Market Comment | FOMC decision spurs financial markets

Global Financial Markets Unit
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- **Despite an increase in the number of dissenters, the FOMC remains on course for December.** As expected, the FOMC in its September meeting chose to further delay rate increases for a sixth consecutive meeting, judging that conditions were closer to warranting policy normalisation, but deciding "for the time being, to wait for further evidence of continued progress toward its objectives." The indefinite pause leaves the federal funds rate at 0.25-0.50%. Despite having three dissenting votes, Yellen confirmed that **short-run expectations are unifying around one increase this year**. However, the committee's federal funds rate projections now imply a slower pace of normalisation. Uncertainty over the sustainability of the current recovery and growing divergence of opinions on the "new normal" underlie the downshift. As a result, a more **pessimistic view of longer run potential and lower equilibrium interest rate projections increase probability of a more gradual tightening cycle** (see). After the FOMC meeting, the implied market probabilities of an interest rate hike in December are 57%.

- Despite Fed Chair Yellen's hinting at one potential hike this year, the Fed's "dot plot" showed that the number of rate hikes in 2017 has been reduced. As a result, a positive sentiment was felt in financial markets, spurring risk-taking strategies and reducing markets' implied risk measures such as the implied volatility in the equity market (VIX -7.4%, V2X -14%).

- The bond markets reflected the market view of central banks as being slightly more inclined to continue with monetary stimulus, as the **yield of government bonds decreased strongly across the board, especially long-term yields** (10YUS -4 bps, 10YGER -10 bps, 10YFRA -10 bps). Meanwhile the peripheral risk premium remained stable.

- In this line, **risk-taking mood was reflected in the main equity indices, which registered a sharp rebound**, especially in the European indices (Euro Stoxx50 +2.3%, Dax +2.2%, S&P500 +0.5%, Dow Jones: +0.7%). The European banking sector performed neutrally against the market, after the positive session seen yesterday after the BoJ's decision to aim at yield curve control, avoiding going deeper into negative rates that might weigh on banking sector profitability.

- The **USD slightly depreciated against its main peers** (EUR +0.39%, GBP +0.4%) after the Fed's decision. The weaker dollar coupled with yesterday's encouraging US crude oil inventories data, weighed on today's oil price rise (+1.6%). **EM currencies appreciated across the board** (PLN +0.7%, MXN +0.9%, CLP +1%, TRY +0.4%, COP +0.8%), favoured by both the Fed's unchanged decision and the upward trend in oil prices.

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Table 1

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

Debt markets *(changes in bp)*

Developed Markets

US 2-yr 0.76 (-2) (3) (2) (-29)
US 5-yr 1.15 (-3) (-3) (2) (-61)
US 10-yr 1.61 (-4) (-8) (6) (-66)

Japan 10-yr -0.03 (0) (1) (5) (-29)

GER 2-yr -0.67 (-1) (-2) (-4) (-32)
GER 5-yr -0.55 (-5) (-7) (-3) (-51)
GER 10-yr -0.093 (-10) (-13) (0) (-72)

Belgium 10-yr 0.13 (-10) (-13) (1) (-84)
France 10-yr 0.2 (-10) (-13) (7) (-79)
Greece 10-yr 8.4 (-11) (-20) (34) (11)
Ireland 10-yr 0.38 (-9) (-11) (-3)
Italy 10-yr 1.19 (-9) (-15) (7) (-41)
Netherlands 10-yr 0.02 (-9) (-12) (0) (-78)
Portugal 10-yr 3.37 (-4) (-5) (36) (86)
Spain 10-yr 0.92 (-8) (-15) (-2) (-85)

Emerging Markets

Brazil 10-yr 11.85 (-17) (-41) (-10) (-466)
Chile 10-yr 4.25 (0) (0) (-11) (-41)
Colombia 10-yr 7.11 (-4) (-6) (-19) (-154)
Mexico 10-yr 6.02 (-7) (-3) (15) (-25)
Peru 10-yr 5.81 (-5) (16) (21) (-149)

Poland 10-yr 2.77 (-8) (-16) (11) (-17)
Russia 5-yr 8.31 (-6) (5) (-23) (-157)
Russia 10-yr 8.12 (-7) (4) (-14) (-143)
Turkey 10-yr 9.23 (-29) (-30) (-33) (-124)

India 10-yr 6.81 (-4) (-7) (-35) (-95)
Indonesia 10-yr 6.86 (-9) (-21) (-25) (-188)

Country risk *(changes in bp)*

Developed Markets

10-yr sovereign spreads *(against Germany)*

Belgium 23 (0) (0) (1) (-12)
France 30 (0) (-1) (7) (-6)
Greece 849 (-1) (-8) (34) (83)
Ireland 48 (1) (1) (-4) (-4)
Italy 128 (0) (-2) (7) (31)
Netherlands 11 (0) (0.7) (-1) (-6)
Portugal 347 (6) (7.4) (36) (158)
Spain 101 (2) (-3) (-2) (-13)

5-yr sovereign spreads *(against Germany)*

Belgium 9 (0) (1.8) (2) (1)
France 13 (1) (2) (2) (0)
Greece 1657 (5) (7) (3) (51)
Ireland 56 (5) (7) (3) (30)
Italy 80 (0) (-3) (5) (25)
Netherlands 10 (1) (1.4) (2) (10)
Portugal 264 (4) (9) (26) (153)
Spain 62 (0) (-2) (2) (-10)

2-yr sovereign spreads *(against Germany)*

Belgium 9 (0) (-1) (-3) (5)
France 5 (0) (0.4) (-1) (2)
Ireland 26 (0) (-3) (0) (12)
Italy 55 (-1) (-3) (2) (24)
Netherlands 4 (0) (-1) (-2) (6)
Portugal 118 (3) (5) (3) (73)
Spain 46 (0) (-2) (2) (11)

5-yr sovereign CDS

5-yr CDS Belgium 33 (-2) (1) (-2) (1)
5-yr CDS France 29 (0) (1) (-2) (3)
5-yr CDS Germany 19 (1) (2) (-2) (6)
5-yr CDS Greece 994 (-13) (-41) (100) (-64)
5-yr CDS Ireland 60 (1) (2) (-3) (20)
5-yr CDS Italy 136 (0) (3) (-1) (40)
5-yr CDS Netherlands 25 (0) (1) (-1) (10)
5-yr CDS Portugal 299 (-3) (14) (-5) (132)
5-yr CDS Spain 78 (-1) (2) (-6) (-11)
5-yr CDS UK 35 (0) (3) (-2) (15)
5-yr CDS US 26 (0) (0) (-1) (7)

Emerging Markets

5-yr sovereign CDS

5-yr CDS Argentina 390 (-21) (-9) (18) (-10906)
5-yr CDS Brazil 268 (-13) (-6) (14) (-224)
5-yr CDS Chile 82 (-9) (-6) (11) (-45)
5-yr CDS Colombia 168 (-14) (-6) (2) (-71)
5-yr CDS Mexico 161 (-10) (8) (27) (-9)
5-yr CDS Peru 107 (-12) (-5) (5) (-79)
5-yr CDS Venezuela 3828 (-253) (-402) (-402) (-2215)

5-yr CDS Poland75 (0) (2) (3) (3)
5-yr CDS Russia 212 (-5) (5) (-20) (-90)
5-yr CDS Turkey 251 (-8) (6) (4) (-22)

5-yr CDS China 104 (-2) (3) (3) (-4)
5-yr CDS India 137 (1) (5) (5) (-11)
5-yr CDS Indonesia 145 (-5) (0) (8) (-81)

Credit risk

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

VIX 12.31 (-7.4) (-24.5) (-0.6) (-6)
VSTOXX 17.27 (-14) (-16) (-14.6) (-5)
EM EFT volatility Index 20 (-1) (-20) (-4) (-15)
Dollar/euro volatility 6.3 (-10.2) (-7.9) (-19.4) (-34)
EM FX volatility index 11 (0) (-2) (5) (-7)
Credit spread (BAA) 275 (4.1) (1.1) (6.5) (-48)
US bonds volatility index 64 (0) (-8) (-4) (-6)

Bank risk *(changes in bp)*

US banks CDS 78 (-2) (1) (3) (3)
EMU banks CDS 122 (-3) (12) (5) (38)
UK banks CDS 97 (0) (7) (0) (19)

Large Spanish banks CDS 130 (0) (10) (4) (-7)
Medium Spanish banks CDS 161 (0) (8) (2) (3)

Greek banks CDS 639 (-57) (-104) (-523) (-1013)
Russian banks CDS 341 (9) (13) (6) (-41)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 0 (0) (0) (-6) (-11)
UEM OIS spread 12m 33 (0) (0) (-2) (-1)
UEM TED spread 3m 44 (0) (-0.4) (-6) (3)

US OIS spread 3m 44 (0) (2) (4) (21)
US OIS spread 12m 0 (0) (-101) (-99) (-56)
US TED spread 3m 69 (3) (12) (16) (24)

Spain Ted Spread 3m 18 (6) (7.4) (14) (13)

EONIA Index -0.35 (0) (-0.2) (-1) (-22)
Euribor 3m -0.3 (0) (0) (0) (-17)
Euribor 12m -0.06 (0) (-1) (-1) (-12)

Libor 3m 0.86 (0) (1) (4) (25)
Libor 12m 1.57 (0) (2) (4) (39)

Stock markets *(Changes in percentage)*

Developed Markets

Main equity indices

S&P500 2174.2 (0.5) (1.3) (-0.6) (6)
Dow Jones 18413.8 (0.7) (1.1) (-0.7) (6)
Nikkei 16807.6 (0) (2.5) (1.9) (-12)
FTSE 100 6909.7 (1.1) (2.7) (0.6) (11)
EuroStoxx 50 3050 (2.3) (2.6) (1.9) (-7)
IBEX 8929.4 (2) (2.4) (4.1) (-6)
DAX 10666.3 (2.2) (2.3) (0.7) (-1)
CAC4509.7 (2.3) (3.1) (2) (-3)
MIB 16634 (1.7) (0.2) (-0.9) (-22)
ASE Athens 572.2 (1.8) (3.7) (0.7) (-9)

Bank stocks

JPM 67.1 (0.4) (0.7) (2.1) (2)
Citi 47 (0.2) (-0.2) (0.9) (-9)
BoA 15.6 (-0.6) (-0.7) (1.3) (-8)
MS 32.2 (0.9) (0.8) (4.9) (1)
GS 168.5 (0.9) (0.2) (1.5) (-7)

HSBC 578.8 (-1.7) (1.2) (6.8) (8)
RBS 186.2 (1.6) (-4.1) (-5) (-38)
Barclays 173.2 (0.9) (2.2) (5.2) (-21)
Lloyds 57.1 (0) (0.6) (-0.9) (-22)

EMU banks 78 (1.7) (0.5) (4.8) (-28)
BNP 47.3 (2.4) (3.6) (7.8) (-9)
Crédit Agricole 9 (1.2) (2.8) (10.5) (-18)
Deutsche Bank 11.6 (3.2) (-11.1) (-6.1) (-48)
ING 11.1 (0.9) (2.2) (3.5) (-10)
Intesa 2.1 (1.3) (-0.9) (6.3) (-33)
SG 32.4 (2.3) (1.2) (4.5) (-24)
Unicredito 2.1 (0.4) (1.3) (1.3) (-59)

Large Spanish banks 64.3 (2.4) (3.4) (6.8) (-15)
Santander 4.1 (2.3) (3.5) (8.6) (-10)
BBVA 5.5 (2.5) (3.4) (5.4) (-18)

Medium Spanish banks 60.5 (-0.6) (-0.5) (2.3) (-27)
Caixabank 2.3 (-3.1) (-5.7) (0.3) (-27)
Popular 1.2 (-0.8) (3.1) (-0.1) (-57)
Sabadell 1.2 (0.5) (1) (-1.3) (-27)
Bankinter 6.6 (-0.1) (1.7) (6.2) (1)
Bankia 0.7 (0) (-2.5) (2.7) (-32)

Greek banks 2.7 (4) (5.6) (3.8) (-41)
Alpha Bank1.6 (3.2) (5.2) (-0.6) (-35)
Pireus Bank0.1 (6.7) (11.6) (9.9) (-48)
National Central Bank0.2 (3.6) (12.2) (8.6) (-41)
Eurobank Ergasias0.5 (6.1) (4) (14.6) (-50)

Emerging Markets

Main equity indices

MSCI Latam 71742 (0.98) (1.9) (-0.7) (21)
Ibovespa (Brazil) 59084 (1.2) (3.5) (2.3) (36.3)
Mexbol 47358 (0.9) (3.5) (-1.9) (10.1)

MSCI EM Europe 4484 (0.35) (0.3) (0) (5.6)
Poland 1776 (1) (2.3) (-1.3) (-4.5)
Micex (Russia) 2022 (1.2) (0.9) (2.2) (14.8)
Ise 100 (Turkey) 79796 (2.4) (3.6) (2.4) (9)

MSCI EM Asia 724 (0.88) (2.5) (1.6) (9.6)
Shanghai Composite (China) 3042 (0.54) (1.3) (-1.4) (-14.8)
Jakarta Composite (Indonesia) 5380 (0.7) (4.6) (-0.9) (17)

Bank stocks

Turkish banks 87 (2.3) (4.3) (5.8) (18)
Akbank T.A.S. 8 (2.1) (4.6) (4.9) (25.7)
Garanti 8 (2.9) (5.1) (9.3) (19.2)
Turkiye Is Bankasi 5 (1.8) (2.9) (2.9) (8)

Russian banks 196 (1.7) (2.5) (10.1) (29.4)
Sberbank 154 (2.1) (3.2) (9.6) (52)
VTB Bank 0.1 (0.7) (0.8) (11.4) (-5.6)

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

Developed Markets

EURUSD 1.123 (0.39) (-0.1) (-0.6) (3.4)
GBPUSD 1.31 (0.4) (-1.17) (-0.9) (-11.2)
USDJPY 100.8 (-0.48) (1.27) (-0.6) (16.2)
DXY 95.2 (0.5) (0.1) (-0.7) (3.5)

Emerging Markets

USDARS (Argentina) 15.17 (-0.1) (-0.7) (-2.2) (-17.3)
USDBRL (Brazil) 3.21 (-0.1) (2.8) (0.8) (18.9)
USDCLP (Chile) 658.49 (1) (1.9) (1.9) (7.1)
USDCOP (Colombia) 2871.5 (0.8) (2) (1.7) (9.5)
USDMXN (Mexico) 19.57 (0.9) (-1.2) (-5.4) (-13.7)
USDPEN (Peru) 3.35 (0.5) (0.9) (0.3) (1.8)
LACI 64.37 (0.5) (0.9) (-1.4) (2.8)

USDPLN (Poland) 3.81 (0.7) (1) (0.1) (2.9)
USDRUB (Russia) 63.69 (0.4) (1.6) (1.4) (12.2)
USDTRY (Turkey) 2.94 (0.4) (0.8) (0.3) (-0.9)

USDCNY (China) 6.66 (0.1) (0.1) (-0.4) (-2.6)
USDINR (India) 66.67 (0.5) (0.5) (0.6) (-0.8)
USDIDR (Indonesia) 13074 (0.5) (0.8) (1.1) (5.2)
ADXY 107.5 (0) (0.5) (0.2) (0.9)

Commodities *(change in percentage)*

Brent 47.58 (1.6) (2.1) (-4.8) (27.6)
WTx 46.33 (2.2) (5.5) (-3.7) (25.1)
Copper 219 (2.1) (1.8) (3.5) (3)
Gold 1341.07 (0.6) (2) (0.3) (26.3)
Baltic Dry Index 903 (4.4) (18.2) (30.5) (88.9)
S&P GSCI Spot commodity index 354.903 (1.3) (1.5) (-3.3) (13.9)
S&P GSCI Brent Spot 402.469 (2) (0.5) (-6) (25.5)
S&P GSCI Metals Spot 272.26 (-0.4) (0.7) (-1.1) (7.6)
S&P GSCI Agricultural Spot 298.984 (-0.1) (3.8) (0.6) (5.4)

Source: Bloomberg, Datastream and Haver

BBVA Research

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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