

Market Comment | Financial markets improved following Fed Chairman Powell's comments

Global Financial Markets Unit
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- **Market mood improved** after Fed Chairman Powell delivered an upbeat assessment of the economy, and continued supporting a gradual monetary policy tightening. **However, US yields have been mixed today.** The 2Y yield declined after weak construction data in the [US](#) (see), while the 10Y remained broadly steady. **As a result, the flattening of the US yield curve moderated,** line with recent warning against reading the yield curve flattening as an early recession signal launched by former Fed Chairman, Mr. Bernanke and current Trump's adviser Mr. Kudlow ([see](#)). **In Europe the 10Y Bund yield inched down, after ECB member Villeroy said that the central bank would increase rates from summer 2019 at the earliest, depending on inflation([see](#)).**
- **Comments from the Fed Chairman helped to improve equity markets' mood across the board.** However, gains in US markets were limited, as extending declines in oil prices coupled with negative news on big technology companies ([see](#)) offset positive US banking sector earnings ([see](#)). European equities rose, led by export sectors, underpinned by lower yields and the euro's depreciation. The bilateral trade deal signed between Japan and the EU may also have contributed to the positive mood in the European markets ([see](#)).
- **The USD rally continued on the back of Powell's testimony yesterday.** In DM FX markets, the GBP remained under pressure due to ongoing UK political concerns, and the lower-than-expected inflation data, which may delay August rate hike expectations amid increasing global trade concerns ([see](#)). The strong USD continued to weigh on EM currencies, however the slightly recovering of crude oil prices supported Latam currencies ([see](#)).

Table 1

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Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US 10Y	2.61	0.6	3.0	6	69
US	2.86	0.4	1.5	5	40
GER (2-yr)	-0.63	-0.1	-0.1	-1	2
Germany	0.34	-0.4	-2.5	-11	18
France	0.63	0.2	-1.9	-9	-19
Spain	1.28	3.0	2.4	3	33
Italy	2.51	3.7	-18.4	5	41
Portugal	1.76	2.4	1.0	1	25
Greece	3.86	0.1	-2.4	-56	-25
Japan (2-yr)	-0.12	0.5	0.4	1	1
Japan	0.05	0.2	0.2	0	0
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.28	-3.0	7.7	-72	113
Chile	4.58	0.4	3.0	-3	6
Colombia	6.69	4.5	13.6	6	25
Mexico	7.67	-6.2	-1.1	25	9
Peru	5.17	-0.7	2.2	-27	30
Poland	3.13	4.3	4.8	-9	-18
Russia	7.78	3.8	6.8	-19	14
Turkey	16.99	-5.0	-7.0	76	563
India	7.75	0.7	12.0	13	37
Indonesia	7.68	9.9	15.7	38	138
Country risk (bp, changes in bp)					
level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany					
France	29	0.6	0.6	2	-7
Italy	216	4.1	-15.9	6	59
Portugal	142	2.8	1.5	13	-7
Spain	94	3.4	0.1	14	-15
2-yr sovereign spread vs Germany					
France	20	-0.4	1.8	10	3
Italy	121	3.3	-2.3	7	84
Portugal	52	1.2	3.0	4	2
Spain	34	1.2	-2.3	-1	7
4-yr sovereign CDO *					
level	Daily	Weekly	Monthly	YTD	
Brazil	241	-1.6	1	-28	81
Chile	57	-0.2	-1	1	8
Colombia	111	-0.9	8	-15	6
Argentina	436	4.2	14	25	198
Mexico	115	2.1	4	-29	8
Peru	83	-0.6	-1	-5	11
Poland	62	0.8	0	-2	13
Russia	128	1.8	2	-16	10
Turkey	330	-5.8	-19	6	153
China	65	0.2	-3	7	14
India	98	-0.1	-2	10	29
Indonesia	116	0.5	-7	-13	31
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in ppt)					
VIX	12	-0.2	-2	0	2
VIXOXX	17	-0.6	-3	-2	-1
EM EFT volatility Index	17	0.3	-2	-1	1
Dollar/Euro volatility	7	0.1	0	-1	0
EMFX volatility index	10	-0.2	0	0	2
Credit spread (BAA) (change in bp)	190	-0.4	-1	-1	12
US bonds volatility index					
US 10Y (change in bp)	47	0.1	4	6	3
US Inflation expectations (5Y5Y)	2.41	-	0	-4	9
EZ Inflation expectations (5Y5Y)	1.70	-	-2	-4	-3
EMFX volatility (ppt)					
US	53	0.1	-2	-1	11
EZ	84	0.0	3	-1	45
UK	62	0.8	0	10	21
Large Spanish	79	-0.5	-4	-2	43
Medium Spanish	89	-1.9	-3	-9	16
Commodity (30% 30% 30%*)					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	157	0.1	-2	-1	11
EZ Non-financial	78	0.0	-3	-1	45
UK Non-financial	103	-0.3	-2	-3	10
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
LIBOR 3m	-0.37	0	0	0	1
EURBOR 3m	-0.32	0	0	0	1
EURBOR 12m	-0.18	0	0	1	1
LIBOR 3m	2.34	1	0	2	65
LIBOR 12m	2.80	1	1	2	69
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,816	0.2	1.5	1.5	4
Dow Jones	25,213	0.4	2.1	0.9	2
Nikkei	22,794	0.4	3.9	0.5	0
FTSE 100	7,676	0.7	1.1	0.6	0
Euro Stoxx 50	3,405	0.8	1.8	0.5	0
IBEX	9,753	0.3	0.2	0.2	-3
DAX	12,766	0.8	2.8	0.5	-1
CAC	5,447	0.5	1.7	-0.1	3
NIB	21,972	0.0	1.2	0.6	1
ASE Athens	774	-1.1	3.6	0.4	-5
MSCI LatAm *					
Bovespa (Brazil)	77,740	-0.5	4.5	11.4	0
Ibov (Brazil)	48,921	0.4	0.2	4.8	2
Merval (Argentina)	27,003	0.9	0.8	2.8	-13
MSCI Europe *					
Poland	2,149	-0.2	-0.2	0.1	-13
Hong Kong 10	4,284	-1.4	3.4	1.4	5
Ise 100 (Turkey)	92,322	0.8	1.1	0.8	-21
MSCI EM Asia	883	-0.4	-0.4	-5.4	-4
Shanghai Com (China)	2,387	-0.6	0.3	7.8	-17
Jakarta Indonesia	5,891	-0.2	0.2	1.7	-7
Emerging sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	111.9	1.3	5.2	3.5	4
Ch	70.2	1.2	3.4	5.2	6
BaK	30.3	0.9	5.6	3.0	1
MS	50.9	3.4	6.5	0.2	-3
GS	232.5	0.6	3.0	0.5	-9
EU banks					
BNP	52.1	-0.1	-1.0	3.5	-16
Crédit Agricole	11.4	-0.2	0.7	-2.9	-18
Deutsche Bank	10.4	1.8	0.1	9.2	-38
ING	12.3	-0.1	-0.6	-2.2	-19
Intesa	2.5	-0.7	-0.5	3.5	-11
SC	36.5	0.4	1.1	0.2	-15
Unicredit	14.2	-1.5	-1.0	1.3	-10
UK banks					
Lloyds	85.0	0.7	1.1	-1.4	8
RBS	717.4	1.4	2.4	-1.0	-6
RBS	244.9	0.4	0.0	-3.8	-12
Barclays	188.9	0.3	0.8	-3.1	-7
Lloyds	62.5	0.1	0.3	1.5	-8
Large Spanish banks					
Santander	4.6	0.8	0.1	-0.1	-15
BBVA					
BBVA	6.0	1.2	0.7	1.4	-15
Medium Spanish banks					
CaixaBank	70.1	-0.4	2.0	1.9	9
Sabadell	3.7	-0.3	0.3	1.4	-6
Sabadell	1.4	-0.6	2.6	3.1	-19
Bankinter	8.4	-0.6	-2.1	1.7	5
Banisa	3.1	-0.5	3.5	5.7	-24
Commodities (% change in currency deposit)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD	1,166	0.0	-0.1	0.3	-3
GBPUSD	1.31	-0.4	-1.0	1.8	-4
USDJPY	112.75	0.1	-0.7	-2.0	0
DXY	95.04	0.1	0.3	0.3	3
Emerging					
USDARS (Argentina)	27.66	-0.5	-1.0	-0.1	-50
USDZAR (Brazil)	3.83	0.3	1.3	-2.1	-17
USDCJP (China)	654.35	-0.1	-0.2	2.7	8
USDCOP (Colombia)	2871	0.0	0.8	1.8	2
USDMMX (Mexico)	18.84	0.3	1.3	8.2	4
USDRIN (Peru)	3.27	0.1	0.3	0.2	-1
LACI	58.06	0.1	0.6	1.8	9
USDPIN (Poland)	3.69	-0.2	0.7	0.2	-7
USDRIE (Russia)	62.95	-0.5	0.9	0.7	9
USDTRY (Turkey)	4.79	0.2	1.7	-1.9	-27
USDYNY (China)	6.72	-0.2	0.5	-4.4	-3
USDINR (India)	68.82	0.2	1.2	0.8	6
USDIDR (Indonesia)	14,414	-0.3	-0.2	3.5	-7
ADXY	105.2	-0.2	-0.1	-2.5	-4
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	72.7	0.7	1.0	-4	9
WTI	68	0.3	2.0	-4	13
Copper	275	0.3	0.5	-12	-16
Gold	1227	0.0	-1.2	-4	-7
S&P Spot commodity *	45.2	0.2	-1.7	-3	-2
S&P Brent Spot *	615	0.6	-1.5	-4	9
S&P Metals Spot *	342	-0.6	-0.9	-11	-13
S&P Agricultural *	279	1.0	2.1	-5	-2

* With one day delay
Source: Bloomberg, Datastream and IHS

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