

# Market Comment | The increasingly hawkish tone of Fed members halts the USD depreciation

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- The hawkish tone of Fed members persists. Chicago Fed President Evans said he is expecting two interest rate hikes on the back of US economic growth, trends in the unemployment rate and the recent increase in inflation. "The continuation of a 'wait and see' monetary response is appropriate to ensure economic growth continues, labour markets strengthen further, wages begin to increase more, and all of this supports an eventual increase in currently low inflation right back up to our 2-percent objective." he said. In the same line, James Bullard, St. Louis Fed president, considers that in its April meeting the FOMC could increase interest rates due to the improvement in macroeconomic data, reinforcing the recent hawkish tone of some Fed members. Meanwhile he is worried that the interpretation of dot plots could cause turmoil in financial markets. Regarding the differences between the Fed's and the market's tightening projections he said: "I've been worried that [they] would have to get reconciled in a violent way".
- In the US, new home sales increased in February by more than expected (to 512K from 502K in the previous period; consensus: 510K).
- The increasingly hawkish tone of Fed members halts the USD depreciation. Without macroeconomic releases today, financial market reacted to two main drivers: the recent change in the Fed's tone regarding its policy stance, and the drop in commodity prices, driven by oil. The (relatively) hawkish tone shown by some Fed members this week contrasted with the last FOMC dovish statement where the FOMC's interest rate forecast was revised downwards sharply (from 4 hikes to 2 hikes within 2016). This could contribute to increasing the uncertainty about the Fed's path and bring back expectations of low interest rates for longer, reducing risk appetite in financial markets. The main consequence of this shift was the change in the USD trend, which following a sharp depreciation after the Fed's meeting had been appreciating during the past few days (EUR/USD at 1.11 as against 1.13 after the last FOMC meeting). The recent USD appreciation contributed to pressure on commodity prices, dragged down today mainly by the worse-than-expected US weekly oil stockpile data (Copper: -2.1% Brent: -2.2% Wtx: -2.9% Silver: -4.0% Gold: -2.0%). Against this backdrop, developed equity markets dropped, led by cyclical sectors such as energy and banking. The only exception was the DAX, with a weighted export sector, which has been taking advantage of the euro depreciation (S&P: -0.4% Eurostoxx: -0.4% IBEX: -0.8% DAX: +0.2% CAC: -0.3%). On bond markets, US treasury yields declined (US 10Y: -4 bps) despite market expectations of a June rate-hike increased reaching 43%. In the same vein, European core yields remained unchanged while peripheral bonds yields inched up (ITA 10Y: +4 bps SPA 10Y: +2 bps). On FX markets, the USD appreciated against other major currencies, mainly the GBP which continued under pressure due to the Brexit issue (EUR: -0.45% JPY: -0.29% GBP: -0.81%). EM currencies depreciated against the US dollar (RUB: -1.4% BRL: -2.4% CLP: -0.6% COP: -1.5% MXN:



-1.3%) hampered by the decline in commodity prices.

Update 17.30 CET 23 March, 2015 Table1



## | Current level and changes at daily, a | Debt markets (changes in bp) | Developed libraries | 15 2-yr 0,87 (-1) 2) (12) (-10) | 15 5-yr 1,36 (-1) 0) (15) (-30) | 15 10-yr 1,36 (-1) 0) (15) (-37) GER 2-yr -0,49 (0) (-3) (5) (-14) GER 5-yr -0,31 (-1) (-8) (3) (-26) GER 10-yr -0,2 (-1) (-11) (2) (-43) Belgium 19-yr (J, E) (1-1) (2) (4-5) Belgium 19-yr (J, E (-1) (-10) (6) (37) France 19-yr (J, E (-10) (3) (-44) Greece 10-yr (J, E (-10) (-14) (-165) (45) Haird 19-yr (J, E (-10) (-14) (-165) (45) Haird 19-yr (J, E (-10) (-14) (-165) (45) Hetherlands 19-yr (J, E (-13) (2) (11) (-17) Portugel (1-yr (J, E (-13) (-15) (-15) (-17) Spain 19-yr (J, E (-13) (-15) (-24) India 10-yr 7,51 (0) (-6) (-26) (-25) Indonesia 10-yr 7,77 (-2) (-1) (-38) (-87) Country risk (changes in bp) Country Visis (consequence on play) Thereboyal Balanata 16-yr overeign general speaked speaked Servicely) Peiglam 40 (1) (3) (4) (4) France SS (1) (1) (1) (1) Reace SS (3) (3) (-187) (88) Initiated SS (1) (4) (-17) (11) tally 110 (2) (7) (-250) (13) Matheritands 22 (14) (3,1) (9) (8) Fortigal 272 (1) (7,7) (-25) (54) Spain 123 (2) (14) (-15) (19) Imaging Mattels Say Bookings CDS Say CDS Brast SD4 (4) EAGL (100) [130] Say CDS Brast SD4 (4) EAGL (100) [130] Say CDS Child ST (6) (407) [131] Say CDS Child ST (6) (407) [131] Say CDS Hassis Brast (100) [131] Say CDS Hassis Brast (100) [131] Say CDS Hassis Brast (100) [131] Say CDS Hassis SD4 (100) [131] Say CDS Hassis SD2 (6) (3) (4) (4) (27) Say CDS Hassis SD2 (6) (3) (4) (4) (4) Say CDS Hassis SD2 (6) (3) (4) (4) Say CDS Hassis SD2 (10) (4) (5) Say CDS Turkey 224 (6) (3) (47) (19) 5-yr CDS China 125 (2) (5) (-11) (17) 5-yr CDS India 163 (4) (9) (-7) (14) 5-yr CDS Indonesia 199 (-2) (-2) (-40) (-27) Eyer CDS inhomeses 199 (2) (2) (44) (27) Contact high. Telescond to the Contact high. Telescond to the Contact high. Telescond to the Contact high contact h Sea school College is too) US bearis CMS (Stageges is too) Medium Spanish bearis CMS (Stageges is too) Medium Spanish bearis CMS (Stageges is too) Pulposition bearis CMS (Stageges is too) Pul Interbank markets (changes in bp) UEM OLS spread 3m 11 (0) (-1) (-4) (0) UEM OLS spread 12m 35 (0) (2) (-3) (5) UEM TED spread 3m 31 (0) (6,6) (-4) (-10) US 0/6 spread 3m 23 ±11 (43) (6) (6) (8) US 0/6 spread 12m 67 (6) (43) (11) US 0/6 spread 12m 67 (6) (43) (11) US TED spread 3m 33 (-1) (-2) (6) (-12) (6) (-12) Spain Ted 5 pread 3m -3 (-1) (-4, 5) (-7) (-16) US 0/6 US Liber 3m 0,63 (0) (-1) (0) (2) Liber 12m 1,22 (0) (-2) (7) (5) Lice 'tan 1.20 (s/cl. d') (5) Lick marker (honges in percent) Li Bank atocks US banks 79,3 (4,7) (2) (5,3) (18) JPM 80,1 (4,22) (2) (2,6) (4) GB 42,6 (14) (6,9) (7,8) (48) BoA 13,7 (4,3) (3,1) (9,4) (18) WS 25,4 (17) (9,9) (3,5) (29) GS 154,7 (9,4) (2,8) (4) (14) 80 Va. 6; (-3,0)-(-2,0) (-3,0)-(-3)-(-3,0)-( Treatment Balance Internation Balance Berger (1,5,4) (13,3) (12) Berger (1,5,4) (13,3) (12) Berger (1,5,4) (13,5) (14,6) (14,5) Method (4402 (4,3) (1,7) (4,5) (3,9) MSGE IM Europe 4555 (4,3) (2,3) (19,4) (7,2) Protect 9596 (-1,16), (4,1) (4,1) Moor Mousbal (100, (4,1), (4,1)) Ber 100 (1689) (100, (4,1), (1, MSCI EM Asia 661 (-0,01) (2,5) (6,4) (0,1) Shanghai Composite (China) 3010 (6,35) (4,9) (2,8) (-15 Jakarta Composite (Indonesia) 4554 (0) (-0,1) (3,1) (6) Earls docks Turkish banks 81 (-4,3) (1) (4,9) (8,5) Absent T.A. 5. 6 (0) (1,0) (6,0) (17,5) Geschild (3,4) (-2,3) (47,7) (6.1) Turkiye is Benksis (-4,3) (-2,1) (2,7) (5,9) Russian basks 154 (-1,5) (0,2) (-3,8) (1,7) Sbetsank 109 (-2,1) (2) (-5,7) (7,7) VTB Sank 4, (-5,0) (-5,0) (-7,6) VIS Seek 5.1 (5.1) (2.5) (2.5) (7.6) Currence (in processings, positive for dollar depreciation) TURNSO 1.111 (4.6) (4.5) (1.2) (2.6) TURNSO 1.111 (4.6) (4.6) (4.6) (4.6) TURNSO 1.111 (4.6) (4.6) (4.6) (4.6) TURNSO 1.111 (4.6) (4.6) (4.6) (4.6) (4.6) TURNSO 1.111 (4.6) (4.6) (4.6) (4.6) (4.6) (4.6) TURNSO 1.111 (4.6) (4.6) (4.6) (4.6) (4.6) (4.6) Tomorga Survey (1,0) (2,0) (1,1) (3,3) (41,8) (1,0) (3,0) (41,8) (1,0) (3,0) (41,8) (1,0) (3,0) (41,8) (1,0) (3,0) (41,8) (1,0) (2,1) (4,4) (4,0) (4,1 ACON 1014 (4-4) (1.15) (83) Commod bites (change in percentage) The 4 (4.3) (2.114 (1/37) (2.7) Copper 22.25 (4.11/37) (2.7) Copper 22.25 (4.11/37) (3.11/37) Copper 22.25 (4.11/37) (3.11/37) SEP 006 (1.10) (1.10) (1.10) (1.10) (1.10) (1.10) (1.10)

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\*CDS, EMBI & MSCI indices with one day delay
\*\*Credit spread (BAA) with two days delay
\*\*\*S&P GSCI with one day delay

### We will be back on Monday

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