Market Comment | The Fed's anticipated liftoff has a negligible impact on markets

Global Financial Markets Unit 17 Dec 2015

BBVA Research

- The FOMC made the bold decision to raise the Federal Funds rate for the first time since 2006. This announcement came on the back of increased signalling from financial markets, but still divergent opinions and uncertainty among Committee members as they balanced their views on persistently low inflation against sufficient improvement in the labour market. Ultimately, the FOMC members unanimously agreed that this was an appropriate time to begin the long process toward policy normalisation. In doing so, they have provided a boost of confidence that the U.S. economy is strong enough to handle higher interest rates, despite the risks from abroad that are still lingering. In starting the normalisation process, the Fed is betting that the economic data will continue to improve. (see)
- Positive labour market data in the US. US jobless claims decreased in the week ended 12 December more than estimated (by 11K to 271K; consensus: 275K), while continuing claims dropped in the week ended 5 December below expectations (by 7K to 2,238K; consensus: 2,200K). On another front, the Conference Board leading index rose in November more than estimated (by 0.4% MoM; consensus: 0.1%). Business climate deteriorated slightly in Germany, yet remains at high levels. Germany's IFO business climate dropped in December against forecasts of remaining unchanged (by 0.7 points to 108.7; consensus: 109.0), due to the unexpected decrease in the IFO current assessment (by 0.6 points to 112.8; consensus: 113.4), while the expectations sub-index remained unchanged, surprising estimates (at 104.7 points; consensus: 105.0).
- Argentina lift the "cepo" and liberalise the currency. The peso depreciated by 40% against the US dollar today, reaching USD/ARS13.73, following the liberalisation of the currency. Yesterday's announcement by the new Finance Minister aims at harmonising the official exchange rate (determined by the authorities) with the unofficial market exchange rate
- The Fed's anticipated lift-off has a negligible impact on financial markets. As had been expected, the Fed announced the first rate hike (25bp) of Fed Funds in almost a decade. The dovish tone of the Committee mitigated the impact of the decision on markets. Bond market showed some relief after the Fed's move ended the uncertainty about the starting point of the US policy normalisation. The US Treasury yields dropped (2Y: -1bp, 10Y: -5bp) after increasing in the last few days due to investors' concerns about the Fed's lift-off. In the same vein, European yields fell across the board (GER 10Y:-7bp, FRA10Y: -7bp, ITA 10Y: -7bp, SPA 10Y:-5bp, POR 10Y: -5bp). In emerging economies, bond yields also dropped in local currencies (COP 10Y:-4bp, BRL 10Y:-10bp, MXN 10Y: -4bp). Equity markets also surged today across the board (Nikkei: +1.6%, Euro Stoxx: +1.9%, IBEX: +1.7%, CAC: +1.3%, DAX: +2.5%), continuing the positive trend following the FOMC's interest rate hike yesterday. The only exceptions were the US indices, that dropped slightly after yesterday's late surge (S&P 500: -0.8%, Dow Jones: -0.8%). On FX markets, the USD appreciated against other major currencies (EUR: -0.85%, GBP: -0.91%, JPY: -0.38%). Meanwhile, EM currencies remained broadly stable against the US dollar,



although oil-linked currencies extended their depreciation trend (RUB: -0.8%, BRL: -0.6%, MXN: -0.9%, COP: -0.2%). As we mentioned before, the abrupt depreciation of ARS (-40%) is on the back of the lifting of the "cepo". On the other hand, commodity prices continued on their downward trend (WTI: -1.7%, copper: -1.2%, gold: -1.9%).

Update 17.00 CET 17 December, 2015 Table1

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[Current level and changes at daily, weekly, monthly and Debt markets (changes in bp)	d annual frequencies)	
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(Current level and changes at daily, weekly, monthly and annual frequencies)	
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*CDS, EMBI & MSCI indices with one day delay **Credit spread (BAA) with two days delay

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