

Market Comment | Fed's Brainard's dovish tone has a limited effect on markets

Global Financial Markets Unit
13 Sep 2016

- **Financial markets received the significant dovish speech from the Fed's Brainard with a mild impact** - Brainard is the last FOMC's member set to speak before the Fed's meeting on 21 September. Lael Brainard described the current environment as one with undershooting inflation targets and weak labour improvement in the US economy, indicating that "the case for tighter policy" is less probable. Moreover, she warned about the potential EM downside risks (mainly China) to the US economy. Thus, the speech reinforced the view that interest rates are unlikely to rise at the Fed's next meeting and the market implied probability of a September interest rate hike tumbled from 28% to 22%, whereas **the markets still discount a December interest rate hike with a 57% probability.**
- Brainard's dovish tone encouraged a rebound in US equities yesterday (S&P500 +1.47%). Nonetheless, **the supportive effect of the Fed's Brainard faded today, with US shares currently declining, offsetting yesterday's gains** (-1.6%), and also dragging down the main global stocks. European shares, which were steady in early trading, but started making losses at the US equity markets opening (Euro Stoxx50 -1.3%, Ibex35 -1.6%), amid slightly disappointing September German ZEW Economic Sentiment (0.5, consensus 2.5, prior 0.5). EM markets also declined (Ibovespa -3.1%, Mexbol -1.1%).
- In bond markets, Brainard's dovish speech had a limited effect. In US, both the 2Y (+2 bps) and the 10YUS (+5 bps) Treasury inched up. In Europe, 10Y yields also inched up (10YGER +3 bps, 10YFRA +3 bps), with the exception of Portugal that surged today (+10 bps). Moreover, the recent upward trend in EM bonds yields remains in place. 10Y USD-denominated yields rose (10YCOL +12 bps, 10YBRA +11 bps, 10YMEX +10 bps).
- In FX markets, the USD remained steady against the EUR (0.07%). The JPY depreciated (-0.3%) after the yesterday's appreciation, while the GBP depreciated (1.14%) amid worse-than-expected August inflation data (0.6%, consensus 0.7%, prior 0.6%). Oil prices went down (-2.3%) as the **IEA monthly report forecast oversupply next year, in line with the OPEC report released yesterday.** EM currencies devalued in this context (MXN +1.9%, CLP +1%, TRY -0.6%, COP -1.6%).

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Table 1

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

Debt markets (changes in %p)

US 2yr 5.79 (0.01) (0.126)
 US 5yr 1.34 (0.17) (0.142)
 US 10yr 1.72 (0.03) (0.26) (5.6)

Japan 10yr 0.01 (0.1) (0.19) (0.26)
 CDS 2yr 4.48 (0.01) (0.12)
 GED 5yr 4.46 (0.18) (0.142)
 GED 10yr 6.07 (0.06) (0.142)

Belgium 10yr 6.3 (0.19) (0.47)
 France 10yr 5.37 (0.20) (0.42)
 Greece 10yr 12.23 (0.15) (0.18)
 Ireland 10yr 5.2 (0.1) (0.17)
 Italy 10yr 5.32 (0.23) (0.26)
 Netherlands 4 (0.1) (0.142)
 Portugal 10yr 7.3 (0.18) (0.18)
 Spain 10yr 1.1 (0.17) (0.17)

Emerging Markets
 Brazil 10yr 12.32 (0.13) (0.418)
 China 10yr 4.26 (0.1) (0.142)
 Colombia 10yr 7.14 (0.2) (0.142)
 Mexico 5yr 5.01 (0.1) (0.142)
 Peru 10yr 3.65 (0.1) (0.142)

Poland 10yr 7.5 (0.1) (0.142)
 Russia 5yr 9.23 (0.14) (0.142)
 Russia 10yr 9.04 (0.12) (0.142)
 Turkey 10yr 9.53 (0.14) (0.142)

India 10yr 8.85 (0.20) (0.142)
 Indonesia 10yr 8.91 (0.13) (0.142)

Country risk (changes in %p)

10 yr sovereign spreads (against Germany)

Belgium 27 (0.1) (0.142)
 France 35 (0.1) (0.142)
 Greece 101 (0.1) (0.142)
 Ireland 47 (0.1) (0.142)
 Italy 35 (0.1) (0.142)
 Netherlands 10 (0.1) (0.142)
 Portugal 33 (0.1) (0.142)
 Spain 102 (0.1) (0.142)

5 yr sovereign spreads (against Germany)

Belgium 8 (0.1) (0.142)
 France 14 (0.1) (0.142)
 Greece 144 (0.1) (0.142)
 Ireland 41 (0.1) (0.142)
 Italy 18 (0.1) (0.142)
 Netherlands 10 (0.1) (0.142)
 Portugal 34 (0.1) (0.142)
 Spain 81 (0.1) (0.142)

3 yr sovereign spreads (against Germany)

Belgium 5 (0.1) (0.142)
 France 6 (0.1) (0.142)
 Ireland 20 (0.1) (0.142)
 Italy 16 (0.1) (0.142)
 Netherlands 9 (0.1) (0.142)
 Portugal 10 (0.1) (0.142)
 Spain 51 (0.1) (0.142)

5 yr sovereign CDS

5 yr CDS Belgium 26 (0.1) (0.142)
 5 yr CDS France 26 (0.1) (0.142)
 5 yr CDS Germany 10 (0.1) (0.142)
 5 yr CDS Greece 102 (0.1) (0.142)
 5 yr CDS Ireland 28 (0.1) (0.142)
 5 yr CDS Italy 18 (0.1) (0.142)
 5 yr CDS Netherlands 28 (0.1) (0.142)
 5 yr CDS Portugal 30 (0.1) (0.142)
 5 yr CDS Spain 70 (0.1) (0.142)
 5 yr CDS UK 31 (0.1) (0.142)
 5 yr CDS US 28 (0.1) (0.142)

Emerging Markets

5 yr CDS Argentina 204 (0.1) (0.142)
 5 yr CDS Brazil 109 (0.1) (0.142)
 5 yr CDS China 15 (0.1) (0.142)
 5 yr CDS Colombia 10 (0.1) (0.142)
 5 yr CDS Mexico 136 (0.1) (0.142)
 5 yr CDS Peru 161 (0.1) (0.142)
 5 yr CDS Venezuela 427 (0.1) (0.142)

5 yr CDS Poland 21 (0.1) (0.142)
 5 yr CDS Russia 206 (0.1) (0.142)
 5 yr CDS Turkey 244 (0.1) (0.142)

5 yr CDS China 19 (0.1) (0.142)
 5 yr CDS India 10 (0.1) (0.142)
 5 yr CDS Indonesia 141 (0.1) (0.142)

Credit risk

US 1001 (0.1) (0.142) (change % percentage spread for S&P spreads, %)
 VIX 16 (0.1) (0.142)
 VIX3M 27 (0.1) (0.142)
 EMU EFT weekly index 27 (0.1) (0.142)
 Delinquency ratio 7.2 (0.1) (0.142)
 EMU FT weekly index 39 (0.1) (0.142)
 CDS spread (Baa) 24 (0.1) (0.142)
 US banks weekly index 84 (0.1) (0.142)

Bank risk (changes in %p)

US banks CDS 74 (0.1) (0.142)
 EU banks CDS 111 (0.1) (0.142)
 UK banks CDS 30 (0.1) (0.142)
 Large Spanish banks CDS 136 (0.1) (0.142)
 Medium Spanish banks CDS 163 (0.1) (0.142)

China banks CDS 78 (0.1) (0.142)
 Russian banks CDS 229 (0.1) (0.142)

Interbank markets (changes in %p)

LEM USD spread 3m 7 (0.1) (0.142)
 LEM USD spread 6m 3 (0.1) (0.142)
 LEM TED spread 3m 40 (0.1) (0.142)
 US USD spread 3m 42 (0.1) (0.142)
 US USD spread 6m 30 (0.1) (0.142)
 US TED spread 3m 30 (0.1) (0.142)

Spain Ted spread 3m 7 (0.1) (0.142)
 EONIA Index 3.34 (0.1) (0.142)
 Euro3m 3 (0.1) (0.142)
 Euro3m 12m 4 (0.1) (0.142)

Libor 3m 0.86 (0.1) (0.142)
 Libor 12m 1.57 (0.1) (0.142)

Stock markets (Changes in percentage)

Major markets

S&P500 2.05 (1.1) (2.7)
 Dow Jones 1.65 (1.1) (2.7)
 Nikkei 1.02 (0.2) (1.7)
 FTSE 100 0.95 (0.2) (1.7)
 Euro Stoxx 50 2.01 (0.2) (1.7)
 MSCI 2.1 (0.2) (1.7)
 CAC 40 1.1 (0.2) (1.7)
 CMC 2.1 (0.2) (1.7)
 HSI 1.02 (0.1) (1.7)
 ASE Athens 1.57 (0.1) (1.7)

Bank stocks

JPM 0.5 (0.1) (0.2)
 Cit 0.4 (0.1) (0.2)
 BofA 0.2 (0.1) (0.2)
 MS 0.1 (0.1) (0.2)
 GS 0.2 (0.1) (0.2)

US Banks

WFC 0.3 (0.1) (0.2)
 BBK 0.1 (0.1) (0.2)
 Citi 0.1 (0.1) (0.2)
 Sun 0.1 (0.1) (0.2)
 US Banc 0.1 (0.1) (0.2)
 Wells Fargo 0.1 (0.1) (0.2)
 Capital One 0.1 (0.1) (0.2)
 Citicorp 0.1 (0.1) (0.2)

European Banks

BNP 0.1 (0.1) (0.2)
 Santander 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)
 BNP 0.1 (0.1) (0.2)

Emerging Markets

MSCI Latin America 1.0 (0.1) (0.2)
 MSCI Emerging Asia 1.0 (0.1) (0.2)
 MSCI Emerging Europe 1.0 (0.1) (0.2)
 MSCI Emerging Africa 1.0 (0.1) (0.2)
 MSCI Emerging Middle East 1.0 (0.1) (0.2)

Commodities (change in percentage)

WTI 41.2 (2.7) (0.142)
 WTI 42.2 (2.7) (0.142)
 Crude 2012 (0.1) (0.142)
 Gold 1202.8 (0.1) (0.142)
 Bauxite 100 (0.1) (0.142)
 S&P 500 Spot commodity index 350.84 (0.1) (0.142)
 S&P 500 Index 1492.1 (0.1) (0.142)
 S&P 500 Futures 1492.1 (0.1) (0.142)
 S&P 500 Agricultural Spot 260.302 (0.1) (0.142)

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 S&P 500 Index 1492.1 (0.1) (0.142)
 S&P 500 Futures 1492.1 (0.1) (0.142)
 S&P 500 Agricultural Spot 260.302 (0.1) (0.142)

Commodities (change in percentage)

WTI 41.2 (2.7) (0.142)

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

Debt markets (changes in bps)

US 2-yr 0.79 (0.16) (1.26)
US 5-yr 1.24 (0.17) (1.62)
US 10-yr 1.72 (0.11) (2.61) (5)

Japan 10-yr 0.11 (1.11) (0.9) (3)
GER 2-yr -0.63 (0.5) (1.52)
GER 5-yr -0.46 (1.19) (0.1) (4.5)
GER 10-yr -0.67 (1.01) (1.64) (4)

Belgium 10-yr 0.3 (1.18) (1.61) (4.7)
France 10-yr 0.37 (0.28) (2.04) (6.2)
Greece 10-yr 0.39 (0.31) (2.68) (8)
India 10-yr 8.5 (0.1) (1.27)
Italy 10-yr 1.32 (0.4) (2.25) (2.8)
Indonesia 5-yr 0.11 (0.2) (1.11) (1.42)
Portugal 10-yr 2.3 (1.0) (1.9) (1.7)
Spain 10-yr 1.12 (1.17) (1.7)

Emerging Markets

Brazil 10-yr 12.3 (1.4) (3.0) (4.4) (6)
China 10-yr 2.5 (1.2) (1.1) (1.6)
Colombia 10-yr 1.4 (1.2) (1.8) (1.3)
Mexico 5-yr 4.8 (0.27) (1.9) (2.9)
Peru 10-yr 5.0 (0.0) (1.5) (1.6)

Poland 10-yr 2.8 (1.0) (2.0) (1.3)
Russia 5-yr 3.2 (1.4) (2.1) (2.3) (4)
Russia 10-yr 4.4 (1.7) (2.1) (1.5) (2)
Turkey 10-yr 5.3 (0.8) (1.4) (1.3) (4)

India 10-yr 4.8 (0.2) (1.0) (1.0)
Indonesia 10-yr 4.9 (0.7) (1.2) (1.5) (1.7)

Country risk (changes in bps)

10 yr overnight spreads (against Germany)
Belgium 21 (0.1) (1.1)
France 38 (0.1) (0.1) (4)
Greece 131 (1.3) (0.9) (46)
Ireland 47 (0.1) (0.1) (4)
Italy 75 (0.1) (0.2) (2)
Netherlands 15 (0.1) (0.1) (4)
Poland 127 (1.2) (2.4) (1.9)
Spain 10 (0.1) (0.1) (1.7)

1 yr overnight spreads (against Germany)
Belgium 8 (1) (1) (1)
France 14 (0) (0) (1)
Greece 168 (1) (1) (1) (1) (1)
Ireland 44 (1) (1) (1) (1) (1)
Italy 81 (1) (1) (1) (1) (1)
Netherlands 8 (1) (1) (1) (1) (1)
Poland 41 (1) (1) (1) (1) (1)
Spain 14 (1) (1) (1) (1) (1)

2 yr overnight spreads (against Germany)
Belgium 9 (0) (0) (1) (1)
France 17 (1) (1) (1)
Ireland 21 (1) (1) (1) (1)
Italy 58 (1) (1) (1) (1)
Netherlands 8 (1) (1) (1) (1)
Poland 41 (1) (1) (1) (1)
Spain 11 (0) (0) (1) (1)

5 yr overnight CDS
5-yr CDS Belgium 24 (0.1) (1.7) (2)
5-yr CDS France 38 (0.0) (0.1) (3)
5-yr CDS Germany 10 (0.1) (1.1) (1)
5-yr CDS Greece 105 (0.4) (1.2) (2) (3)
5-yr CDS Ireland 18 (0.1) (1.1) (1)
5-yr CDS Italy 14 (0.0) (1) (1)
5-yr CDS Netherlands 25 (0.1) (1) (1)
5-yr CDS Portugal 20 (0.1) (1) (1) (1)
5-yr CDS Spain 15 (1) (0) (1) (1)
5-yr CDS UK 13 (0) (1) (1) (1)
5-yr CDS US 20 (0) (0) (1) (1)

Emerging Markets

5-yr overnight CDS
5-yr CDS Argentina 374 (4) (1) (1) (1) (1) (1) (1)
5-yr CDS Brazil 154 (2) (1) (1) (1) (1)
5-yr CDS China 16 (1) (1) (1) (1) (1)
5-yr CDS Colombia 248 (3) (1) (1) (1) (1)
5-yr CDS Mexico 118 (2) (1) (1) (1) (1)
5-yr CDS Peru 118 (2) (1) (1) (1) (1)
5-yr CDS Venezuela 271 (7) (1) (1) (1) (1) (1) (1)

5-yr CDS Paraguay (1) (1) (1) (1)
5-yr CDS Russia 205 (1) (1) (1) (1) (1)
5-yr CDS Turkey 344 (5) (1) (1) (1)
5-yr CDS Chile 89 (1) (1) (1) (1) (1)
5-yr CDS India 131 (1) (1) (1) (1) (1)
5-yr CDS Indonesia 141 (1) (1) (1) (1) (1)

5-yr overnight CDS
5-yr CDS Argentina 374 (4) (1) (1) (1) (1) (1) (1)
5-yr CDS Brazil 154 (2) (1) (1) (1) (1)
5-yr CDS China 16 (1) (1) (1) (1) (1)
5-yr CDS Colombia 248 (3) (1) (1) (1) (1)
5-yr CDS Mexico 118 (2) (1) (1) (1) (1)
5-yr CDS Peru 118 (2) (1) (1) (1) (1)
5-yr CDS Venezuela 271 (7) (1) (1) (1) (1) (1) (1)

5-yr CDS Paraguay (1) (1) (1) (1)
5-yr CDS Russia 205 (1) (1) (1) (1) (1)
5-yr CDS Turkey 344 (5) (1) (1) (1)
5-yr CDS Chile 89 (1) (1) (1) (1) (1)
5-yr CDS India 131 (1) (1) (1) (1) (1)
5-yr CDS Indonesia 141 (1) (1) (1) (1) (1)

Emerging Markets

5-yr overnight CDS
5-yr CDS Argentina 374 (4) (1) (1) (1) (1) (1) (1)
5-yr CDS Brazil 154 (2) (1) (1) (1) (1)
5-yr CDS China 16 (1) (1) (1) (1) (1)
5-yr CDS Colombia 248 (3) (1) (1) (1) (1)
5-yr CDS Mexico 118 (2) (1) (1) (1) (1)
5-yr CDS Peru 118 (2) (1) (1) (1) (1)
5-yr CDS Venezuela 271 (7) (1) (1) (1) (1) (1) (1)

5-yr CDS Paraguay (1) (1) (1) (1)
5-yr CDS Russia 205 (1) (1) (1) (1) (1)
5-yr CDS Turkey 344 (5) (1) (1) (1)
5-yr CDS Chile 89 (1) (1) (1) (1) (1)
5-yr CDS India 131 (1) (1) (1) (1) (1)
5-yr CDS Indonesia 141 (1) (1) (1) (1) (1)

5-yr overnight CDS
5-yr CDS Argentina 374 (4) (1) (1) (1) (1) (1) (1)
5-yr CDS Brazil 154 (2) (1) (1) (1) (1)
5-yr CDS China 16 (1) (1) (1) (1) (1)
5-yr CDS Colombia 248 (3) (1) (1) (1) (1)
5-yr CDS Mexico 118 (2) (1) (1) (1) (1)
5-yr CDS Peru 118 (2) (1) (1) (1) (1)
5-yr CDS Venezuela 271 (7) (1) (1) (1) (1) (1) (1)

5-yr CDS Paraguay (1) (1) (1) (1)
5-yr CDS Russia 205 (1) (1) (1) (1) (1)
5-yr CDS Turkey 344 (5) (1) (1) (1)
5-yr CDS Chile 89 (1) (1) (1) (1) (1)
5-yr CDS India 131 (1) (1) (1) (1) (1)
5-yr CDS Indonesia 141 (1) (1) (1) (1) (1)

Credit risk

10-yr industry spreads (% percentage except for AAA spreads, bps)
VIX 18.48 (1.8) (1.3) (0.5) (1.0)
VIX 10-yr 21.8 (1.8) (1.1) (1.1)
EM EPI volatility index 27 (1.1) (1.1) (1.1)
EM FI volatility index 41 (0.1) (1) (1) (1)
Credit spread (BAA) 264 (1.4) (1.3) (1.3) (1.3)
US bonds volatility index 69 (1.1) (1) (1)

Bank risk (changes in bps)

US banks CDS 14 (1) (1) (1) (1)
EM banks CDS 11 (1) (1) (1) (1)
UK banks CDS 89 (2) (1) (1) (1)

Large Spanish banks CDS 10 (0) (1) (1) (1)
Medium Spanish banks CDS 152 (1) (1) (1) (1)
Greek banks CDS 745 (4) (1) (1) (1) (1) (1) (1)
Russian banks CDS 329 (2) (1) (1) (1) (1)

Interbank markets (changes in bps)

LEM 05 period 3m 1 (0) (1) (1) (1)
LEM 05 spread 3m 31 (0) (1) (1) (1)
LEM TCO spread 3m 49 (0) (1) (1) (1) (1)
USDS spread 3m 42 (0) (1) (1) (1)
USDS spread 6m 16 (1) (1) (1) (1) (1)
US TCO spread 3m 50 (1) (1) (1) (1) (1)
Spain Ted Spread 3m 7 (0) (1) (1) (1) (1)

EOGA index 0.34 (0.3) (0.3) (1.2)
Euro3 3m 0.3 (0) (1) (1) (1)
Euro3 6m 0.48 (0) (1) (1) (1)
Libor 3m 0.88 (0) (1) (1) (1)
Libor 6m 1.27 (0) (1) (1) (1)

Stock markets (Changes in percentage)

Major equity indices
S&P 500 1.61 (1.6) (1.2) (0.7) (1)
Dow Jones 1071.4 (1.4) (1.1) (1.2) (1)
Nikkei 1020 (0.1) (1) (1) (1) (1)
FTSE 100 966.6 (1.0) (1.2) (1.3) (1)
EuroStoxx 50 2174.4 (1.3) (1.1) (1.1) (1)
IBEX 35 2141.0 (1.2) (1) (1) (1)
DAX 1038.8 (1.1) (1) (1) (1) (1)
CAC 40 1711.2 (1.2) (1) (1) (1)
ASX 1642.7 (1.7) (1) (1) (1) (1)
ASX All Ordinaries 1611.0 (1.7) (1) (1) (1) (1)

Bank stocks

JPM 63.5 (1.8) (1.3) (0.3) (0)
Cit 40.2 (2.0) (1.3) (0.4) (1)
BAC 35.1 (2.1) (1.4) (1) (1)
MS 31.3 (1.9) (1.4) (0) (1)
GS 16.4 (2.6) (1.6) (0) (1)

HSEC 58.3 (1.1) (1) (1) (1) (1)
HSBC 106 (4.8) (1) (1) (1) (1)
Bankery 110 (4.3) (1) (1) (1) (1)
United 164 (1.2) (1) (1) (1) (1)

EMU banks 77.1 (1.1) (1) (1) (1) (1)
BNP 40 (1.8) (1) (1) (1) (1)
CMB Argenta 4.1 (1) (1) (1) (1) (1)
Lombard Bank 11 (1) (1) (1) (1) (1)
ING 10 (1) (1) (1) (1) (1)
Intesa 11 (1) (1) (1) (1) (1)
SG 32 (1.9) (1) (1) (1) (1)
Venetia 2.2 (1) (1) (1) (1) (1)

Large Spanish banks 43 (2) (1) (1) (1) (1)
Santander 4 (2) (1) (1) (1) (1)
BBVA 4 (1) (1) (1) (1) (1)

Medium Spanish banks 69 (1) (1) (1) (1) (1)
CaixaBank 3 (1) (1) (1) (1) (1)
Pegasus 1 (2) (1) (1) (1) (1)
Santander 1 (2) (1) (1) (1) (1)
Bancoare 5 (1) (1) (1) (1) (1)
Banco 1 (1) (1) (1) (1) (1)

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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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