

Market Comment | Economic data help risk assets to recover some ground ahead of FOMC

Global Financial Markets Unit
13 Jun 2017

- **Risk assets partially recovered recent losses**, helped by positive economic and inflation data. Nonetheless, markets continue trading in a cautious fashion ahead of tomorrow's FOMC meeting, showing only a moderate recovery in risk assets.
- German confidence data (ZEW) ([see](#)) drove **European equity indices slightly upwards, led mostly by the cyclical sector**. In the US, stocks recovered after a slight downturn due to underperformance of the technological sector ahead of tomorrow's FOMC meeting, which is expected to increase the Fed-funds rate ([see our preview below](#)). Apart from that, once the technological sector gained traction, other sectors benefited from this.
- In line with a slightly positive mood in financial markets, **high-rated sovereign bonds declined, with UK, German and US yields inching up, underpinned by positive inflation measures in the US and the UK**. Moreover peripheral bonds continued attracting flows, with the risk premium continuing to narrow. Furthermore 2Y Greece's yield declined (- 22bp), underpinned by expectations of an agreement on Greece on Thursday's Eurogroup meeting.
- **Oil prices returned to their negative trend after the release of monthly supply of OPEC members in May**. Output rose as Nigeria and Libya offset cuts from other members ([see](#)). Nonetheless, EM fx remained almost unchanged.

FOMC preview

At its June 13th-14th meeting the FOMC is all but certain to raise the target federal funds rate 25 bp to 1.25%. Although labor market indicators have fallen short of consensus with job growth of 138K in May, in the committee's eyes this pace remains consistent with convergence with full employment. As a result, the language around the labor market is unlikely to deviate much from the current stance of "realized and expected gains." With respect to inflation, the committee is likely to strengthen its language around the risks to inflation given the weakness in core prices, particularly when shelter is excluded. Nonetheless, given the uncertainty behind the numbers, the FOMC will make sure to avoid a premature assessment. In terms of financial vulnerabilities and conditions abroad, the committee is likely to continue to view risks as balanced despite elevated uncertainty following the U.K. elections.

With market's focus shifted to the balance sheet communication, and in general a less accommodative policy stance, the committee will likely downplay the risk to inflation as transitory; if the committee strikes too dovish a tone on its outlook for inflation it could risk leaving markets inferring disparate policy stances with respect to interest rates and balance sheet normalization. Still, we expect some downward movements in the dot plot, particularly for 2019 and beyond, which is likely to draw the attention of Fedwatchedrs.

In addition, the FOMC will probably discuss the costs and benefits of adding their expectations on the level of the balance sheet and terminal reserve balances, to their public forecasts (SEP). Moreover, the Committee will also receive fresh analysis from their staff on the different balance sheet normalization alternatives. We expect more details to be released with the minutes of the meeting. In particular, the discussion on when to start the process, the level of the caps, and what strategy the FOMC should follow on interest rates during the stage of balance sheet normalization.

Chair Yellen will also use the Q&A in the press conference to provide a more balanced outlook on prices and unemployment, and highlight the key elements of balance sheet normalization, outlined through recent speeches, the March implementation note and May's minutes. This implies stressing that the process of ceasing its principal reinvestment policy will likely begin latter this year.

Update 16 CET 13 June, 2017

Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.36	0.4	6.5	7	15
US	2.21	0.0	6.9	-11	-22
GER (2-yr)	-0.70	2.4	3.1	-2	7
Germany	0.27	1.6	1.3	-13	-1
France	0.61	0.9	-6.2	24	-20
Spain	1.43	-1.1	-10.5	-19	-8
Italy	1.98	-4.1	-27.7	-27	11
Portugal	2.94	-4.0	-14.1	-43	-123
Greece	5.84	-2.9	-22.5	16	-104
Japan (2-yr)	-0.10	0.7	4.2	7	9
Japan	0.06	2.2	1.7	0	-42
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.69	-2.5	-10.9	62	-73
Chile	4.08	-0.5	3.6	3	25
Colombia	6.27	3.4	14.6	4	-83
Mexico	7.11	0.5	0.0	-10	-52
Peru	5.44	-3.2	0.4	9	-103
Poland	3.17	1.7	-1.4	-14	-54
Russia	7.77	-2.4	0.1	3	-67
Turkey	10.22	15.0	23.0	-7	68
India	6.49	-2.3	-14.8	-42	11
Indonesia	6.90	0.0	-4.8	-24	-94
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	34	-0.7	-7.5	-11	-19
Italy	171	-5.7	-29.0	-15	12
Portugal	268	-5.6	-15.4	30	-84
Spain	117	-2.7	-11.8	-7	1
2-yr sovereign spread vs Germany					
France	20	-0.7	0.6	3	10
Italy	44	-3.6	-6.6	-9	-17
Portugal	81	-4.7	-12.8	-23	-66
Spain	41	-4.1	-6.1	-2	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	235	1.7	1	33	-36
Chile	68	-0.3	0	5	-14
Colombia	125	-0.9	0	4	-38
Mexico	110	0.8	-4	8	-47
Peru	87	-1.0	-4	-13	-21
Venezuela	4,392	214.1	730	569	467
Poland	63	0.0	-3	5	-13
Russia	156	-0.5	5	3	-21
Turkey	187	-5.4	-4	-17	-86
China	70	-0.3	5	9	-47
India	91	0.1	4	5	-36
Indonesia	117	0.0	-3	-11	-39
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	11	-7.3	2	2	-1
VSTOXX	14	-6.6	-6	-2	-3
EM EFT volatility index	16	-2.9	0	2	-21
Dollarindex volatility	6	-1.3	-13	11	-42
EM FX volatility index	8	-0.9	-4	-3	-30
Credit spread (BAA) (bps)	222	0.0	-3	-4	-6
US bonds volatility index	52	-0.5	-2	6	-32
Emerging CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	0.7	-1	4	-13
EZ	74	-1.2	-8	6	-34
UK	61	-2.5	-6	1	-29
Large Spanish	72	-1.0	-18	-1	-45
Medium Spanish	118	-1.6	-81	-33	-33
Corporate CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	150	0.7	-1	4	-13
EZ Non-financial	85	-1.7	8	6	-34
UK Non-financial	114	-0.2	-2	2	-11
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
LOMA 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	-0.15	0.00	0.0	0.0	0.1
Libor 3m	1.24	0.01	0.0	0.1	0.2
Libor 12m	1.74	0.01	0.0	0.1	0.0
EZ TED spread 3m	54.1	7.40	7.8	-1.2	-12.3
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,436	0.3	0.3	2	7
Dow Jones	21,310	0.4	0.8	2	7
Nikkei	19,859	0.0	-0.4	0	2
FTSE 100	7,500	-0.2	-0.3	1	4
EuroStoxx 50	3,558	0.4	0.1	-2	7
IBEX	10,882	0.4	0.0	0	15
DAX	12,763	0.6	0.6	0	10
CAC	5,262	0.4	-0.1	-3	7
MIIB	21,089	0.9	1.6	-2	7
ASE Athens	797	1.6	2.5	1	21
MSCI Latam *	75,066	-0.5	-1.1	-5	2
Ibovespa (Brazil)	61,667	-0.1	-2.0	-10	0
Mexbol	49,051	-0.2	-0.3	-1	5
MSCI EM Europe *	4,824	-0.1	0.3	-3	5
Poland	2,302	0.3	-0.1	-3	15
Mosc (Russia)	1,861	-1.2	-0.5	-7	-18
Ise 100 (Turkey)	99,300	-0.1	1.0	5	30
MSCI EM Asia *	813	-0.9	-0.4	2	17
Shanghai Com (China)	3,154	0.4	1.7	2	0
Jakarta (Indonesia)	5,708	0.6	-0.7	1	8
European banks	level	Daily	Weekly	Monthly	YTD
US banks	121.3	0.7	5.6	3	1
JPM	87.6	0.7	5.6	1	1
Citi	64.6	0.4	5.9	6	5
BofA	23.9	0.2	7.3	-1	4
MS	45.3	1.0	5.5	6	4
GS	274.2	1.0	4.5	1	-8
EZ banks	110.3	0.2	2.3	5	5
BNP	63.4	-0.1	1.4	5	1
Crédit Agricole	14.1	0.7	3.0	-1	15
Deutsche Bank	15.6	0.7	1.5	9	-4
ING	15.2	-0.2	3.2	0	10
Intesa	2.6	0.5	1.2	9	2
SG	47.1	0.2	1.5	-5	-2
Unicredit	36.2	1.6	5.5	5	16
UK banks	68.1	-0.1	0.4	0	0
HSC	688.2	-0.5	0.2	1	3
RBS	252.2	0.8	0.2	-3	8
Barclays	206.3	0.5	-1.5	0	-12
Lloyds	68.6	-0.7	-0.5	0	6
Large Spanish banks	90.5	0.4	3.8	0	16
Santander	6.1	-0.1	4.5	1	18
BBVA	7.4	0.9	3.2	0	14
Medium Spanish banks	79.1	0.0	-0.5	-7	8
CaixaBank	4.1	-0.2	0.1	-2	25
Sabadell	1.7	0.9	-3.6	-5	27
Bankinter	8.2	0.0	0.6	-3	9
Banque	4.1	-0.6	0.7	6	1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	-0.1	-0.7	-2.4	7
GBPUSD	1.27	0.6	-1.3	-1.2	3
USDJPY	110.11	-0.1	-0.6	-2.9	-6
DX1	97.00	-0.1	0.5	2.2	5
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.90	0.2	0.7	-3.0	1
USD BRL (Brazil)	3.31	0.2	-1.1	-6.1	-3
USD CLP (Chile)	607.95	-0.3	0.8	1.3	1
USD COP (Colombia)	2930	0.1	-1.3	-0.4	1
USD MXN (Mexico)	18.07	0.3	0.9	4.0	16
USD PEN (Peru)	3.28	0.1	-0.3	0.0	3
LACI	65.02	0.1	0.0	-0.8	6
USD PLN (Poland)	3.75	-0.1	-0.7	2.8	10
USD RUB (Russia)	56.91	0.3	-0.7	0.3	6
USD TRY (Turkey)	3.52	-0.1	-0.1	1.5	1
USD CNY (China)	6.80	0.0	-0.1	1.5	2
USD INR (India)	64.34	0.2	0.1	0.0	5
USD IDR (Indonesia)	13,291	0.1	0.0	0.3	1
ADNY	106.4	-0.1	-0.2	0.9	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	48.0	-0.6	-4.2	-6	-15
WTI	46	0.6	-3.8	3	-13
Copper	259	-0.9	1.7	3	2
Gold	1263	-0.2	2.4	3	9
S&P Spot commodity *	368	-0.4	-1.7	-3	-7
S&P Brent Spot *	419	0.4	-3.1	5	-14
S&P Metals Spot *	314	-1.0	1.1	1	3
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Euribor 12m	-0.15	0.00	0.0	0.0	0.1
Libor 3m	1.24	0.01	0.0	0.1	0.2
Libor 12m	1.74	0.01	0.0	0.1	0.0
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Shanghai Com (China)	3,154	0.4	1.7	2	0
Jakarta Indonesia	5,708	0.6	-0.7	1	8
Equities (sector)					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	87.6	0.7	5.6	1	1
Citi	64.6	0.4	5.9	6	5
Bok	23.9	0.3	7.3	-1	4
MS	45.3	1.0	5.5	6	4
GS	274.2	1.0	4.5	1	-8
EZ banks	110.3	0.3	2.3	5	5
BNP	63.4	-0.1	1.4	5	1
Crédit Agricole	14.1	0.7	3.0	-1	15
Deutsche Bank	15.6	0.7	1.5	9	-4
ING	15.2	-0.2	3.2	0	10
Intesa	2.6	0.5	1.2	9	2
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Currencies (% red for currency depreciation)					
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USDJPY	110.11	-0.1	-0.6	-2.9	-6
DKK	97.00	-0.1	0.5	2.2	5
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)					
USDARS	15.90	0.2	0.7	-3.0	1
USD BRL (Brazil)					
USD BRL	3.31	0.2	-1.1	-6.1	-3
USD CLP (Chile)					
USD CLP	602.95	-0.3	0.8	1.3	1
USD COP (Colombia)					
USD COP	2930	0.1	-1.3	-0.4	1
USD MXN (Mexico)					
USD MXN	18.07	0.3	0.9	4.0	16
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USD PLN	3.75	-0.1	-0.7	2.8	10
USD RUB (Russia)					
USD RUB	56.91	0.3	0.7	0.3	6
USD TRY (Turkey)					
USD TRY	3.52	-0.1	-0.1	1.5	1
USD CNY (China)					
USD CNY	6.80	0.0	-0.1	1.5	2
USD INR (India)					
USD INR	64.34	0.2	0.1	0.0	5
USD IDR (Indonesia)					
USD IDR	13,291	0.1	0.0	0.3	1
ADNY	106.6	-0.1	-0.2	0.9	3
Commodities (%)					
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Mexico	7.11	0.5	0.0	-10	-52
Peru	5.44	-3.2	0.4	-9	-103
Poland	3.17	1.7	-1.4	-14	-54
Russia	7.77	-2.4	0.1	3	-67
Turkey	10.32	15.0	23.0	-7	-68
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Indonesia	6.50	0.0	-4.8	-24	-94
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	34	-0.7	-7.5	-11	-19
Italy	171	-5.7	-29.0	-15	12
Portugal	268	-5.6	-15.4	-30	-94
Spain	117	-2.7	-11.8	-7	1
2-yr sovereign spread vs Germany					
France	20	-0.7	0.6	-3	10
Italy	44	-3.6	-6.6	-9	-17
Portugal	81	-4.7	-12.8	-23	-66
Spain	41	-4.1	-6.1	-2	-7
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	235	1.7	1	33	-36
Chile	68	-0.3	0	-5	-14
Colombia	125	-0.9	0	-4	-38
Mexico	110	0.8	-4	-8	-47
Peru	87	-1.0	-4	-13	-21
Venezuela	4,392	214.1	730	569	497
Poland	63	0.0	-3	-5	-13
Russia	156	-0.5	5	3	-21
Turkey	187	-5.4	-4	-17	-66
China	70	-0.3	-5	-9	-47
India	91	0.1	4	-5	-36
Indonesia	117	0.0	-3	-11	-39
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	11	-7.3	2	2	-1
VST OXX	14	-6.6	6	-2	-3
EM EFT volatility Index	16	-2.9	0	-2	21
Dollar/euro volatility	6	-1.1	-13	-11	-42
EM FX volatility index	8	-0.9	-4	-3	-30
Credit spread (Baa) (bps)	222	0.0	-3	-4	-6
US bonds volatility index	52	-0.5	-2	-6	-32
Ranking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	59	0.7	-1	4	-13
EZ	74	-1.7	8	-6	-34
UK	61	-2.5	6	1	-29
Large Spanish	72	-1.0	-18	-1	-45
Medium Spanish	118	-1.6	-81	-33	-33
Ranking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	150	0.7	-1	4	-13
EZ Non-financial	85	-1.7	8	-6	-34
UK Non-financial	114	-0.2	-2	-2	-11
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
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	-0.15	0.00	0.0	0.0	-0.1
Libor 3m	1.24	0.01	0.0	0.1	0.2
Libor 12m	1.74	0.01	0.0	-0.1	0.0
EZ TED spread 3m	94.1	7.40	7.8	1.2	-12.3
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,426	0.3	0.3	2	7
Dow Jones	21,310	0.4	0.8	2	7
Nikkei	19,899	0.0	-0.4	0	2
FTSE 100	7,500	-0.2	-0.3	1	4
EuroStoxx 50	3,559	0.4	0.1	-2	-7
IBEX	10,882	0.4	0.0	0	15
DAX	12,765	0.6	0.6	0	10
CAC	5,262	0.4	-0.1	-3	7
MIB	21,089	0.9	1.6	-2	7
ASE Athens	797	1.6	2.5	1	21
MSCI Latam *	75,066	-0.5	-1.1	-5	2
Bovespa (Brazil)	61,667	-0.1	2.0	10	0
Mexbol	49,051	-0.2	-0.3	-1	5
MSCI EM Europe *	4,824	-0.1	0.3	-3	-5
Poland	2,302	0.3	-0.1	-3	15
Mircs (Russia)	1,861	-1.2	-0.8	-7	-18
Ise 100 (Turkey)	99,300	-0.1	1.0	5	30
MSCI EM Asia	813	-0.9	-0.4	2	17
Shanghai Com (China)	3,154	0.4	1.7	2	0
Jakarta (Indonesia)	5,708	0.6	0.7	1	8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	121.3	0.7	5.8	3	1
JPM	87.6	0.7	5.6	1	1
Citi	64.6	0.4	5.9	6	5
BoA	23.9	0.3	7.3	-1	4
MS	45.3	1.0	5.5	6	4
GS	224.2	1.0	4.5	1	8
EZ banks	110.3	0.3	2.3	-5	5
BNP	63.4	-0.1	1.4	-5	1
Credit Agricole	14.1	0.7	3.0	-1	15
Deutsche Bank	15.6	0.7	1.5	-9	-4
ING	15.2	-0.2	3.2	0	10
Intesa	2.6	0.5	1.2	-9	-2
SG	47.1	0.2	1.5	-5	-2
Unicredit	16.2	1.6	5.5	-5	16
UK banks	88.1	-0.1	-0.4	0	0
HSBC	688.2	-0.5	0.2	1	3
RBS	252.2	0.8	0.2	-3	8
Barclays	206.3	0.5	-1.5	0	-12
Lloyds	68.6	-0.7	-0.5	0	6
Large Spanish banks	90.5	0.4	3.8	0	16
Santander	6.1	-0.1	4.5	1	18
BBVA	7.4	0.9	3.2	0	14
Medium Spanish banks	79.1	0.0	-0.5	-7	8
Cajabank	4.1	-0.2	0.1	-2	25
Sabadell	1.7	0.9	-3.6	-5	27
Bankinter	8.2	0.0	0.6	-3	9
Banque	4.1	-0.6	0.7	-6	1
Currencies (% ind for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	-0.1	-0.7	2.4	7
GBPUSD	1.27	0.6	-1.3	-1.2	3
USD JPY	110.11	-0.1	-0.6	-2.9	6
DX1	97.08	-0.1	0.5	2.2	5
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	15.90	0.2	0.7	-3.0	1
USD BRL (Brazil)	3.31	0.2	-1.1	-6.1	-3
USD CLP (Chile)	662.95	-0.3	0.8	1.3	1
USD COP (Colombia)	2930	0.1	-1.3	-0.4	-1
USD MXN (Mexico)	18.07	0.3	0.9	4.0	16
USD PEN (Peru)	3.28	0.1	-0.3	0.0	3
LACI	65.02	0.1	0.0	-0.8	6
USD PLN (Poland)	3.75	-0.1	0.7	2.8	10
USD RUB (Russia)	56.91	0.3	-0.7	0.3	6
USD TRY (Turkey)	3.52	-0.1	-0.1	1.5	1
USD CNY (China)	6.80	0.0	-0.1	1.5	2
USD INR (India)	64.34	0.2	0.1	0.0	5
USD IDR (Indonesia)	13,291	0.1	0.0	0.3	1
ADXY	106.4	0.1	-0.2	0.9	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	48.0	-0.6	-4.2	-6	-15
WTX	46	0.6	-3.8	-3	-13
Copper	259	-0.9	1.7	3	2
Gold	1263	-0.2	-2.4	3	9
S&P Spot commodity *	368	-0.4	-1.7	-3	-7
S&P Brent Spot *	413	-0.4	-3.1	-6	-14
S&P Metals Spot *	314	-1.0	1.1	1	3
S&P Agricultural *	288	-1.4	1.4	-1	-4

Source: Bloomberg, Datastream and Haver

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* With one day delay

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