

# Market Comment | ECB tweaks forward guidance but normalisation process not discussed

Global Financial Markets Unit  
08 Jun 2017

- As expected, at today's monetary policy meeting there were **no changes in the ECB's monetary policy stance**, as the central bank left key policy rates unchanged and confirmed that the monthly asset purchases of €60 billion are intended to run until the end of December 2017 (or beyond if necessary). However, **the ECB adopted a neutral bias on interest rates**; as they are now expected "to remain at present levels for an extended period", rather than "at present levels or lower". The dovish stance remains in place as the ECB is ready to increase purchases in size and/or in duration if needed.
- **The ECB's meeting had little effect on the financial markets**, as the change in forward guidance was in line with expectations. The EUR remained almost unchanged, while sovereign yields continued the downward trend started early in the day, **while peripheral risk premiums narrowed after Italy's new electoral law failed a vote in the Parliament, easing fears of early elections**. Moreover the combination of the ECB's stronger growth guidance, subdued core inflation expectations and the absence of hurry in the ECB's normalisation process, contributed to boost flows to peripheral bonds. European equity indices opened in positive mood as the market gleefully digested recent corporate transactions in the Spanish banking sector.
- **Ex-FBI director's testimony to US Congress could trigger extra doubts about the Trump administration's transparency**([see](#)). Today's testimony could affect its ability to carry out projected reforms. This source of uncertainty is added to the market's dovish tone on the Fed's pace of tightening after the release of some weaker-than-expected economic indicators during the last few weeks (it dragged down UST yields and the USD as the odds of two extra hikes in Fed Funds this year are below 50%).
- **Contained volatility in the GBP and UK sovereign yields ahead of the results of today's UK elections**, the Conservative party having led the polls throughout the campaign but with the Labour party narrowing the gap. May's target of a big majority in parliament with which to face Brexit negotiations could be in danger ([see](#)).
- **BoJ announced that it is considering a change in its communication for an exit from its monetary stimulus**. Nonetheless, judging by the Governor's tone - and economic indicators, especially inflation data - it is not likely to happen any time soon ([see](#)). Consequently, Japanese assets were not affected.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.32	1.8	3.3	-2	11
US	2.20	2.8	-1.1	20	24
GER (2-yr)	-0.73	-1.2	-2.5	-6	4
Germany	0.26	-1.2	-4.8	-17	-2
France	0.65	-4.2	-8.3	22	-16
Spain	1.48	-9.2	-8.7	-15	-4
Italy	2.18	-12.3	-7.9	-10	31
Portugal	3.03	-6.8	3.5	-41	114
Greece	6.05	0.9	-4.8	40	-83
Japan (2-yr)	-0.10	1.1	6.0	8	9
Japan	0.07	2.2	2.9	0	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.87	3.5	7.7	71	-54
Chile	4.05	1.1	-1.8	6	-27
Colombia	6.16	2.5	-4.2	-7	-93
Mexico	7.10	-1.6	-19.4	-18	-54
Peru	5.43	0.6	-4.4	18	104
Poland	3.21	1.2	-3.5	-27	-51
Russia	7.81	4.1	6.4	-6	-64
Turkey	10.22	-1.0	5.0	-8	-78
India	6.53	-3.5	-9.3	-41	15
Indonesia	6.94	-0.2	-1.5	-19	-90
Country risk (p, changes in p)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	-3.0	-3.5	-4	-14
Italy	192	-11.1	-3.1	7	33
Portugal	277	-5.4	8.3	-23	-85
Spain	122	-8.0	-3.9	3	6
2-yr sovereign spread vs Germany					
France	21	0.0	1.1	-4	11
Italy	49	-0.9	-5.8	-6	-12
Portugal	91	-3.3	-7.0	-12	-56
Spain	45	-1.0	-1.1	6	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	236	2.5	4	24	-35
Chile	69	0.1	-2	-7	-13
Colombia	127	2.8	-1	-6	-36
Mexico	111	0.6	-8	-10	-45
Peru	88	-2.6	-7	-14	-19
Venezuela	4,216	390.8	652	297	311
Poland	63	-3.0	-3	-4	-13
Russia	152	1.1	0	-3	-24
Turkey	195	4.1	-1	-7	-77
China	74	-1.3	-4	-7	-43
India	93	-0.3	-2	-4	-34
Indonesia	120	-0.9	-4	-4	-36
Risk indicators					
Volatility indicators (%)					
VIX	10	-2.5	2	2	-2
VST OXX	14	-3.6	3	0	2
EM ETT volatility index	16	-1.0	-2	2	-21
Dollar/euro volatility	7	-6.6	-5	-8	-37
EM FX volatility index	8	0.5	-1	-3	-27
Credit spread (BAA) (bps)	221	-2.8	-3	-1	-6
US bonds volatility index	55	-3.0	1	-1	-28
Banking 5y CDS (bps) *					
US	61	0.4	3	4	-11
EZ	81	-1.9	0	-1	-27
UK	67	-1.6	2	6	-24
Large Spanish	82	-8.1	-8	7	-35
Medium Spanish	120	-7.7	-5.5	-3.6	-31
Corporate 5y CDS (bps)					
US Non-financial	151	-0.4	-3	4	-11
EZ Non-financial	88	-1.9	0	-1	-27
UK Non-financial	116	0.2	0	-1	-9
Interbank markets (% changes in bp)					
EONIA Index	-0.36	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Earibor 12m	-0.13	0.00	0.0	0.0	0.0
Libor 3m	1.22	0.00	0.0	0.0	0.2
Libor 12m	1.72	0.00	0.0	-0.1	0.0
EZ TED spread 3m	51.7	5.40	0.7	-2.8	-14.7
Stock markets (%)					
Main Indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,433	0.0	0.1	2	7
Dow Jones	21,194	0.1	0.2	1	6
Nikkei	19,909	-0.4	0.2	0	2
FTSE 100	7,450	-0.4	-1.2	1	4
EuroStoxx 50	3,563	0.4	-0.1	2	7
BEX	10,948	0.7	0.6	-1	16
DAX	12,714	0.3	0.4	0	10
CAC	5,264	0.0	-1.0	-2	7
MB	21,042	1.5	0.5	2	7
ASE Athens	779	0.6	0.4	0	18
MSCI Latam *	76,249	0.2	0.9	-2	4
Ibovespa (Brazil)	62,433	-1.2	0.2	6	1
Moex	49,168	-0.2	0.1	-2	6
MSCI EM Europe *	4,794	-0.2	-0.6	-3	-5
Poland	2,340	1.4	2.7	-3	17
Mosc (Russia)	1,874	0.2	0.2	-6	-17
Ise 100 (Turkey)	97,978	0.4	0.6	3	29
MSCI EM Asia *	817	0.1	1.3	4	17
Shanghai Com (China)	3,150	0.3	1.5	2	0
Jakarta (Indonesia)	5,703	-0.1	-0.6	0	8
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	118.3	2.1	2.8	0	-1
JPM	85.5	1.9	2.9	-1	-2
Cit	63.1	2.0	3.4	5	3
BoA	23.1	2.2	2.1	-4	1
MS	44.4	2.5	4.1	4	2
GS	219.0	1.5	1.9	2	10
EZ banks	110.6	1.3	1.7	-4	5
BNP	63.7	0.4	1.2	-4	1
Credit Agricole	14.1	1.1	3.1	-1	15
Deutsche Bank	15.6	0.9	0.1	-10	-4
ING	15.3	1.5	2.3	-2	10
Intesa	2.6	1.0	0.1	-10	1
SG	47.8	1.5	1.4	-4	-1
Unicredit	16.0	3.2	3.7	1	14
UK banks	88.8	0.2	-0.2	1	1
HSC	68.4	0.4	1.2	3	2
RIS	257.2	0.8	-0.7	-2	10
Barclays	205.4	-1.3	-2.7	0	-13
Lloyds	70.7	0.9	0.8	2	9
Large Spanish banks	90.6	3.3	3.8	2	16
Santander	6.1	5.2	4.5	-2	18
BBVA	7.4	1.5	3.2	-2	15
Medium Spanish banks	80.1	-0.3	-0.9	-6	10
Caixabank	4.1	0.8	-0.6	-3	26
Populr	0.3	0.0	-36.6	-59	-68
Sabadell	1.8	-0.5	-3.8	-5	-28
Banqueparibas	8.3	1.1	1.1	2	10
Banika	4.3	-1.7	4.8	5	4
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	0.4	0.0	-3.2	7
GBPUSD	1.29	0.2	0.4	0.0	5
USDJPY	110.13	-0.3	1.1	-3.4	-6
DX	96.97	0.2	-0.2	-2.7	6
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	16.01	-0.1	0.3	-3.1	0
USDBRL (Brazil)	3.28	-0.4	-1.0	-3.0	-2
USDCLP (Chile)	665.81	0.5	0.9	1.8	1
USDCOP (Colombia)	2920	-0.1	-0.9	1.7	2
USDMXN (Mexico)	18.18	0.2	2.5	5.2	15
USDPEN (Peru)	3.27	0.0	0.1	0.6	3
LAO	65.03	0.0	0.5	0.9	6
USDPOLN (Poland)	3.74	-0.1	-0.1	-3.9	10
USDRUB (Russia)	56.84	0.5	-0.8	2.7	6
USDTRY (Turkey)	3.53	0.6	-0.1	2.6	1
USDCNY (China)	6.90	-0.1	0.1	1.6	2
USDINR (India)	64.21	0.2	0.4	0.6	6
USDIDR (Indonesia)	13,298	0.0	0.1	0.4	1
ADXY	105.5	0.0	0.1	1.3	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	48.1	0.0	-5.1	-1	-15
WTI	46	0.3	-5.1	0	-14
Copper	2.59	1.8	0.4	4	2
Gold	1276	0.9	0.8	4	10
S&P Spot commodity *	367	-2.0	-2.7	-1	-7
S&P Brent Spot *	410	-4.0	-4.9	-2	-15
S&P Metals Spot *	311	0.0	-1.7	0	2
S&P Agricultural *	288	1.6	2.2	0	-4



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France	0.65	-4.2	-8.1	-22	-16
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Mexico	7.10	-1.6	-19.4	-18	-54
Peru	5.43	0.6	-4.4	-18	-104
Poland	3.21	1.2	-3.5	27	-51
Russia	7.81	4.1	6.4	-6	-64
Turkey	10.22	-1.0	5.0	-8	-78
India	6.53	-3.5	-9.3	-41	15
Indonesia	6.94	-0.3	-1.5	-19	-80
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	40	-3.0	-3.5	-4	-14
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Mexico	111	0.6	-8	-10	-45
Peru	89	-2.6	-7	-14	-19
Venezuela	4,216	390.8	652	207	311
Poland	63	-3.0	-3	-4	-13
Russia	152	1.1	0	-3	-24
Turkey	195	4.1	-1	-7	-27
China	74	-1.3	-4	-7	-43
India	93	-0.3	-2	-4	-34
Indonesia	120	0.9	-4	-4	-36
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
<b>VIX</b>					
VIX	10	-2.5	2	2	-2
VSTOXX	14	-3.6	3	0	-2
EM EFT volatility index	16	-1.0	-2	-2	-21
Dollar/euro volatility	7	-8.6	-5	-8	-37
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Interbank markets (bp changes in bp)					
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EONIA Index	-0.36	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.13	0.00	0.0	0.0	0.0
Libor 3m	1.22	0.00	0.0	0.0	0.2
Libor 12m	1.72	0.00	0.0	-0.1	0.0
EZ TED spread 3m	51.7	5.40	0.7	-2.8	-14.7
Stock markets (%)					
Main indices					
level	Daily	Weekly	Monthly	YTD	
<b>S&amp;P500</b>					
S&P500	2,433	0.0	0.1	2	7
Dow Jones	21,194	0.1	0.2	1	6
Nikkei	19,909	-0.4	0.2	0	2
FTSE 100	7,450	-0.4	-1.2	1	4
<b>Eurostoxx 50</b>					
Eurostoxx 50	3,563	0.4	0.1	-2	7
IBEX	10,948	0.7	0.6	-1	16
DAX	12,714	0.3	0.4	0	10
CAC	5,264	0.0	-1.0	-2	7
MBI	21,042	1.5	0.5	-2	7
ASE Athens	779	0.6	-0.4	0	18
<b>MSCI Latam *</b>					
MSCI Latam *	76,249	0.2	0.9	-2	4
Bovespa (Brazil)	62,433	-1.2	0.2	-6	1
Movtel	49,168	-0.2	0.1	-2	6
<b>MSCI EM Europe *</b>					
MSCI EM Europe *	4,794	-0.2	-0.6	-3	-5
Poland	2,340	1.4	2.7	-3	17
Misc (Russia)	1,874	0.3	0.2	-6	-17
Ise 100 (Turkey)	97,978	0.4	0.6	3	29
<b>MSCI EM Asia *</b>					
MSCI EM Asia *	817	0.1	1.3	4	17
Shanghai Com (China)	3,150	0.3	1.5	2	0
Jakarta (Indonesia)	5,703	-0.1	-0.6	0	8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
US banks	118.3	2.1	2.8	0	-1
JPM	85.5	1.9	2.8	-1	-2
CB	63.1	2.0	3.4	5	3
BoA	23.1	2.2	2.1	-4	1
MS	44.4	2.5	4.1	4	2
GS	219.0	1.5	1.9	-2	-10
<b>EZ banks</b>					
EZ banks	110.6	1.3	1.7	-4	5
BNP	63.7	0.4	1.2	-4	1
Credit Agricole	14.1	1.1	3.1	-1	15
Deutsche Bank	15.6	0.9	0.1	-10	-4
ING	15.3	1.5	2.3	-2	10
Intesa	2.6	1.0	-0.1	10	1
SG	47.8	1.5	1.4	-4	-1
Unicredit	16.0	3.2	3.7	1	14
<b>UK banks</b>					
UK banks	88.8	0.2	-0.2	1	1
HSBC	684.8	0.4	1.2	3	2
RBS	257.2	0.8	-0.7	-2	10
Barclays	205.4	-1.3	-2.7	0	-13
Lloyds	70.7	0.9	0.8	2	9
<b>Large Spanish banks</b>					
Large Spanish banks	90.6	-3.3	3.8	-2	16
Santander	6.1	5.2	4.5	-2	18
BBVA	7.4	1.5	3.2	-2	15
<b>Medium Spanish banks</b>					
Medium Spanish banks	80.1	-0.3	-0.9	-6	10
Cajabank	4.1	-0.8	-0.6	-3	26
Populr	0.3	0.0	-36.6	-59	-68
Sabadell	1.8	-0.5	-3.8	-5	28
Banquepar	8.3	1.1	1.1	-2	10
Bankia	4.3	-1.7	4.8	-5	4
Commodities (%)					
Currencies (%; red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>					
EURUSD	1.12	-0.4	0.0	3.2	7
GBPUSD	1.29	-0.2	0.4	0.0	5
USDJPY	110.13	-0.3	1.1	-3.4	-6
DX1	96.97	0.2	0.2	2.7	6
Emerging					
level	Daily	Weekly	Monthly	Year	
<b>USDARS (Argentina)</b>					
USDARS (Argentina)	16.01	-0.1	0.3	-3.1	0
<b>USDBRL (Brazil)</b>					
USDBRL (Brazil)	3.28	-0.4	-1.0	-3.0	-2
<b>USDCLP (Chile)</b>					
USDCLP (Chile)	665.81	0.5	0.9	1.8	1
<b>USDCOP (Colombia)</b>					
USDCOP (Colombia)	292.9	-0.1	-0.8	1.3	2
<b>USDMXN (Mexico)</b>					
USDMXN (Mexico)	18.18	0.2	2.5	5.2	15
<b>USDPEN (Peru)</b>					
USDPEN (Peru)	3.27	0.0	0.1	0.6	3
<b>LACI</b>					
LACI	65.03	0.0	0.5	0.9	6
<b>USDPLN (Poland)</b>					
USDPLN (Poland)	3.74	-0.1	-0.1	3.9	10
<b>USD RUB (Russia)</b>					
USD RUB (Russia)	56.84	0.5	0.8	2.7	6
<b>USDTRY (Turkey)</b>					
USDTRY (Turkey)	3.53	0.6	-0.1	2.6	1
<b>USD CNY (China)</b>					
USD CNY (China)	6.80	-0.1	0.1	1.6	2
<b>USDINR (India)</b>					
USDINR (India)	64.21	0.2	0.4	0.6	6
<b>USDIDR (Indonesia)</b>					
USDIDR (Indonesia)	13,298	0.0	0.1	0.4	1
ADXY	106.5	0.0	0.1	1.3	3
Commodities (€)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>					
Brent	48.1	0.0	-5.1	-1	-15
WTX	46	0.3	-5.1	0	-14
Copper	259	1.8	0.4	4	2
Gold	1276	-0.9	0.8	4	10
S&P Spot commodity *	367	-2.0	-2.7	-1	-7
S&P Brent Spot *	410	-4.0	-4.8	-2	-15
S&P Metals Spot *	311	0.0	-1.7	0	2
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Source: Bloomberg, Datastream and Haver

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\* With one day delay

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