 (-2,3) (-2,5) (11,6) (-14)
Crédit Agricole 10,2 (-0,5) (2,8) (21,4) (-6)
Deutsche Bank 16,9 (-2) (-1) (11,1) (-25)
ING 11,2 (-2) (0,2) (9,7) (-10)
Intesa 2,5 (-2,8) (-0,9) (3,3) (-18)
SG 34,7 (-1,9) (-0,2) (17,8) (-18)
Unicredito 3,8 (-4,2) (1,4) (9,6) (-27)

Large Spanish banks 70,6 (0,4) (2,7) (14,8) (-6)
Santander 4,2 (0,8) (2,1) (17,8) (-7)
BBVA 6,3 (0,2) (3,1) (12,7) (-6)

Medium Spanish banks 75 (-1,9) (4,9) (12,7) (-9)
Caixabank 2,7 (-0,2) (1,4) (6,1) (-15)
Popular 2,5 (-3,3) (5,8) (18,5) (-18)
Sabadell 1,7 (-1,2) (6,5) (15,8) (3)
Bankinter 6,4 (-1,8) (2,3) (7) (-2)
Bankia 0,9 (-2,9) (9,1) (19,1) (-15)

Greek banks 3,4 (-4,9) (0,7) (37,6) (-25)
Alpha Bank1,8 (-6,2) (-3,2) (21,2) (-27)
Pireus Bank0,2 (1,1) (4,7) (35,6) (-36)
National Central Bank0,2 (0) (-0,4) (28,4) (-31)
Eurobank Ergasias0,8 (-4) (8,6) (85,4) (-21)

**Emerging Markets**

**Main equity indices**

MSCI Latam 63674 (1,03) (-0,6) (10,4) (7,4)
Ibovespa (Brazil) 50561 (5,9) (2) (23,5) (16,6)
Mexbol 45424 (1,5) (2,5) (5,4) (5,7)

MSCI EM Europe 4443 (0,24) (0,4) (10,1) (4,6)
Poland 1944 (2) (3) (9) (4,6)
Micex (Russia) 1891 (1) (0,3) (7,8) (7,3)
Ise 100 (Turkey) 81377 (2,5) (3) (14,7) (13,5)

MSCI EM Asia 646 (0,15) (1) (6,9) (-2,2)
Shanghai Composite (China) 2905 (1,2) (3,6) (2,4) (-17,9)
Jakarta Composite (Indonesia) 4886 (0,5) (1,9) (3) (6)

**Bank stocks**

Turkish banks 83 (3,2) (1,3) (12,7) (11,9)
Akbank T.A.S. 8 (4,8) (1,9) (15,1) (20,9)
Garanti 8 (2,4) (1,7) (10,6) (8,7)
Turkiye Is Bankasi 5 (2,1) (0) (12,3) (5,2)

Russian banks 157 (2,1) (0,9) (12) (3,7)
Sberbank 109 (2,3) (0,6) (13,4) (8,1)
VTB Bank 0,1 (1,7) (1,3) (9,6) (-3,1)

## Currencies *(in percentage, positive for dollar depreciation)*

**Developed Markets**

EURUSD 1,133 (0,93) (1,35) (1,7) (4,3)
GBPUSD 1,45 (1,6) (1,44) (1,3) (-1,7)
USDJPY 111,04 (1,35) (1,9) (2,7) (7,6)
DXY 94,68 (1,3) (1,4) (2,3) (4)

**Emerging Markets**

USDARS (Argentina) 14,63 (-0,1) (4,6) (1,4) (-13,2)
USDBRL (Brazil) 3,63 (3,1) (0) (10,9) (8,5)
USDCLP (Chile) 669,73 (2,4) (2) (5,6) (5,5)
USDCOP (Colombia) 3084,25 (2,4) (4,4) (9,7) (2,8)
USDMXN (Mexico) 17,41 (1,1) (2,2) (7,8) (-1,2)
USDPEN (Peru) 3,35 (1) (2,4) (4,7) (2)
LACI 64,05 (1,6) (1,9) (8,6) (2,3)

USDPLN (Poland) 3,77 (1,3) (2,8) (4,6) (3,9)
USDRUB (Russia) 68,18 (1,5) (4,5) (12,6) (6)
USDTRY (Turkey) 2,85 (0,8) (1,5) (4,4) (2,4)

USDCNY (China) 6,48 (0,7) (0,5) (0,6) (0,3)
USDINR (India) 66,75 (0,7) (0,5) (2,4) (-0,9)
USDIDR (Indonesia) 13075 (1,4) (-0,2) (2,4) (5,2)
ADXY 108,26 (0,7) (1,3) (2,4) (1,6)

## Commodities *(change in percentage)*

Brent 41,5 (2,9) (3,6) (29) (11,3)
WTx 40,02 (4,1) (5,8) (37,8) (8)
Copper 228,25 (2,3) (2,9) (11,4) (7,4)
Gold 1265,28 (0,2) (-0,5) (5,4) (19,2)
Baltic Dry Index 393 (0) (2,3) (30,6) (-17,8)
S&P GSCI Spot commodity index 330,697 (2,1) (0,6) (12,1) (7)
S&P GSCI Brent Spot 348,766 (4) (-1,1) (20,6) (11,1)
S&P GSCI Metals Spot 259,6 (-0,3) (-2,3) (4,7) (1,9)
S&P GSCI Agricultural Spot 286,473 (-0,1) (2,3) (4) (1)

Source: Bloomberg, Datastream and Haver

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

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