Market Comment | Fed's hawkish tone continued as main driver in financial market

Global Financial Markets Unit
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- **FOMC Minutes leave the door open for a June rate increase**. Weak 1Q16 activity supported the dovish dominance at April's meeting. Hawkish FOMC members argued that further delays could be confusing to the public in regards to their data-dependent strategy and may ultimately hurt their credibility. Fed communication will continue to signal the possibility of a June move, helping to better align market expectations along the way. (see) Today NY Fed William Dudley stressed that Fed policy stance is data-dependent. **Regarding US economic indicators**: In the US jobless claims dropped as expected in the week ended 14 May (278K; consensus: 275K, previous: 294K) while continuing claims in the week ended 7 May decreased in line with estimates to 2.152K from 2.165K (consensus: 2.163K). Meanwhile, Philadelphia Fed Manufacturing index dropped in May against a forecast increase (by -1.8, consensus: +3.5).

- **ECB Minutes.** Today, the ECB released the monetary policy accounts of its 21 April meeting. The minutes confirmed that the Governing Council (GC) was unanimous in its commitment to deliver on its mandate and on the appropriateness of the accommodative monetary policy stance. The accounts also revealed that participants broadly agreed that there was no need to change the current monetary policy stance, emphasising that the key is to focus on the implementation of the latest measures. Moreover, the ECB strongly reiterated the need for other policy areas to contribute to euro area economic recovery.

- **Fed's hawkish tone continued as main driver in financial market.** After some Fed officials' remarks on Tuesday, signalling that two or three rate hikes could be undertaken in 2016, the release of the latest FOMC minutes (last night) supported this week's trend in the financial markets. The increase in the probability of a sooner-than-expected rate hike (probabilities of a June hike increased to 32%, of a September hike to 62% and of a December hike to 75%) caused a rebound in US sovereign yield curves. It took place across all tenors, but with greater intensity at 2Y reference (US 2Y: +5 bps since Tuesday, maximum since 15 March). European curves were pulled up by the rebound. The USD also continued with its upward trend and even topped the 1.12 USD/EUR threshold. EM currencies were also hit by the general appreciation of the USD (RUB: -1.5%, BRL: -1.5%, CLP: -1.2%, MXN: -0.8%, COP: -1.4%) coupled with the abrupt drop in oil prices (Brent: -2.5%, WTx: -2.4%). Commodity prices were affected by (i) the negative impact on emerging markets of a faster-than-expected normalisation of US rates, coupled with (ii) the strong USD - historical inverse correlation between USD and commodity prices as they are priced in US dollars - and (iii) larger-than-expected US oil inventories in the case of oil prices. On another front, equity markets dropped across the board on the back of higher yields, which dragged down valuations (S&P:-0.9%, DJ:-1%, EuroStoxx: -1.1%, IBEX: -1%, DAX: -1.3%, CAC: -0.7%) but sectors' performances were disparate: the banking sector benefited from expectations of an increase in US interest rates (increasing lending margins), while high dividend sectors were punished (they lose some of their attractiveness in a context of increasing interest rates).

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Table 1

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

Debt markets *(changes in bp)*
Developed Markets
US 2-yr 0,88 (-2) (12) (12) (-17)
US 5-yr 1,38 (-1) (14) (12) (-38)
US 10-yr 1,85 (-1) (10) (6) (-42)

Japan 10-yr -0,07 (3) (5) (6) (-33)

GER 2-yr -0,51 (0) (1) (0) (-16)
GER 5-yr -0,35 (1) (2) (1) (-31)
GER 10-yr 0,17 (1) (2) (0) (-46)

Belgium 10-yr 0,56 (0) (1) (0) (-41)
France 10-yr 0,51 (0) (0) (0) (-48)
Greece 10-yr 7,47 (2) (6) (-183) (-82)
Ireland 10-yr 0,86 (1) (-1) (-1)
Italy 10-yr 1,51 (1) (0) (11) (-9)
Netherlands 10-yr 0,39 (0) (2) (1) (-40)
Portugal 10-yr 3,1 (1) (-13) (-2) (59)
Spain 10-yr 1,61 (0) (-2) (7) (-17)

Emerging Markets
Brazil 10-yr 12,95 (9) (79) (-5) (-357)
Chile 10-yr 4,53 (0) (10) (18) (-13)
Colombia 10-yr 8,03 (1) (-3) (-4) (-63)
Mexico 10-yr 6,13 (5) (24) (32) (-13)
Peru 10-yr 6,1 (0) (-11) (-43) (-121)

Poland 10-yr 3,04 (2) (3) (8) (9)
Russia 5-yr 9,14 (10) (18) (-13) (-74)
Russia 10-yr 9,02 (9) (17) (-15) (-54)
Turkey 10-yr 10,04 (0) (34) (95) (-43)

India 10-yr 7,47 (0) (5) (5) (-29)
Indonesia 10-yr 7,87 (17) (7) (44) (-88)

Country risk *(changes in bp)*
Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 38 (-1) (-1) (-1) (4)
France 34 (-1) (-2) (0) (-2)
Greece 729 (2) (4) (-183) (-37)
Ireland 68 (0) (-3) (-1) (16)
Italy 133 (1) (-2) (10) (37)
Netherlands 22 (-1) (-0,3) (0) (5)
Portugal 293 (1) (-15,1) (-3) (104)
Spain 143 (0) (-4) (6) (29)

5-yr sovereign spreads *(against Germany)*
Belgium 5 (-1) (-2,2) (-2) (-3)
France 20 (0) (-1) (6) (7)
Greece 1638 (-1) (-2) (-1) (31)
Ireland 35 (0) (-2) (-4) (9)
Italy 74 (0) (-1) (0) (19)
Netherlands -2 (0) (-0,7) (1) (-2)
Portugal 221 (-2) (-14) (-15) (110)
Spain 91 (0) (-4) (15) (19)

2-yr sovereign spreads *(against Germany)*
Belgium 4 (0) (0) (0) (0)
France 9 (0) (1,1) (5) (6)
Ireland 15 (0) (0) (-3) (1)
Italy 45 (-1) (-1) (-4) (14)
Netherlands 1 (-1) (-1) (2) (3)
Portugal 111 (-1) (-4) (-5) (66)
Spain 42 (-2) (-3) (-5) (7)

5-yr sovereign CDS
5-yr CDS Belgium 50 (0) (-1) (1) (18)
5-yr CDS France 38 (0) (-1) (4) (13)
5-yr CDS Germany 19 (1) (-1) (0) (7)
5-yr CDS Greece 995 (8) (-87) (-65) (-64)
5-yr CDS Ireland 66 (0) (0) (-1) (26)
5-yr CDS Italy 130 (2) (0) (-3) (34)
5-yr CDS Netherlands 27 (1) (2) (-2) (13)
5-yr CDS Portugal 263 (2) (-4) (-3) (95)
5-yr CDS Spain 95 (0) (1) (0) (6)
5-yr CDS UK 36 (0) (0) (-6) (16)
5-yr CDS US 21 (0) (0) (0) (3)

Emerging Markets
5-yr sovereign CDS
5-yr CDS Brazil 338 (13) (22) (5) (-153)
5-yr CDS Chile 106 (5) (8) (11) (-21)
5-yr CDS Colombia 232 (7) (10) (21) (-7)
5-yr CDS Mexico 174 (5) (11) (18) (4)
5-yr CDS Peru 162 (4) (8) (10) (-23)
5-yr CDS Venezuela 5385 (241) (90) (-329) (-658)

5-yr CDS Poland85 (0) (-1) (-1) (13)
5-yr CDS Russia 254 (8) (5) (-4) (-47)
5-yr CDS Turkey 271 (5) (8) (35) (-2)

5-yr CDS China 128 (1) (2) (8) (19)
5-yr CDS India 162 (0) (0) (3) (13)
5-yr CDS Indonesia 191 (6) (8) (-7) (-35)

Credit risk
Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 17,24 (8,1) (19,6) (30,2) (-1)
VSTOXX24,39 (4,7) (-0,2) (19,8) (2)
EM EFT volatility Index 27 (7) (16) (29) (18)
Dollar/euro volatility 9 (-0,2) (17,2) (11,3) (-6)
EM FX volatility index 11 (0) (2) (1) (-4)
Credit spread (BAA) 289,1 (0,5) (-1,7) (-7,9) (-34)
US bonds volatility index 70 (0) (9) (5) (3)

Bank risk *(changes in bp)*
US banks CDS 86 (1) (1) (1) (11)
EMU banks CDS 115 (0) (3) (9) (32)
UK banks CDS 118 (-5) (-5) (-1) (41)

Large Spanish banks CDS 141 (-3) (11) (21) (4)
Medium Spanish banks CDS 190 (1) (5) (-7) (33)

Greek banks CDS 1349 (11) (-106) (-338) (-303)
Russian banks CDS 359 (4) (1) (-23) (-23)

Corporate risk *(changes in bps)*
US Non-financial CDS 241 (-1) (-4) (2) (-141)
EMU Non-financial CDS 279 (-6) (23) (60) (106)
UK Non-financial CDS 176 (1) (-8) (-5) (-16)

Interbank markets *(changes in bp)*
UEM OIS spread 3m 9 (0) (0) (-1) (-2)
UEM OIS spread 12m 36 (0) (-1) (-1) (3)
UEM TED spread 3m 32 (0) (1,7) (-4) (-9)

US OIS spread 3m 19 (0) (-5) (-6) (-3)
US OIS spread 12m 67 (0) (-7) (-6) (11)
US TED spread 3m 34 (0) (-2) (-9) (-11)

Spain Ted Spread 3m 14 (-1) (9) (13) (9)

EONIA Index -0,34 (0) (0,5) (0) (-21)
Euribor 3m -0,26 (0) (0) (-1) (-13)
Euribor 12m -0,01 (0) (0) (0) (-7)

Libor 3m 0,64 (0) (1) (0) (2)
Libor 12m 1,27 (0) (4) (4) (9)

Stock markets *(Changes in percentage)*
Developed Markets
Main equity indices
S&P500 2029,5 (-0,9) (-1,7) (-3,4) (-1)
DowJones 17354,5 (-1) (-2,1) (-3,9) (0)
Nikkei 16646,7 (0) (0) (-1,3) (-13)
FTSE 100 6063 (-1,7) (-0,7) (-5,3) (-3)
EuroStoxx 50 2924,2 (-1,1) (-0,4) (-6,1) (-11)
IBEX8684,5 (-1) (0,2) (-3,2) (-9)
DAX 9814,1 (-1,3) (-0,5) (-5,2) (-9)
CAC4289,7 (-0,7) (-0,1) (-6,1) (-7)
MIB 17587,8 (-0,7) (-0,4) (-4,7) (-18)
ASE Athens 622,3 (-1) (-1,7) (7,5) (-1)

Bank stocks
US banks 82,6 (-2,1) (1,2) (-1,2) (-12)
JPM 63,1 (-1,5) (2,1) (-0,4) (-4)
Citi 44,8 (-2,3) (1,8) (-1,8) (-13)
BoA 14,5 (-1,4) (2,4) (0,2) (-14)
MS 26,6 (-2,5) (1,3) (0,4) (-16)
GS 155,4 (-2,8) (-1,7) (-4,5) (-14)

HSBC 428,5 (-1,6) (1,2) (-5,6) (-20)
RBS 227,3 (1,6) (8,4) (-6,5) (-25)
Barclays 171,1 (0,4) (5) (1,9) (-22)
Lloyds 69,2 (-0,5) (6,6) (2) (-5)

EMU banks 82,1 (0,8) (2,2) (-5,6) (-24)
BNP 45,4 (0,9) (4,4) (-0,5) (-13)
Crédit Agricole 8,8 (-0,2) (1,2) (-10,2) (-20)
Deutsche Bank 15 (1,7) (3,2) (-4,2) (-33)
ING 10,3 (-0,2) (-0,4) (-7,7) (-17)
Intesa 2,3 (2,5) (3) (-5) (-26)
SG 34,5 (1,4) (5,5) (0,8) (-19)
Unicredito 2,8 (-1,1) (-3,8) (-15) (-45)

Large Spanish banks 64,9 (-0,9) (1,9) (-4,8) (-14)
Santander 4,1 (-0,7) (1,8) (-1,6) (-10)
BBVA 5,6 (-1,2) (1,9) (-7,2) (-17)

Medium Spanish banks 69 (0,6) (2,9) (-4,4) (-16)
Caixabank 2,4 (1) (2,1) (-6,7) (-24)
Popular 2,1 (0) (2,6) (-10,2) (-30)
Sabadell 1,6 (0,6) (2,4) (-3,3) (-3)
Bankinter 6,6 (1,1) (4,6) (1,8) (0)
Bankia 0,8 (-0,1) (2) (-7,7) (-28)

Greek banks 4,3 (-0,9) (1,9) (28,5) (-4)
Alpha Bank2,4 (-0,8) (4,4) (24,6) (-4)
Pireus Bank0,3 (-1,4) (-2,4) (24,5) (3)
National Central Bank0,3 (-1) (-2,6) (12,5) (-13)
Eurobank Ergasias1 (-1) (-1) (41,7) (0)

Emerging Markets
Main equity indices
MSCI Latam 65800 (-0,74) (-2,5) (-2,5) (10,9)
Ibovespa (Brazil) 49776 (-1,6) (-6,5) (-7,3) (14,8)
Mexbol 45007 (-1,2) (-1,5) (-1,7) (4,7)

MSCI EM Europe 4513 (0,07) (0,2) (-1,8) (6,2)
Poland 1800 (-2,3) (-0,9) (-8,4) (-3,2)
Micex (Russia) 1896 (-1,1) (-0,3) (-1,8) (7,6)
Ise 100 (Turkey) 77244 (0) (-1,4) (-10,4) (7,7)

MSCI EM Asia 636 (-0,55) (-0,5) (-4,9) (-3,7)
Shanghai Composite (China) 2807 (-0,02) (-1) (-7,8) (-20,7)
Jakarta Composite (Indonesia) 4704 (-0,6) (-2,1) (-3,6) (2)

Bank stocks
Turkish banks 78 (0) (-0,2) (-12,9) (5,4)
Akbank T.A.S. 8 (0) (0,1) (-11,3) (15,1)
Garanti 7 (0) (-0,8) (-15,4) (4,6)
Turkiye Is Bankasi 4 (0) (0) (-11,9) (-4,8)

Russian banks 161 (-1,5) (-0,5) (-2,6) (6,2)
Sberbank 121 (-1,8) (-0,2) (-0,5) (19,4)
VTB Bank 0,1 (-1) (-1) (-6,9) (-14,3)

Currencies *(in percentage, positive for dollar depreciation)*
Developed Markets
EURUSD 1,121 (-0,08) (-1,49) (-1,3) (3,2)
GBPUSD 1,46 (-0,08) (0,95) (1,3) (-1)
USDJPY 109,94 (0,23) (-0,84) (-0,7) (8,6)
DXY 95,32 (-0,3) (-1,2) (-1,4) (3,4)

Emerging Markets
USDARS (Argentina) 14,12 (0) (0,3) (0,4) (-9,2)
USDBRL (Brazil) 3,62 (-1,5) (-3,9) (-2,4) (8,7)
USDCLP (Chile) 698,53 (-1,2) (-2) (-5,7) (1,4)
USDCOP (Colombia) 3068,46 (-1,4) (-4,1) (-5,8) (3,3)
USDMXN (Mexico) 18,59 (-0,8) (-3,5) (-7,4) (-8,1)
USDPEN (Peru) 3,34 (-0,6) (-0,5) (-2,9) (2)
LACI 62,65 (-1,1) (-2,9) (-3,9) (0)

USDPLN (Poland) 3,93 (-0,3) (-1,4) (-4) (-0,3)
USDRUB (Russia) 67,16 (-1,5) (-3,5) (-1,9) (7,4)
USDTRY (Turkey) 3 (-0,3) (-1,3) (-5,9) (-2,7)

USDCNY (China) 6,55 (-0,2) (-0,5) (-1,4) (-0,9)
USDINR (India) 67,37 (-0,6) (-1,1) (-1,2) (-1,8)
USDIDR (Indonesia) 13565 (-1,4) (-2) (-3,3) (1,6)
ADXY 106,4 (0) (-0,8) (-2,3) (-0,1)

Commodities *(change in percentage)*
Brent 47,71 (-2,5) (-0,8) (8,4) (28)
WTx 47,05 (-2,4) (0,7) (14,5) (27)
Copper 205,2 (-1,4) (-1) (-7,7) (-3,5)
Gold 1251,14 (-0,6) (-1) (0,1) (17,9)
Baltic Dry Index 642 (0) (10,9) (-4,3) (34,3)
S&P GSCI Spot commodity index 369,976 (-0,2) (2,4) (10,2) (19,7)
S&P GSCI Brent Spot 420,852 (-0,6) (3,1) (15,6) (34,1)
S&P GSCI Metals Spot 255,89 (-0,5) (-1,6) (-2,8) (0,4)
S&P GSCI Agricultural Spot 308,178 (-0,1) (2,7) (4) (8,7)

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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