

# Market Comment | Equities climb back ahead of today's FOMC decision

Global Financial Markets Unit  
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- **US industrial production fell by more than expected in May**, with softer manufacturing production (-0.4% MoM, consensus -0.2% MoM, previous 0.6% MoM). Moreover, industrial capacity utilisation declined by more than expected (to 74.9%, consensus 75.2%, previous 73.3). The Empire State manufacturing index unexpectedly increased in June, led by new orders and shipments, which bodes well for the coming months.
- **Equities bounced back after the global sell-off ahead of today's FOMC decision.** Equity markets came back today, while top-rated sovereign bond yields inched down from record low level as markets waited for this afternoon's FOMC decision on interest rates, with markets pricing in a zero chance of a rate hike today. Investors will also focus on the Fed's so-called "dot plot," which shows the pace of interest rate increases that Fed's officials expect will be warranted. Although financial markets were calmer today, several indicators suggest that uncertainty still prevails. Although German 10Y yields were flirting with positive and negative levels, the 1-month implied volatility in the 10Y bund yield remains high (85.7%, close to the March 2016 high of 95% when the sell-off in the banking sector took place), while the implied volatility of the US Treasury is also high (79%). The same cautious mood can be inferred from the performance of equity market risk metrics. Despite the rebound in the main equity indices (1.3% Euro Stoxx 50, IBEX 1.7%, 0.2% S&P500), implied volatility remained steady at high levels (Euro Stoxx implied volatility 38%, S&P500 implied volatility 19.5%). Asian markets rose today, with China's Shanghai Composite rallying (1.6%), although the MSCI refused to add the nation's domestic equities (A-shares) to benchmark indices. This sparked speculation that a state fund may be purchasing stocks. Peripheral yields inched down after their recent increases, but spreads remained wide. In FX markets, most G10 currencies held steady against the US dollar today, although some of the currencies hardest hit in recent days recovered some ground (GBP 0.6%). Nonetheless, implied volatility in the British pound remained at record levels, ahead of next week's referendum on Brexit. EM currencies were broadly flat waiting for the FOMC decision. Commodity markets were mixed today, with oil markets declining (Brent 1%, WTX 0.4%) although oil prices trimmed losses later after a report showed U.S. crude inventories fell for a fourth week. Copper prices rebounded (1.6%) in line with other cyclical assets. Lastly gold prices remained steady.

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Table 1

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

**Debt markets (changes in bp)**

**Developed**

US 2yr 0.71 (1.7) (4) (34)  
 US 5yr 1.11 (2.1) (5) (46)  
 US 10yr 1.98 (2.1) (11) (66)  
 Japan 10yr -0.18 (2) (4) (44)  
 GER 2yr -0.59 (-1.5) (4) (26)  
 GER 5yr -0.46 (2) (7) (-11) (44)  
 GER 10yr -0.04 (1.7) (10) (64)  
 Belgium 10yr 0.44 (2) (-1) (49) (43)  
 France 10yr 0.4 (3) (-1) (56) (49)  
 Greece 10yr 8.18 (3) (77) (70) (40)  
 Ireland 0.83 (-1) (6) (2)  
 Italy 10yr 1.81 (1) (12) (21) (40)  
 Netherlands 10yr 0.24 (-2) (4) (-13) (46)  
 Portugal 10yr 3.54 (4) (27) (21) (43)  
 Spain 10yr 1.56 (1) (7) (15) (42)

**Emerging Markets**

Brazil 10yr 12.88 (6) (27) (27) (130)  
 Chile 10yr 4.54 (6) (11) (-12)  
 Colombia 10yr 7.91 (1) (-1) (-12) (75)  
 Mexico 10yr 6.11 (4) (17) (3) (15)  
 Peru 10yr 6.13 (2) (7) (8) (118)  
 Poland 10yr 3.28 (4) (18) (5) (33)  
 Russia 10yr 8.87 (5) (14) (4) (100)  
 Russia 10yr 8.87 (7) (8) (-18) (49)  
 Turkey 10yr 9.55 (4) (22) (44) (64)  
 India 10yr 7.52 (2) (8) (24)  
 Indonesia 10yr 7.64 (6) (3) (4) (-110)

**C. Country risk (changes in bp)**

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

Belgium 45 (2) (6) (11)  
 France 41 (1) (6) (7) (3)  
 Greece 320 (2) (4) (84) (54)  
 Ireland 36 (2) (13) (20)  
 Italy 51 (6) (17) (17) (64)  
 Netherlands 26 (1) (2) (3) (9)  
 Portugal 336 (3) (33) (27) (147)  
 Spain 157 (6) (20) (11) (43)

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

Belgium 24 (0) (16) (9) (17)  
 France 28 (0) (6) (15)  
 Greece 161 (2) (7) (11) (44)  
 Ireland 48 (0) (12) (22)  
 Italy 58 (0) (17) (25) (44)  
 Netherlands 22 (0) (4) (23) (21)  
 Portugal 206 (2) (37) (36) (155)  
 Spain 105 (0) (19) (13) (34)

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

Belgium 10 (2) (5) (5)  
 France 15 (0) (4) (6) (11)  
 Ireland 22 (0) (5) (5) (7)  
 Italy 48 (1) (20) (23) (26)  
 Netherlands 8 (1) (2) (5) (10)  
 Portugal 129 (2) (34) (25) (94)  
 Spain 63 (0) (19) (19) (20)

**C. Credit risk**

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

VIX 19.46 (5.1) (28.2) (26) (1)  
 VIX30Y 37.51 (2.2) (4.3) (14) (15)  
 EM FTT quality index 28 (2) (37) (16) (20)  
 Delinquency ratio 15 (2.4) (25.7) (38) (20)  
 EM FV volatility index 11 (0) (12) (2) (2)  
 Credit losses (Baa) 28 (2.2) (11) (11) (32)  
 US bonds volatility index 75 (0) (16) (15) (17)

**Interbank markets (changes in bp)**

EUR 6M spread 3m 11 (0) (1) (2)  
 EUR 6M spread 12m 38 (0) (2) (2) (5)  
 USD 6M spread 3m 40 (0) (4) (0) (1)  
 US 6M spread 3m 26 (-1) (0) (2) (3)  
 US 6M spread 12m 77 (0) (1) (4) (2)  
 US TED spread 3m 38 (0) (1) (1) (4)  
 Spain Ted spread 3m -14 (2) (-17) (13) (-18)

EURIBOR index 0.33 (0) (7) (2) (20)  
 Euribor 3m -0.26 (0) (2) (-1) (-13)  
 Euribor 12m -0.26 (0) (0) (-1) (-4)  
 Libor 3m 0.85 (0) (0) (0) (6)  
 Libor 12m 1.25 (0) (1) (0) (8)

**Stock markets (changes in percentage)**

**Main equity indices**

S&P500 2079.8 (0.2) (-1.9) (8) (2)  
 Dow Jones 1778.8 (0.2) (1) (7) (0)  
 Nikkei 19919.6 (0.4) (1.4) (3) (-16)  
 FTSE 100 5860.5 (1) (1) (2) (14)  
 Euro Stoxx 50 2804.7 (1.3) (6.1) (4) (13)  
 DAX 3623.3 (1.1) (-5.8) (3) (-18)  
 CAC40 3171.2 (1.4) (-2.1) (-10)  
 IBEX 3648.8 (1.7) (-7.6) (6) (22)  
 AEX others 575.5 (3) (-1) (8) (-7) (2)

**Bank stocks**

US banks 78.9 (1.3) (4.4) (-2.3) (-16)  
 JPM 62.8 (0.14) (1.1) (3)  
 Cit 42.5 (1.4) (4.7) (-1.4) (-18)  
 BAC 55.0 (2.2) (6) (11) (-7) (-9)  
 HS 24.9 (1.3) (6.1) (-5) (-22)  
 GS 147.6 (1) (4.6) (6) (-18)

HSBC 427.2 (0.4) (4.4) (0.4) (-20)  
 RBS 117 (2.4) (2.7) (2) (-120)  
 Deutsche 111.4 (8.8) (6.1) (3) (26)  
 Lloyds 60.1 (1.5) (6) (7) (6) (-14)

EU banks 73.6 (1.2) (-10) (2) (6) (-22)  
 BNP 42.3 (1.1) (6.4) (3.2) (-18)  
 Credit Agricole 7.8 (0) (7) (6) (1) (-28)  
 Deutsche 113 (0.8) (11.4) (-8) (-14)  
 ING 9 (2) (7) (-10) (2) (4) (-22)  
 Intesa 12 (2) (4) (2) (6) (-36)  
 SO 31.4 (2.1) (-0.1) (-6) (-8) (-26)  
 Unicredit 23 (1) (1) (1) (7) (-1) (-5)

**Large Spanish banks**

Santander 3.7 (2) (0) (5) (8) (-19)  
 BBVA 5.1 (2.1) (-6.6) (-7.2) (-24)

Medium Spanish banks 59.9 (1.6) (6.2) (-1.3) (-27)  
 Caixabank 21 (0) (1.7) (1) (5) (-35)  
 Popular 14 (5.5) (-3.7) (-26) (-56)  
 Sabadell 14 (1) (2) (6) (2) (6) (7) (-15)  
 Bankinter 6 (0) (3) (-4) (-1) (-6)  
 Bankia 0.7 (1) (-7) (-6) (-6) (-35)

Greek banks 33 (4.3) (20) (-18) (-13) (-27)  
 Alpha Bank 9 (4.5) (-2) (4) (-14) (-25)  
 Piraeus Bank 1 (3) (-2) (2) (2) (2) (2)  
 National Central Bank 2 (2) (-2) (-3) (-21) (-54)  
 European Express 0.3 (-7) (-3) (3) (-2) (-27)

**Emerging Markets**

**Main equity indices**

MSCI Latin 4296 (1.37) (-3.3) (4.2) (7) (8)  
 Russia (Bvxt) 4922 (2) (-4.2) (-5) (13) (6)  
 MSCI 4458 (0) (-3) (3) (4) (6)  
 MSCI EM Europe 4056 (4.21) (4.9) (-3) (6) (2.1)  
 Poland 1773 (0) (-3) (4) (4) (4) (8)  
 Korea (KOSPI) 1982 (0) (3) (1) (2) (1) (4)  
 In 100 (Turkey) 7627 (0) (-3) (-1) (1) (1) (3)

MSCI EM Asia 600 (0) (-2) (0) (-1) (4) (6)  
 Shanghai Composite China 2887 (1.56) (1.41) (1) (1) (-1) (4)  
 Jakarta Composite Indonesia 4815 (4) (1) (-1) (2) (1) (6)

**Bank stocks**

Turkish banks 79 (1) (-2) (0) (6) (7)  
 Akbank T.A.S. 8 (0) (2) (1) (7) (17) (2)  
 Garanti 8 (0) (-2) (7) (5) (5) (6)  
 Turkey 8 Banks 4.2 (1) (6) (5) (5) (3)  
 Russian banks 179 (1) (-6) (7) (4) (2) (12) (3)  
 Sberbank 130 (2) (7) (5) (2) (2)  
 VTB Bank 11 (1) (-1) (0) (6) (6) (12)

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

EURUSD 1.158 (0.36) (-1.3) (-0.7) (0.59)  
 GBPUSD 1.42 (0.6) (2) (-1) (-1) (-3) (6)  
 USDJPY 105.85 (0.25) (1) (0) (1) (2)  
 DXY 84.65 (0.3) (1) (1) (-1) (1) (6)

**Emerging Markets**

USDRP (Argentina) 13 (5) (0) (1) (2) (7) (6) (2)  
 USDRP (Brazil) 2.48 (2) (3) (4) (7) (12) (3)  
 USDRP (China) 686.5 (0) (1) (1) (1) (1) (1) (1) (1)  
 USDRP (Colombia) 2807 (7) (8) (2) (1) (1) (1) (1) (1)  
 USDRP (Mexico) 18 (7) (3) (4) (-2) (-1) (-1) (1) (1)  
 USDRP (Peru) 13 (2) (7) (6) (6) (4) (2) (6)  
 LACI 63 (0) (3) (2) (7) (0) (1) (6)

USDRP (Poland) 3.93 (0) (3) (7) (1) (1) (1) (1) (1)  
 USDRP (Russia) 0.46 (0) (1) (2) (0) (0) (0) (0) (0)  
 USDRP (Turkey) 2.90 (0) (3) (-1) (1) (1) (4) (3)

USDRP (China) 6.59 (0) (2) (3) (6) (1) (1) (1) (1)  
 USDRP (India) 15 (2) (2) (3) (0) (1) (1) (1) (1)  
 USDRP (Indonesia) 1305 (0) (3) (6) (4) (3) (3) (1) (1)  
 ADXY 106.85 (0) (2) (6) (4) (3) (0) (3)

**Commodities (Change in percentage)**

Wheat 493 (1) (4) (1) (7) (1) (2) (3)  
 WTI 483 (0.4) (1) (1) (2) (0) (6) (7)  
 Copper 299.85 (0.1) (7) (1) (0) (1) (3) (4)  
 Gold 1284.83 (4) (1) (7) (0) (8) (2) (1)  
 S&P 500 Index 100 (0) (1) (2) (1) (1) (1) (1) (1)  
 S&P 500 Spot commodity index 379.156 (0.6) (0.6) (4) (0) (2) (7)  
 S&P 500 Brent Spot 432.841 (1) (2) (1) (1) (1) (1) (1) (1)  
 S&P 500 WTI Spot 296.366 (0.6) (0.6) (4) (0) (2) (7)  
 S&P 500 Agriculture Spot 328.318 (2) (2) (7) (0) (2) (1) (2)

**Source: Bloomberg, Devisen and Wier**

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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