## Market Comment | Modest reaction to increasing expectations for Fed's hike

Global Financial Markets Unit 29 Aug 2016

BBVA Research

- In today's session, with more positive sentiment in US markets than in European markets, the markets digested a more likely interest rate hike in the US. The comments made by Fed's officials following Yellen's speech at Jackson Hole ("the case for a rate hike has strengthened"), reinforced the possibility of a Fed interest rate hike both in September (that rose to 40%) and in December (that rose to 62%). Moreover, the Atlanta Fed GDPNow model forecast (see here) for US real GDP growth in the 3Q16 increased to 3.5% after personal income and spending released this morning (+0.4% MoM and 0.3% MoM, respectively, both in line with expectations). On inflation, August core PCE increased +0.1% MoM (1.6% YoY, slightly above expectations). However, the US job data (non-farm employment change), to be published on Friday, "could weigh on the Fed's decision" as Fischer admitted. The USD strengthened (DXY, -0.1%).
- Against this backdrop, European indices went down across the board (Eurostoxx 50 -0.4%, Dax -0.4%), with the exception of UK's stock markets, that are closed due to a bank holiday. The Italian index was the worst performer, amid the news that Italian consumer confidence deteriorated (109, consensus 110, prior 111). Meanwhile, US stocks outperformed with moderate rises (S&P500 +0.6%). On the other hand, Nikkei rose significantly (2.3%), amid a weak Yen and the BoJ governor's comments at Jackson Hole, signalling the commitment of the BoJ to achieve inflation target, including quantitative easing or lower interest rates, if necessary.
- In bond markets, **the yields of government bonds went down across the board**, but with no important changes apart from US government bond (10YUS -5 bps) that partially reverted the increase registered last Friday. Moreover, no divergence was perceived between core Europe and peripherals.
- The increasing expectation of a rate hike in the US weighted on the against its main peers (JPY -0.28%, GBP -0.35%, EUR -0.13%), that give downward pressure to the oil prices that fell during today's session (-1.5%), amid fading hopes of an agreement on production freeze. In this context, EM currencies showed moderate changes (following some depreciatory pressure last Friday), with the exception of some commodity-linked currencies such as the COP -1.1%.

Update 17.45 CET 29 August, 2016 Table 1



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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

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