

# Market Comment | Positive market reaction as Yellen's remarks perceived as mildly dovish

Global Financial Markets Unit  
12 Jul 2017

- **Financial markets were in a positive mood**, as equity volatility diminished across the board following the FOMC's Janet Yellen's remarks, which judging by market reaction were interpreted as dovish. Government yields fell across the board, boosting equity prices. Moreover, a rise in oil prices due to lower inventories also underpinned the positive sentiment.
- **US Treasury yields fell after Yellen's remarks** ([see](#)), dragging down sovereign bond yields across the board and halting the recent bond sell-off. **Moreover, the fall in yields fanned the positive trend in stock prices.** Yellen admitted that the effects of monetary policy are uncertain, but the bank is on track to raise rates one more time this year and to shrink its balance sheet before year-end, although it may remain at higher levels than before the crisis. Nonetheless, she also admitted that the **Federal Reserve is closer to neutrality** and that it may use QE again in the event of economic downturn.
- **The decline in yields spread to Europe**, with the effect of reducing peripheral risk premium somewhat. On the other hand, the European banking sector continued to show a positive correlation with long-term interest rates, underperforming today.
- The **Bank of Canada raised interest rates for the first time since 2010** ([see](#)), as the markets had been expecting, after the Sintra forum on central banking, joining the recent central bank hawkishness.
- **Oil prices rose** amid signs of declining inventories and a reduction in the US government forecast for oil output. **EM currencies appreciated significantly**, due to higher oil prices but also helped by the perception of Yellen's remarks as dovish.

Update 18 CET 12 July, 2017

Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.35	-2.4	-5.1	0	14
US	2.32	-4.3	-0.6	10	12
GER (2-yr)	0.62	-2.1	-2.0	11	15
Germany	0.58	-4.7	3.3	25	23
France	0.86	-5.5	4.6	27	5
Spain	1.64	-5.0	7.2	20	13
Italy	2.28	-5.6	10.0	24	39
Portugal	3.11	-4.5	12.7	12	-107
Greece	5.36	-1.8	1.8	-51	-152
Japan (2-yr)	0.11	-0.7	-0.1	0	8
Japan	0.09	-0.3	2.1	2	2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.41	-9.4	-11.8	-31	-101
Chile	4.36	-1.2	-5.9	8	-17
Colombia	6.80	3.3	7.8	57	-30
Mexico	6.80	-3.5	-3.2	-31	-84
Peru	5.54	-13.0	2.8	7	-93
Poland	3.35	0.1	2.3	19	-37
Russia	7.95	-5.9	1.5	16	-49
Turkey	10.44	-10.0	-4.0	27	-56
India	6.46	-2.6	-9.2	-6	8
Indonesia	7.09	-6.4	26.7	19	-75
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	20	-8.8	1.3	1	-17
Italy	168	-1.9	6.7	-1	16
Portugal	253	0.2	9.4	-13	-102
Spain	106	-0.3	3.9	-6	-2
<b>2-yr sovereign spread vs Germany</b>					
France	23	-0.5	1.5	2	13
Italy	48	-0.7	0.3	0	-14
Portugal	71	-1.2	2.5	-15	-76
Spain	35	-3.1	-3.3	-9	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	233	-0.3	5	-1	-30
Chile	67	0.3	2	-2	-16
Colombia	141	0.9	6	15	-22
Mexico	114	1.4	1	5	-43
Peru	87	1.2	2	-1	-21
Venezuela	4,184	1.9	-66	6	279
Poland	61	0.0	0	-1	-14
Russia	171	-1.4	3	15	5
Turkey	199	-1.1	3	7	-73
China	70	-0.2	-1	0	-47
India	89	-2.3	-1	-2	-38
Indonesia	120	0.3	1	3	-36
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
<b>VIX</b>	10	-5.1	-7	-10	-2
VSTOXX	14	-6.9	-6	-5	-3
EM EFT volatility Index	16	0.3	-1	0	-19
Dollar/reserve volatility	7	0.9	-3	9	-36
EM FX volatility Index	8	-0.5	-2	0	-30
Credit spread (BAA) (bps)	213	4.3	5	-13	-14
US bonds volatility index	53	0.1	-6	2	-30
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	55	1.5	3	-4	-17
EZ	58	-0.3	3	-18	-50
UK	50	-0.2	3	-14	-41
Large Spanish	56	-1.1	3	-14	-58
Medium Spanish	98	-1.1	0	-21	-53
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	144	1.5	3	-4	-17
EZ Non-financial	82	-0.3	3	-18	-50
UK Non-financial	114	-0.2	1	0	-10
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EDNA Index	-0.36	0.00	0.0	0.0	0.0
Earlibor 3m	-0.33	0.00	0.0	0.0	0.0
Earlibor 12m	-0.15	0.00	0.0	0.0	-0.1
Libor 3m	1.30	0.00	0.0	0.1	0.3
Libor 12m	1.35	0.00	0.0	0.0	0.1
Stock markets (%)					
Indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,440	0.6	0.3	0	7
Dow Jones	21,515	0.5	0.2	1	8
Nikkei	20,098	-0.5	0.1	1	3
FTSE 100	7,417	-1.2	0.7	-1	-3
EuroStoxx 50	3,515	1.5	1.1	-1	6
IBEX	10,560	1.1	0.3	-3	12
CAC	12,627	1.5	1.4	-1	9
MIB	5,222	1.6	0.8	0	7
MIB	21,433	1.5	2.4	2	9
ASE Athens	843	-0.1	0.2	7	28
<b>MSCI Latam *</b>	77,355	0.7	0.9	2	5
Ibovespa (Brazil)	64,015	0.3	1.4	4	4
Mexbol	50,614	0.2	0.6	3	9
<b>MSCI EM Europe *</b>	4,918	0.7	0.9	2	-3
Pobor	2,342	1.9	1.5	2	17
Micex (Russia)	1,954	0.9	1.7	4	-14
Ise TOI (Turkey)	103,810	0.6	3.0	4	36
<b>MSCI EM Asia *</b>	830	1.1	1.4	1	19
Shanghai Com (China)	3,198	-0.2	-0.3	2	1
Jakarta (Indonesia)	5,819	0.8	0.8	3	10
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	123.2	-0.5	-1.9	2	3
JPM	92.5	-0.4	-1.3	6	6
CB	66.8	0.0	-2.4	4	9
BofA	24.4	-5.8	-2.0	3	6
MS	44.9	-1.9	-2.7	0	3
GS	227.2	0.1	-0.4	2	-7
<b>EZ banks</b>	116.0	0.4	1.0	5	10
BNP	66.0	1.1	2.4	4	5
Crédit Agricole	14.7	0.3	0.7	5	20
Deutsche Bank	16.4	-0.9	0.5	6	1
ING	15.6	0.0	1.0	2	12
Intesa	2.8	0.5	0.1	11	12
SG	49.1	0.7	0.3	5	2
Unicredit	17.4	1.4	2.6	9	24
<b>UK banks</b>	89.7	0.2	1.1	2	2
RBS	745.4	0.4	2.5	8	11
HSBC	251.5	-1.9	-1.6	1	7
Barclays	208.0	1.1	1.9	1	-11
Lloyds	66.0	0.7	0.5	-4	2
<b>Large Spanish banks</b>	89.9	0.1	0.1	0	15
Santander	5.8	0.4	-0.6	-3	15
BBVA	7.5	-0.1	0.7	2	16
<b>Medium Spanish banks</b>	82.9	0.3	0.7	5	13
Cababank	4.3	0.6	-1.4	4	30
Sabadell	1.9	1.0	2.1	8	35
Bankinter	8.3	0.6	1.7	1	10
Banque	4.5	-1.1	0.1	8	10
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>	1.14	-0.5	0.5	1.9	9
GBPUSD	1.29	0.3	0.4	1.8	5
USD JPY	113.27	0.6	0.0	3.0	-3
DKK	95.78	0.1	-0.2	1.4	7
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	16.97	0.2	0.9	-6.6	-6
USD BRL (Brazil)	3.23	0.9	1.9	2.8	0
USD CLP (Chile)	663.20	0.5	0.4	-0.3	1
USD COP (Colombia)	3054	0.6	1.0	-4.2	-3
USD MXN (Mexico)	17.77	0.8	2.9	2.0	17
USD PEN (Peru)	3.25	0.2	0.2	0.9	4
LACI	65.36	0.6	1.4	0.6	6
USD PLN (Poland)	3.71	-0.3	0.4	0.9	11
USD RIL (Russia)	60.02	1.3	-0.1	-5.2	11
USD TRY (Turkey)	3.57	1.8	1.2	-1.4	0
USD CNY (China)	6.79	0.2	0.2	0.2	2
USD INR (India)	64.54	0.1	0.4	-0.1	5
USD IDR (Indonesia)	13,370	0.1	0.0	-0.5	1
ADXY	106.2	0.3	0.3	0.0	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>	48.0	1.1	0.5	-1	-15
WTX	46	1.5	1.3	-1	-14
Copper	268	0.5	1.1	3	5
Gold	1221	0.3	-0.5	-4	5
S&P Spot commodity *	370	0.9	0.1	1	-7
S&P Brent Spot *	405	1.5	0.3	-2	-16
S&P Metals Spot *	325	0.6	0.0	4	7
S&P Agricultural *	310	0.1	0.8	8	3



Debt markets (10Y, %, changes in bp)					
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Chile	4.16	-1.2	5.9	8	17
Colombia	6.80	3.3	7.8	57	30
Mexico	6.80	-3.5	-3.2	-31	-84
Peru	5.54	-13.0	2.8	7	93
Poland	3.35	0.1	2.3	19	-37
Russia	7.95	-5.9	1.5	16	-49
Turkey	10.44	-10.0	-4.0	27	-56
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Interbank markets (% , changes in bp)					
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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	1.30	0.00	0.0	0.1	0.3
Libor 12m	1.75	0.00	0.0	0.0	0.1
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Main indices</b>					
S&P500	2,440	0.6	0.3	0	7
Dow Jones	21,515	0.5	0.2	1	8
Nikkei	20,098	-0.5	0.1	1	3
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MSCI Latam *	77,265	0.7	0.9	2	5
Ibovespa (Brazil)	64,015	0.3	1.4	-4	4
Mobx (Russia)	50,014	0.2	0.6	3	9
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MSCI EM Asia *	830	1.1	1.4	1	19
Shanghai Com (China)	3,198	-0.2	-0.3	2	1
Jakarta (Indonesia)	5,819	0.8	-0.3	3	10
Banking sector					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
JPM	123.2	-0.5	-1.9	2	3
Citi	92.5	-0.4	-1.3	6	6
CB	66.8	0.0	-2.4	4	9
BoA	24.4	-0.8	-2.0	3	6
MS	44.9	-1.3	-2.7	0	3
GS	227.2	0.1	0.4	2	7
<b>EZ banks</b>					
BNP	116.0	0.4	1.0	5	10
Crédit Agricole	66.0	1.1	2.4	4	5
Crédit Agricole	14.7	0.3	0.7	5	20
Deutsche Bank	16.4	-0.9	0.5	6	1
ING	15.6	0.0	1.0	2	12
Intesa	2.8	0.5	0.1	11	12
SG	49.1	0.7	0.3	5	2
Unicredit	17.4	1.4	2.6	9	24
<b>UK banks</b>					
HSBC	89.7	0.2	1.1	2	2
HSBC	745.4	0.4	2.5	8	11
RBS	251.5	-1.9	-1.6	1	7
Barclays	208.0	1.1	1.9	1	-11
Lloyds	66.0	0.7	0.5	-4	2
<b>Large Spanish banks</b>					
Santander	89.9	0.1	0.1	0	15
Santander	5.8	0.4	0.6	-3	15
BBVA	7.5	-0.1	0.7	2	16
<b>Medium Spanish banks</b>					
Cajabank	82.9	0.3	0.7	5	13
Cajabank	4.3	0.6	-1.4	-4	30
Sabadell	1.9	1.0	2.1	8	35
Bankinter	8.3	0.6	1.7	1	10
Bankia	4.5	-1.1	0.1	8	10
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>					
EURUSD	1.14	-0.5	0.5	1.9	9
GBPUSD	1.29	0.3	-0.4	1.8	5
USD JPY	113.27	0.6	0.0	3.0	-3
USDY	95.78	0.1	-0.5	1.4	7
Emerging					
level	Daily	Weekly	Monthly	Year	
<b>USDARS (Argentina)</b>					
USDARS	16.97	0.2	0.9	-6.6	-6
<b>USD BRL (Brazil)</b>					
USD BRL	3.23	0.9	1.9	2.8	0
<b>USD COP (Colombia)</b>					
USD COP	663.20	0.5	0.4	-0.3	1
<b>USD COP (Colombia)</b>					
USD COP	305.4	0.6	1.0	-4.2	-3
<b>USD MXN (Mexico)</b>					
USD MXN	17.77	0.8	2.9	2.0	17
<b>USD PEN (Peru)</b>					
USD PEN	3.25	0.2	0.2	0.9	4
LACI	65.36	0.6	1.4	0.6	6
<b>USD PLN (Poland)</b>					
USD PLN	3.71	-0.3	0.4	0.9	11
<b>USD RUB (Russia)</b>					
USD RUB	60.02	1.3	-0.1	-5.2	1
<b>USD TRY (Turkey)</b>					
USD TRY	3.57	1.3	1.2	-1.4	0
<b>USD CNY (China)</b>					
USD CNY	6.79	0.2	0.2	0.2	2
<b>USD INR (India)</b>					
USD INR	64.54	0.1	0.4	-0.1	5
<b>USD IDR (Indonesia)</b>					
USD IDR	13,370	0.1	0.0	-0.5	1
ADXY	106.7	0.3	0.7	0.0	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>					
Brent	48.0	1.1	0.5	-1	-15
WTX	46	1.5	1.2	-1	14
Copper	268	0.5	1.1	3	5
Gold	1221	0.3	-0.5	-4	5
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Source: Bloomberg, Datastream and Haver

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\* With one day delay

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