

## Market Comment | FOMC decision spurs financial markets

Global Financial Markets Unit 22 Sep 2016

- Despite an increase in the number of dissenters, the FOMC remains on course for December. As expected, the FOMC in its September meeting chose to further delay rate increases for a sixth consecutive meeting, judging that conditions were closer to warranting policy normalisation, but deciding "for the time being, to wait for further evidence of continued progress toward its objectives." The indefinite pause leaves the federal funds rate at 0.25-0.50%. Despite having three dissenting votes, Yellen confirmed that short-run expectations are unifying around one increase this year. However, the committee's federal funds rate projections now imply a slower pace of normalisation. Uncertainty over the sustainability of the current recovery and growing divergence of opinions on the "new normal" underlie the downshift. As a result, a more pessimistic view of longer run potential and lower equilibrium interest rate projections increase probability of a more gradual tightening cycle (see). After the FOMC meeting, the implied market probabilities of an interest rate hike in December are 57%.
- Despite Fed Chair Yellen's hinting at one potential hike this year, the Fed's "dot plot" showed that the number of rate hikes in 2017 has been reduced. As a result, a positive sentiment was felt in financial markets, spurring risk-taking strategies and reducing markets' implied risk measures such as the implied volatility in the equity market (VIX -7.4%, V2X -14%).
- The bond markets reflected the market view of central banks as being slightly more inclined to continue with monetary stimulus, as the **yield of government bonds decreased strongly across the board, especially long-term yields** (10YUS -4 bps, 10YGER -10 bps, 10YFRA -10 bps). Meanwhile the peripheral risk premium remained stable.
- In this line, **risk-taking mood was reflected in the main equity indices, which registered a sharp rebound**, especially in the European indices (Euro Stoxx50 +2.3%, Dax +2.2%, S&P500 +0.5%, Dow Jones: +0.7%). The European banking sector performed neutrally against the market, after the positive session seen yesterday after the BoJ's decision to aim at yield curve control, avoiding going deeper into negative rates that might weigh on banking sector profitability.
- The **USD** slightly depreciated against its main peers (EUR +0.39%, GBP +0.4%) after the Fed's decision. The weaker dollar coupled with yesterday's encouraging US crude oil inventories data, weighed on today's oil price rise (+1.6%). **EM** currencies appreciated across the board (PLN +0.7%, MXN +0.9%, CLP +1%, TRY +0.4%, COP +0.8%), favoured by both the Fed's unchanged decision and the upward trend in oil prices.

Update 17.45 CET 22 September, 2016 Table 1

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## [Current level and changes at daily, weekly, monthly and annual frequencies] Debt markets (changes in bg) 10.2 yr or NG (2) (2) (2) 10.3 yr or NG (2) (2) (2) 10.3 yr or NG (2) (2) (3) 10.3 yr or NG (2) (2) (4) GER 2-yr -0.67 (-1) (-2) (-4) (-32) GER 5-yr -0.55 (-5) (-7) (-3) (-51) GER 10-yr -0.093 (-10) (-13) (0) (-72) outh regr of 055 (-10) (-13) (0) (-12) Belgium 93-yr - 0.1 (-14) (-14) (-14) (-14) Belgium 93-yr - 0.2 (-14) (-15) (-17) (-17) Gwece 16-yr 6.4 (-11) (-24) (-18) (-17) Belgium 15-yr - 0.2 (-14) (-18) (-17) Belgium 15-yr - 0.2 (-14) (-12) (-17) (-17) Belgium 15-yr - 0.2 (-17) (-17) (-17) Belgium 15-yr - 0.2 (-17) (-17) (-17) Spain 15-yr - 0.5 (-18) (-15) (-17) (-18) Energing Markets Brazil 16-yr 11.85 (-17) (-41) (-10) (-465) Chile 16-yr 4.25 (9) (9) (-11) (-41) Colombia 10-yr 7.11 (-4) (-6) (-70) (-154) Mexico 10-yr 6.02 (-7) (-3) (15) (-25) Pers 10-yr 6.01 (-6) (16) (21) (-446) Poland 10-yr 2,77 (-8) (-10) (-11) (-17) Russia 5-yr 8,31 (-8) (5) (-857) Russia 19-yr 8,32 (-8) (-18) (-143) Turkey 10-yr 8,32 (-29) (-38) (-31) (-124) India 10-yr 6,81 (-4) (-7) (-35) (-65) Indonesia 10-yr 6,86 (-8) (-21) (-25) (-188) Overloped Markets (3) π sowering neprods (against Gen Belgium 23 (9) (9) (1) ∈ 12 France 20 (9) (1) ∈ (12) Greece 849 (-1) (4) (30) (10) Initial 30 (1) (1) ∈ (4) (4) Notherison 5 (1) (9) (7) ∈ (7) Retherison 5 (1) (9) (7) ∈ (7) Pologial 317 (6) (7) (7) Spain 991 (2) (-3) (2) (13) Spain 46 (3) (2) (2) (1) Syar posturation (3) (2) (1) (3) (1) Syar CDB Region 30 (2) (1) (3) (1) Syar CDB Region 30 (2) (3) (2) (3) Syar CDB Region 30 (2) (3) (4) (3) Syar CDB Cores (3) (4) (4) (4) (4) (4) Syar CDB Cores (3) (4) (4) (4) (4) (4) Syar CDB Region (3) (4) (4) (4) (4) Syar CDB Region (2) (6) (4) (12) Syar CDB Region (2) (6) (4) (12) Syar CDB Region (3) (4) (4) (4) Syar CDB Region (3) (4) (4) (4) Syar CDB Region (3) (4) (4) (4) Syar CDB Size (4) (4) (4) (4) Syar CDB Size (4) (4) (4) Syar CDB Size (4) (4) (4) Syar CDB Size (4) (4) (4) \$\frac{4}{2}\tau \text{ CMS } \ 5-yr CDS Poland75 (8) (2) (3) (3) 5-yr CDS Russia 212 (-5) (5) (-20) (-90) 5-yr CDS Turkey 251 (-8) (6) (4) (-22) 5-yr CDS China: 104 (-2) (3) (3) (-4) 5-yr CDS India: 137 (1) (5) (5) (-11) 5-yr CDS Indonesia: 145 (-5) (0) (8) (-81) Syst CDS between 365 ((0,0) ((0,0)) ((0,Large Spanish banks CDS 138 (8) (18) (4) (-7) Medium Spanish banks CDS 161 (8) (8) (2) (3) Greek banks CDS 639 (-67) (-104) (-523) (-1013) Russian banks CDS 341 (9) (13) (6) (-41) Interbank markets (changes in bp) UBM DIS spead 3m 9 (8) (3) (4) (-11) UBM DIS spead 12m 33 (8) (6) (-2) (-1) UBM TED spead 3m 44 (8) (-0.4) (-6) (3) US OIS operad 3m 44 (0) (2) (4) (21) (15) US OIS operad 12m 6 (0) (+14) (+9) (+6) (US TED operad 3m 65 (0) (12) (15) (24) Spain Ted Spenad 3m 68 (6) (12) (14) (12) EO/MA Index 4.3 (6) (6) (-1) (-1) (-22) Eurober 3m 4.3 (0) (0) (0) (-17) Eurober 12m 4.0 (6) (0) (-1) (-1) (-12) Libor 3m 0.86 (0) (1) (4) (25) Libor 12m 1.57 (0) (2) (4) (39) Liber 12n 157 (6) (2) (4) (3) Shock markets (Changos in perces Three ligner liberature SAP993 2714 2 (6) (1) (1) (4) (8) (9) SAP993 2714 2 (6) (1) (1) (4) (8) SAP993 2714 2 (6) (1) (1) (1) (8) SAP993 2714 2 (6) (1) (1) (1) (1) SAP993 2714 2 (1) (1) (1) (1) SAP993 2 (1) (1) (1) SA ASE Athens 572 2 (1.0) (3.7) (3.7) Bank stocks JPM 671 (9.4) (8.7) (2.1) (2) C8 47 (8.2) (4.2) (0.9) (9) BoA 1.55 (4.5) (4.7) (1.3) (4) MS 32.2 (8.9) (0.8) (4.9) (1) GS 198.5 (0.9) (8.2) (1.5) (7) GS 785 (0.1) (1.2 (2.1) (1.7) (1.8) (8) (8) (8) (1.8) Large Spanish banks 64.3 (2.4) (3.4) (5.8) (-15) Santander 4.1 (2.3) (3.5) (6.6) (-10) BBVA 5.5 (2.5) (3.4) (5.4) (-18) Energing Maches: Main equity Indices Main equity Indices MSCI Labart 7124 (8 90) (1 5) (-0.7) (21) Iboverapa (Fasel) 59008 (1 2) (3.5) (2.3) (56.3) MSCI EM Europe 4484 (0.35) (0.3) (0.7) (0.6) Poland 1776 (1) (2.3) (-1.3) (-1.3) (-1.3) MSCI EM Europe 4484 (0.35) (0.3) (0.3) (0.7) (0.6) MSCI EM Europe 4484 (0.35) (0.3) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7) (0.7) (0.7) (0.7) (0.7) MSCI EM Europe 4484 (0.35) (0.7 MSCI EM Asia 724 (9.89) (2.5) (1.6) (9.6) Shanghai Composite (China) 3042 (9.54) (1.3) (-1.4) (-14.9) Jakata Composite (Indonesia) 5360 (9.7) (4.6) (-9.9) (17) Bank stocks Turkish banks 87 (2.3) (4.3) (5.8) (18) Abbank T.A.S. 8 (2.1) (4.6) (4.9) (25.7) Garonti 8 (2.9) (5.1) (9.3) (19.2) Turkiye is Bankasi 5 (1.8) (2.9) (2.9) (8) Emerging Methods LISSIANES (Appelends) 15. 17. 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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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