

Market Comment | Disappointing BoJ and company earnings dragged down financial markets

Global Financial Markets Unit
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- **FOMC Statement: April 26-27 Meeting.** The Fed kept rates unchanged again, despite hawkish undertones. As expected, support for a hike is on the rise, with strength in the labour market, fading downward pressures on inflation and reduced volatility in global financial markets ([see](#)).
- **BOJ keeps policy on hold.** The central bank kept the base money target at JPY 80 trillion per year and also kept the ETF and J-REIT purchases target unchanged at JPY 3.3 trn/year, and JPY 90 bn/year respectively. Interest rates on the policy-rate balance in current accounts were kept on hold at -0.1%. This action came as a surprise to the markets which were expecting some easing action from the central bank. Moreover, the central bank revised its forecast for CPI and GDP growth downwards. ([see](#)).
- **Disappointing 1Q16 growth of the US economy.** US GDP 1Q16 surprised negatively with a further deceleration, increasing by less than expected (by 0.5% QoQ; consensus: 0.7%; previous quarter: 1.4%). This increase is the lowest since 1Q14. On another front, jobless claims rose by less than expected in the week ended 23 April (257K; consensus: 259K) in line with continuing claims in the week ended 16 April: 2130K from 2135K while consensus was expecting 2136K.
- **Euro zone economic confidence rose in April above estimates** (by 0.9 points to 103.9; BBVAe: 103.3, consensus: 103.4). This increase was caused by the improvement in all its components with the exception of retail. Meanwhile, Germany CPI harmonized preliminary data in April returned to negative territory unexpectedly (decreasing by -0.1% YoY; consensus: 0.0%) due mainly to the slowdown in services and food. In addition, Spanish CPI harmonized preliminary data showed a deterioration in April by more than expected (by -1.2% YoY; consensus: -0.9%).
- **Negative performance of risky assets, due to disappointing BoJ and company earnings.** The latest round of economic policy meetings (FOMC and BoJ) brought different outcomes. Despite the slightly hawkish tone shown in the FOMC, the market's reaction was very modest at the time the statement was released: (EUR/USD: +0.1% S&P: +0.16 %), the only exception being the US yield curve, which dropped in all tenors (2Y: -8 bps 10Y: -9 bps). The more surprising event was the non-implementation of further easing measures by BoJ. As a sizeable proportion of investors were expecting it, highly correlated financial variables reacted abruptly: the JPY appreciated strongly (JPY/USD: +2.9%) and Japanese equity markets fell sharply (Nikkei: -3.61%). Falls in Asian markets drove European equity markets lower early in the session, dropping more than 1.5%, but they trimmed the losses during the session (Eurostoxx: -0.3% IBEX: -0.8% DAX: +0.1% CAC: -0.3%). They were also hampered by disappointing company results. US equity indices are currently remaining unchanged despite the disappointing economic growth data. On bond markets, the US curve remained unchanged after yesterday's falls and despite the fall in the implied probabilities of a rate hike in June after the release of

GDP 1Q16 data (to 14% from 20%). Meanwhile, European yields continued their downward trend (GER 10Y: -4 bps FRA 10Y: -4 bps ITA 10Y: -6 bps SPA 10Y: -5 bps POR 10Y: -3 bps). In FX markets, the USD depreciated slightly against other major currencies, with the exception of the Japanese yen, which appreciated sharply due to the absence of new measures in the BoJ meeting (EUR: +0.04% GBP: +0.32% JPY: +2.66%). Emerging currencies appreciated against the USD (RUB: +0.9% BRL: +1.2% CLP: +1.1% COP: +1.8% MXN: +0.7% TRY: +0.3%) boosted by the US dollar deterioration and also by the increase in oil, which persisted in its positive trend (Brent: +1.1% Wtx: +0.5%).

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Table 1

*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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