

# Market Comment | Global markets react negatively to FOMC's dovish message

Global Financial Markets Unit  
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- **US leading indicator** rose less than expected in August (by 0.1% MoM; consensus: 0.2%)
- **Dovish Views Dominate as FOMC Holds Back on Rate Hike.** The statement noted that “recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.” Clearly, the latest spillover from China’s market crumble has spooked some among the Committee. In addition, FOMC members stressed the risk to inflation from lower import prices, considering the appreciation of the USD and the possibility that higher rates could intensify the dollar’s strength. The dovish undertones were also evident in the updated Summary of Economic Projections, One of the biggest adjustments since June was a shift in the FOMC participants’ assessments of the appropriate timing for monetary policy. Median projections have declined since June, especially with only two meetings left for a hike in 2015. In the long-run, the median expected rate dropped from 3.63% in June to 3.5% in September, suggesting an even more gradual pace of rate hikes (one less 25bp increase) compared to the previous meeting. The Fed’s decision to delay the first rate hike has shifted our expectations to December. We expect that they will wait until December to gather as much information as possible. ([see](#))
- **Global markets react negatively to FOMC’s dovish message.** This week’s movement have been highly conditioned by uncertainty about the Fed’s decision. During the week, volatility remained at relatively low levels across the board until the US monetary authority announced no changes in the Fed Funds rate. The Fed’s arguments for not raising rates - mainly the negative global outlook and downward revision of inflation rate- were not well-received by markets. The deterioration of the global outlook on the back of the Fed’s pessimism undermined global bond yields especially US yields, which reacted falling close to 10 bps in all tenors, after the Fed’s announcement, ending the week broadly unchanged (2Y:-3bp, 10Y: -4bp). However, European yields fell sharply today on the back of the Fed’s doubts about the global economic outlook (GER 10Y:-12bp to 0.66%, FRA 10Y: -14bp, ITA 10Y: -14bp, SPA 10Y: -15bp to 1.95%, POR 10Y: -15bp, GRE 10Y: -25bp). During the week, European safe-haven yields remained flat, while peripheral yields dropped sharply and risk premia narrowed as a result (ITA 10Y: -7bp, SPA 10Y: -16bp, POR 10Y: -9bp). The drop in the yield on Greek sovereign bonds during the week (GRE 10Y: -53bp) indicates slight optimism about the outcome of the General Elections to be held on Sunday. US equity markets dropped after FOMC statement, offsetting the gains earlier this week. Moreover, European equity markets fell in the week (Eurostoxx: -1.0%, CAC: -0.7%, DAX: -2.1% MIB: -0.9%), mainly reflecting today’s drop, led by the cyclical sectors. The IBEX-35 is the only exception among the main European indices, rising 1.1%, helped by yesterday’s rebound of medium-sized (domestic) banks. Asian markets dropped (Nikkei:-1.1% Shanghai: -3.2%) due to the ongoing worries concerning the economic outlook for China. The reaction in FX markets was significant, with the USD depreciating against both major currencies (EUR: +0.56% GBP: +1.22%) and EM currencies (RUB: +2.8% MXN: +1.9% COP: +1.8% CLP: +2.0% TRY: +1.7%). The commodities markets also reflected the

high cyclical risk premium, with safe-haven commodities such as precious metals surging after the FOMC decision (gold +3.0%), while industrial metals declined (copper -2.5%) while oil prices were mixed, with the WTx recovering in the week (+1.3%) while Brent remained flat.

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Table1

**Current level and changes at daily, weekly, monthly and annual frequencies**

**Debt markets (changes in bp)**

<b>US</b>	
US 2yr	0.47 (1.1) (2) (1)
US 5yr	1.45 (2.0) (2) (2)
US 10yr	2.15 (4.4) (4) (2)
<b>Japan</b>	
JP 10yr	0.31 (0.3) (0) (0)
JP 2yr	0.21 (0.0) (0) (0)
JP 5yr	0.87 (1.1) (1) (2)
JP 10yr	1.06 (2.0) (0) (1)
<b>Germany</b>	
German 10yr	0.96 (1.4) (3) (2) (1)
France 10yr	1.02 (1.4) (3) (2)
Germany 5yr	0.51 (0.2) (0) (0) (0)
Germany 2yr	0.11 (0.1) (0) (0)
France 2yr	0.11 (0.1) (0) (0)
Italy 10yr	1.77 (3.4) (7) (4) (2)
Netherlands 10yr	0.21 (0.1) (0) (0) (0)
Portugal 10yr	2.52 (4.5) (6) (1) (7)
Spain 10yr	1.82 (4.0) (4) (0) (4)
<b>Emerging Markets</b>	
Brazil 10yr	15.49 (13.0) (17) (1) (1)
China 10yr	6.73 (5.1) (7) (1)
Colombia 10yr	8.33 (5.3) (8) (1) (1)
Costa Rica 10yr	6.87 (4.8) (4) (2) (7)
India 10yr	5.91 (6.0) (6) (2) (1)
Indonesia 10yr	2.08 (1.5) (1) (0) (1)
Russia 10yr	11.34 (11.2) (4) (2) (6)
South Africa 10yr	10.61 (9.3) (3) (1) (2)
Turkey 10yr	10.27 (1.7) (1) (7) (2) (4)
India 10yr 7.7	1.61 (0.4) (1) (0)
Indonesia 10yr 5.1	0.21 (0.2) (0) (1)

**Country risk (changes in bp)**

<b>Very low-risk countries (against Germany)</b>	
Belgium	31 (2) (1) (0) (1)
France	37 (2) (4) (2) (0)
Germany	141 (1) (0) (0) (0) (0) (1)
Ireland	39 (2) (3) (1) (4) (2)
Italy	111 (2) (7) (1) (4) (2)
Netherlands	16 (1) (2) (2) (2) (2)
Portugal	195 (2) (1) (7) (0) (2)
Spain	129 (2) (1) (7) (0) (2)
<b>Low-risk countries (against Germany)</b>	
Belgium	11 (2) (2) (0) (4) (3)
France	12 (1) (2) (0) (4) (3)
Germany	109 (1) (0) (1) (4) (8)
Ireland	31 (2) (0) (1) (4) (8)
Italy	74 (1) (1) (4) (1) (2) (4)
Netherlands	4 (1) (1) (4) (2) (4)
Portugal	131 (3) (1) (5) (2) (1) (2)
Spain	91 (2) (1) (2) (1) (6)
<b>Very low-risk countries (against Germany)</b>	
Belgium	9 (0) (1) (0) (1) (4)
France	5 (2) (1) (3) (4) (3)
Germany	5 (1) (4) (1) (0) (2) (0)
Italy	37 (0) (2) (1) (4) (2)
Netherlands	0 (0) (2) (2) (1) (7)
Portugal	86 (1) (2) (3) (0) (8)
Spain	38 (1) (1) (4) (2) (5)
<b>Very low-risk CDS</b>	
EUR CDS Belgium	36 (1) (0) (0) (1) (6)
EUR CDS France	31 (1) (1) (1) (1) (4)
EUR CDS Germany	13 (0) (0) (0) (1) (4)
EUR CDS Greece	178 (2) (2) (2) (2) (1) (6)
EUR CDS Ireland	69 (1) (1) (1) (1) (2)
EUR CDS Italy	159 (3) (1) (1) (1) (2)
EUR CDS Netherlands	17 (0) (0) (0) (1) (4)
EUR CDS Portugal	161 (0) (1) (1) (1) (2)
EUR CDS Spain	95 (1) (2) (1) (1) (2)
EUR CDS US	19 (0) (1) (1) (1) (2)
EUR CDS US	15 (0) (1) (1) (1) (1)
<b>Very low-risk CDS</b>	
EUR CDS Brazil	374 (3) (1) (1) (1) (1)
EUR CDS China	102 (2) (1) (1) (1) (1)
EUR CDS Colombia	142 (1) (1) (1) (1) (1)
EUR CDS Costa Rica	115 (1) (1) (1) (1) (1)
EUR CDS India	161 (1) (1) (1) (1) (1)
EUR CDS Indonesia	57 (1) (1) (1) (1) (1)
EUR CDS Russia	229 (1) (1) (1) (1) (1)
EUR CDS South Africa	202 (1) (1) (1) (1) (1)
EUR CDS Turkey	239 (1) (1) (1) (1) (1)
EUR CDS China 10yr	103 (1) (1) (1) (1) (1)
EUR CDS India 7yr	141 (1) (1) (1) (1) (1)
EUR CDS Indonesia 2yr	140 (1) (1) (1) (1) (1)

**Credit risk**

US 2yr	15.15 (15.1) (15) (15)
US 3yr	28.31 (28.3) (28) (28)
US 5yr	42.42 (42.4) (42) (42)
US 10yr	74.42 (74.4) (74) (74)
US 15yr	115.15 (115.1) (115) (115)
US 20yr	156.28 (156.2) (156) (156)
US 25yr	197.41 (197.4) (197) (197)
US 30yr	238.54 (238.5) (238) (238)
US 35yr	279.67 (279.6) (279) (279)
US 40yr	320.80 (320.8) (320) (320)
US 45yr	361.93 (361.9) (361) (361)
US 50yr	403.06 (403.0) (403) (403)
US 55yr	444.19 (444.1) (444) (444)
US 60yr	485.32 (485.3) (485) (485)
US 65yr	526.45 (526.4) (526) (526)
US 70yr	567.58 (567.5) (567) (567)
US 75yr	608.71 (608.7) (608) (608)
US 80yr	649.84 (649.8) (649) (649)
US 85yr	690.97 (690.9) (690) (690)
US 90yr	732.10 (732.1) (732) (732)
US 95yr	773.23 (773.2) (773) (773)
US 100yr	814.36 (814.3) (814) (814)

**Interbank markets (changes in bp)**

EUR CDS Germany	15 (0) (0) (0) (0) (0)
EUR CDS France	31 (1) (1) (1) (1) (1)
EUR CDS Italy	111 (2) (2) (2) (2) (2)
EUR CDS Spain	91 (2) (2) (2) (2) (2)
EUR CDS US	19 (0) (0) (0) (0) (0)
US CDS 3m	10 (0) (0) (0) (0) (0)
US CDS 6m	10 (0) (0) (0) (0) (0)
US CDS 12m	10 (0) (0) (0) (0) (0)
US CDS 18m	10 (0) (0) (0) (0) (0)
US CDS 24m	10 (0) (0) (0) (0) (0)
US CDS 30m	10 (0) (0) (0) (0) (0)
US CDS 36m	10 (0) (0) (0) (0) (0)
US CDS 42m	10 (0) (0) (0) (0) (0)
US CDS 48m	10 (0) (0) (0) (0) (0)
US CDS 54m	10 (0) (0) (0) (0) (0)
US CDS 60m	10 (0) (0) (0) (0) (0)
US CDS 66m	10 (0) (0) (0) (0) (0)
US CDS 72m	10 (0) (0) (0) (0) (0)
US CDS 78m	10 (0) (0) (0) (0) (0)
US CDS 84m	10 (0) (0) (0) (0) (0)
US CDS 90m	10 (0) (0) (0) (0) (0)
US CDS 96m	10 (0) (0) (0) (0) (0)
US CDS 102m	10 (0) (0) (0) (0) (0)
US CDS 108m	10 (0) (0) (0) (0) (0)
US CDS 114m	10 (0) (0) (0) (0) (0)
US CDS 120m	10 (0) (0) (0) (0) (0)

**Stock markets (change in percentage)**

<b>US</b>	
S&P 500	2102.1 (2102.1) (2102) (2102)
Dow Jones	16495.1 (16495.1) (16495) (16495)
Nasdaq	11511.1 (11511.1) (11511) (11511)
FTSE 100	6666.1 (6666.1) (6666) (6666)
DAX	12345.1 (12345.1) (12345) (12345)
Nikkei 225	15678.1 (15678.1) (15678) (15678)
Hang Seng	19876.1 (19876.1) (19876) (19876)
ASX	4321.1 (4321.1) (4321) (4321)
IBEX	10987.1 (10987.1) (10987) (10987)
EURO STOXX 50	3456.1 (3456.1) (3456) (3456)
EURO STOXX 100	1234.1 (1234.1) (1234) (1234)
EURO STOXX 200	567.1 (567.1) (567) (567)
EURO STOXX 300	234.1 (234.1) (234) (234)
EURO STOXX 400	123.1 (123.1) (123) (123)
EURO STOXX 500	67.1 (67.1) (67) (67)
EURO STOXX 600	34.1 (34.1) (34) (34)
EURO STOXX 700	17.1 (17.1) (17) (17)
EURO STOXX 800	8.6 (8.6) (8) (8)
EURO STOXX 900	4.3 (4.3) (4) (4)
EURO STOXX 1000	2.1 (2.1) (2) (2)
EURO STOXX 1100	1.0 (1.0) (1) (1)
EURO STOXX 1200	0.5 (0.5) (0) (0)
EURO STOXX 1300	0.2 (0.2) (0) (0)
EURO STOXX 1400	0.1 (0.1) (0) (0)
EURO STOXX 1500	0.0 (0.0) (0) (0)
EURO STOXX 1600	0.0 (0.0) (0) (0)
EURO STOXX 1700	0.0 (0.0) (0) (0)
EURO STOXX 1800	0.0 (0.0) (0) (0)
EURO STOXX 1900	0.0 (0.0) (0) (0)
EURO STOXX 2000	0.0 (0.0) (0) (0)
EURO STOXX 2100	0.0 (0.0) (0) (0)
EURO STOXX 2200	0.0 (0.0) (0) (0)
EURO STOXX 2300	0.0 (0.0) (0) (0)
EURO STOXX 2400	0.0 (0.0) (0) (0)
EURO STOXX 2500	0.0 (0.0) (0) (0)
EURO STOXX 2600	0.0 (0.0) (0) (0)
EURO STOXX 2700	0.0 (0.0) (0) (0)
EURO STOXX 2800	0.0 (0.0) (0) (0)
EURO STOXX 2900	0.0 (0.0) (0) (0)
EURO STOXX 3000	0.0 (0.0) (0) (0)

**Commodities (change in percentage)**

WTI	45.12 (45.1) (45) (45)
Brent	48.23 (48.2) (48) (48)
Natural Gas	2.34 (2.3) (2) (2)
Gold	1234.56 (1234.5) (1234) (1234)
Silver	15.67 (15.6) (15) (15)
Copper	3.45 (3.4) (3) (3)
Aluminum	1.23 (1.2) (1) (1)
Zinc	0.98 (0.9) (0) (0)
Nickel	0.76 (0.7) (0) (0)
Lead	0.54 (0.5) (0) (0)
Tin	0.43 (0.4) (0) (0)
Iron Ore	67.89 (67.8) (67) (67)
Coal	56.78 (56.7) (56) (56)
Oil	45.67 (45.6) (45) (45)
Gas	34.56 (34.5) (34) (34)
Electricity	23.45 (23.4) (23) (23)
Carbon	12.34 (12.3) (12) (12)
Uranium	0.12 (0.1) (0) (0)
Wheat	0.01 (0.0) (0) (0)
Corn	0.02 (0.0) (0) (0)
Soybeans	0.03 (0.0) (0) (0)
Rice	0.04 (0.0) (0) (0)
Cocoa	0.05 (0.0) (0) (0)
Sugar	0.06 (0.0) (0) (0)
Wool	0.07 (0.0) (0) (0)
Cotton	0.08 (0.0) (0) (0)
Rubber	0.09 (0.0) (0) (0)
Latex	0.10 (0.0) (0) (0)
Iron	0.11 (0.0) (0) (0)
Steel	0.12 (0.0) (0) (0)
Aluminum	0.13 (0.0) (0) (0)
Zinc	0.14 (0.0) (0) (0)
Nickel	0.15 (0.0) (0) (0)
Lead	0.16 (0.0) (0) (0)
Tin	0.17 (0.0) (0) (0)
Iron Ore	0.18 (0.0) (0) (0)
Coal	0.19 (0.0) (0) (0)
Oil	0.20 (0.0) (0) (0)
Gas	0.21 (0.0) (0) (0)
Electricity	0.22 (0.0) (0) (0)
Carbon	0.23 (0.0) (0) (0)
Uranium	0.24 (0.0) (0) (0)
Wheat	0.25 (0.0) (0) (0)
Corn	0.26 (0.0) (0) (0)
Soybeans	0.27 (0.0) (0) (0)
Rice	0.28 (0.0) (0) (0)
Cocoa	0.29 (0.0) (0) (0)
Sugar	0.30 (0.0) (0) (0)
Wool	0.31 (0.0) (0) (0)
Cotton	0.32 (0.0) (0) (0)
Rubber	0.33 (0.0) (0) (0)
Latex	0.34 (0.0) (0) (0)
Iron	0.35 (0.0) (0) (0)
Steel	0.36 (0.0) (0) (0)
Aluminum	0.37 (0.0) (0) (0)
Zinc	0.38 (0.0) (0) (0)
Nickel	0.39 (0.0) (0) (0)
Lead	0.40 (0.0) (0) (0)
Tin	0.41 (0.0) (0) (0)
Iron Ore	0.42 (0.0) (0) (0)
Coal	0.43 (0.0) (0) (0)
Oil	0.44 (0.0) (0) (0)
Gas	0.45 (0.0) (0) (0)
Electricity	0.46 (0.0) (0) (0)
Carbon	0.47 (0.0) (0) (0)
Uranium	0.48 (0.0) (0) (0)
Wheat	0.49 (0.0) (0) (0)
Corn	0.50 (0.0) (0) (0)
Soybeans	0.51 (0.0) (0) (0)
Rice	0.52 (0.0) (0) (0)
Cocoa	0.53 (0.0) (0) (0)
Sugar	0.54 (0.0) (0) (0)
Wool	0.55 (0.0) (0) (0)
Cotton	0.56 (0.0) (0) (0)
Rubber	0.57 (0.0) (0) (0)
Latex	0.58 (0.0) (0) (0)
Iron	0.59 (0.0) (0) (0)
Steel	0.60 (0.0) (0) (0)
Aluminum	0.61 (0.0) (0) (0)
Zinc	0.62 (0.0) (0) (0)
Nickel	0.63 (0.0) (0) (0)
Lead	0.64 (0.0) (0) (0)
Tin	0.65 (0.0) (0) (0)
Iron Ore	0.66 (0.0) (0) (0)
Coal	0.67 (0.0) (0) (0)
Oil	0.68 (0.0) (0) (0)
Gas	0.69 (0.0) (0) (0)
Electricity	0.70 (0.0) (0) (0)
Carbon	0.71 (0.0) (0) (0)
Uranium	0.72 (0.0) (0) (0)
Wheat	0.73 (0.0) (0) (0)
Corn	0.74 (0.0) (0) (0)
Soybeans	0.75 (0.0) (0) (0)
Rice	0.76 (0.0) (0) (0)
Cocoa	0.77 (0.0) (0) (0)
Sugar	0.78 (0.0) (0) (0)
Wool	0.79 (0.0) (0) (0)
Cotton	0.80 (0.0) (0) (0)
Rubber	0.81 (0.0) (0) (0)
Latex	0.82 (0.0) (0) (0)
Iron	0.83 (0.0) (0) (0)
Steel	0.84 (0.0) (0) (0)
Aluminum	0.85 (0.0) (0) (0)
Zinc	0.86 (0.0) (0) (0)
Nickel	0.87 (0.0) (0) (0)
Lead	0.88 (0.0) (0) (0)
Tin	0.89 (0.0) (0) (0)
Iron Ore	0.90 (0.0) (0) (0)
Coal	0.91 (0.0) (0) (0)
Oil	0.92 (0.0) (0) (0)
Gas	0.93 (0.0) (0) (0)
Electricity	0.94 (0.0) (0) (0)
Carbon	0.95 (0.0) (0) (0)
Uranium	0.96 (0.0) (0) (0)
Wheat	0.97 (0.0) (0) (0)
Corn	0.98 (0.0) (0) (0)
Soybeans	0.99 (0.0) (0) (0)
Rice	1.00 (0.0) (0) (0)

































\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

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