

# Market Comment| The Fed and the ECB monetary policy meetings drove financial markets today

Global Financial Markets Unit  
14 Jun 2018

- **As we expected, the FOMC increased the target range for the federal funds to 2.0% and the median projections of the FOMC for year-end 2018 increased to two rate increases from one previously.** The FOMC expects economic conditions to remain solid and inflation to be near 2% over the medium term. The GDP projections increased to 2.8% (+0.1 pp) in 2018. Inflation expectations were revised up for both 2018 and 2019, while projections for the unemployment rate ticked down for both years. We maintain our baseline scenario of two additional rate increases in 2018, while the risk of three rate increases in 2019 continues tilting to the upside. **After the FOMC meeting, the market implied probability of two additional interest rate hikes increased to 50%.**
- **At today's meeting, the ECB unveiled more details of its monetary normalization process.** As regards non-standard measures, the central bank decided: i) to extend the asset purchase programme (APP) until December 2018 but at a monthly pace of €15 billion and, ii) to maintain the reinvestment of the principal payments of the securities purchased under the APP as they mature for an extended period after the end of the net asset purchases, for as long as necessary. Regarding standard measures, key interest rates were left unchanged, as expected, while the ECB strengthened its forward guidance on rates and announced “the key ECB interest rates to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary (...)”.
- The updated EZ GDP growth forecasts are weaker in 2018 due to the first quarter slowdown but remain unchanged in 2019-20. Changes in oil prices and the exchange rate led the ECB to revise its headline inflation forecasts for both 2018 and 2019 considerably upwards, while core inflation has also been revised slightly upwards.
- **The Fed and the ECB monetary policy meetings drove financial markets today.** While the slightly hawkish FOMC had a fairly muted impact, if any, on financial markets, with the 10Y US yield remaining below the 3% threshold, the dovish tapering announced by the ECB weighed strongly on the euro, which depreciated sharply against the USD, breaking through the 1.17 level.
- **Eurozone 10Y yields declined sharply across the board** (the 10Y German yield -4 bps), with peripheral risk premia remaining almost unchanged, with little differentiation between Spain and Italy. European equity indices showed a positive performance, particularly those that benefited more from the EUR depreciation, such as the DAX.
- In spite of the Fed's hike having been almost fully priced before the meeting, **EM currencies depreciated across the board** against the USD, also hampered by decreasing oil prices. Nonetheless

the extent of the drop fluctuated among countries: the Turkish lira and the Argentinian peso underperformed, while other currencies depreciated slightly against the dollar.

Table1

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Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.57	0.2	8.2		65
US	2.95	-2.0	2.6	-13	48
GER (2-yr)	-0.62	-3.7	-1.3	9	-11
Germany	0.43	-5.6	-5.8	-22	-4
France	0.77	-7.5	-6.0	-10	-6
Spain	1.35	-6.2	-12.2		-27
Italy	2.74	-6.9	-32.5	78	64
Portugal	1.92	-3.3	-11.6	17	-9
Greece	4.60	1.1	1.9	47	49
Japan (2-yr)	-0.13	-0.3	-0.7	0	0
Japan	0.04	-1.2	-1.7	-1	-1
Emerging Markets					
Brazil	11.92	10.6	-18.8	174	166
Chile	4.60	0.7	4.2	13	8
Colombia	6.57	-1.4	2.4	2	13
Peru	7.93	1.2	7.4	16	38
Poland	5.34	0.1	3.7	28	47
Russia	3.22	-3.7	-8.2	-7	-9
Turkey	7.68	-1.5	10.9	20	5
India	15.64	0.0	115.0	143	428
Indonesia	7.95	1.5	-4.8	4	56
	7.30	0.6	3.8	21	100
Country risk (bp, change in bp)					
10-yr sovereign spread vs Germany					
France	34	-1.9	-0.2	12	6
Italy	231	-1.3	26.7	100	68
Portugal	149	2.3	-5.8	39	-5
Spain	92	-0.6	-6.4	21	-22
2-yr sovereign spread vs Germany					
France	12	0.7	0.4	3	-5
Italy	140	-10.7	-84.9	92	104
Portugal	53	3.0	-6.9	-4	-15
Spain	43	0.5	4.0	19	16
Emerging Markets					
5-yr sovereign CDS *					
Brazil	261	-2.2	22	77	100
Chile	56	-1.8	0	2	6
Colombia	122	-3.3	4	13	17
Argentina	381	3.5	35	-39	143
Mexico	146	-5.0	2	29	39
Peru	87	-1.8	-1	6	16
Venezuela	16,599	0.0	0	0	0
Russia	69	2.6	3	14	20
Turkey	142	3.1	10	13	24
China	302	9.0	26	67	137
India	56	0.2	1	2	6
Indonesia	88	0.7	-1	9	19
	127	1.2	2	15	42
Risk indicators					
Volatility indicators (change in ppt)					
VIX	12	-0.9	0	-3	2
VSTOXX	11	-1.8	-3	-1	-2
EMFT volatility Index	16	-1.4	-2	-3	0
Dollar/euro volatility	7	-0.3	0	0	0
EM FX volatility index	10	-0.1	0	1	2
Credit spread (BRAS) change in bps	190	2.0	0	9	13
US bonds volatility index	5.4	-2.2	-3	1	5
Inflation expectations (%)					
US inflation expectations (5Y5Y)					
	2.43		-2	29	39
EZ inflation expectations (5Y5Y)					
	1.74		0	0	0
Emerging 5Y CDS (bps) *					
US	55	-0.5	-3	5	13
EZ	92	-6.3	-4	38	53
UK	54	-1.7	6	12	13
Large Spanish	93	-2.7	-6	35	47
Medium Spanish	95	0.1	-7	25	21
Commodity 5Y CDS (bps) *					
US Non-financial	146	-0.9	-2	5	13
EZ Non-financial	81	-6.3	-4	38	53
UK Non-financial	108	-0.3	1	4	15
Interbank markets (% change in bp)					
EOHA Index	-0.36	0	-1	0	1
Euribor 3m	-0.32	0	0	1	1
Euribor 12m	-0.19	0	0	1	1
Libor 3m	2.34	0	2	1	65
Libor 12m	2.77	0	3	1	66
Stock markets (%)					
Index indices					
S&P500	2,784	0.3	0.5	2.7	-3
Dow Jones	25,186	-0.1	-0.2	1.9	1
Nikkei	22,739	-1.0	-0.4	-0.3	0
FTSE 100	7,765	0.8	0.8	0.6	2
EuroStoxx 50	3,527	1.4	1.9	-1.0	1
IBEX	9,958	0.6	1.3	2.4	-1
DAX	13,107	1.7	2.3	1.1	2
CAC	5,528	1.4	1.5	0.4	5
MIB	22,486	1.2	3.3	-7.5	3
ISE Athens	779	1.2	0.0	-2.6	-5
MSCI Latam *	81,890	-0.5	-2.2	-9.7	-4
Bovespa (Brazil)	71,870	-0.3	-2.7	-15.6	-8
Ibovesc (Mexico)	47,062	0.6	3.5	1.7	-6
Merval (Argentina)	30,404	0.6	0.7	-0.9	-2
MSCI EM Europe *	5,266	-0.3	-2.1	-5.4	-2
WSE (Poland)	2,238	0.0	-1.4	-1.7	-9
Micex 10 (Russia)	4,348	-0.6	-2.8	-4.0	5
ISE 100 (Turkey)	94,541	1.1	-4.1	-6.9	-20
MSCI EM Asia *	945	-0.4	-0.6	-0.2	2
Shanghai Com (China)	3,044	-0.2	-2.1	-4.6	-9
Jakarta (Indonesia)	5,994	0.0	-1.3	0.8	-6
Country indicator					
US banks	142.5	-1.1	-1.9	-5.7	-4
JPM	108.2	-1.6	-2.4	-4.3	0
Cit	66.3	-1.5	-3.2	-8.8	-11
Bak	29.8	-1.2	-2.0	5.5	1
MS	51.2	-0.7	-1.7	6.6	-2
GS	233.5	-0.1	0.0	-3.3	-9
EZ banks	93.2	-0.1	1.5	-10.8	-15
BNP	54.8	0.6	1.3	-13.2	-12
Credit Agricole	12.1	0.1	0.5	-11.2	-14
Deutsche Bank	9.7	0.0	0.4	-14.4	-39
ING	12.7	-0.6	-0.3	5.2	-17
Intesa	2.6	-0.2	0.7	-18.4	-6
SG	37.5	-0.2	0.0	-10.2	-13
Unicredit	14.5	-1.2	4.1	-18.6	-8
UK banks	68.3	0.6	-0.6	-4.7	-4
HSBC	734.6	0.2	0.4	0.5	-4
REB	263.6	0.6	-2.4	-10.1	-5
Barclays	200.6	1.4	-0.3	-5.2	-1
Lloyds	63.1	0.4	-0.8	5.5	-7
Large Spanish banks	73.6	0.1	0.0	-10.9	-13
Santander	4.8	0.3	0.4	-12.4	-12
BBVA	6.1	-0.1	-0.3	9.4	-14
Medium Spanish banks	73.6	-1.8	0.8	9.4	-4
Casabank	3.9	-1.8	0.3	-16.2	-3
Sabanci	1.5	-1.7	-0.7	-15.8	-13
Bankinter	8.7	-1.8	2.6	5.8	9
Banika	2.4	-2.8	0.2	-8.8	-16
Commodities (% change in quarterly disposition)					
Developed					
EURUSD	1,163	-1.4	-1.6	-1.8	-4
GBPUSD	1,231	-0.4	-0.8	-1.4	-2
USDJPY	110.46	-0.1	-0.7	-0.1	2
DXD	94.49	1.0	1.1	1.4	3
Emerging					
USDARS (Argentina)	27.30	-4.0	-9.3	-13.5	-48
USDBRL (Brazil)	3.72	0.0	4.8	-1.8	-14
USDCLP (Chile)	636.22	0.6	-0.7	-0.7	-5
USDCOP (Colombia)	298.2	0.1	0.4	0.4	2
USDMXN (Mexico)	20.72	-0.4	-1.2	-5.2	-6
USDPEN (Peru)	3.27	0.2	-0.1	0.5	-1
USDRUB (Russia)	57.85	-0.4	0.1	-4.0	-10
USDRPL (Poland)	3.68	-1.4	-1.5	-1.4	-7
USDRUS (Russia)	62.22	0.5	0.3	0.1	-8
USDTRY (Turkey)	4.70	-1.2	-4.9	5.8	-25
USDCNY (China)	6.40	-0.1	-0.2	-0.4	1
USDINR (India)	67.83	0.0	-0.7	0.7	-7
USDIDR (Indonesia)	13,932	0.0	-0.4	0.7	3
ADXY	109.5	-0.2	-0.4	-0.4	-1
Commodities (%)					
Brent	76.1	-0.9	-1.6	-3	14
WTX	67	0.1	1.1	6	10
Copper	322	-0.9	-1.5	6	1
Gold	1304	0.4	0.5	1	-1
S&P Spot commodity *	478	0.3	0.1	-2	8
S&P Brent Spot *	651	1.0	-1.0	2	15
S&P Metals Spot *	399	0.0	-1.1	3	1
S&P Agriculture *	307	0.8	1.2	1	8

\* With one-day delay  
Source: Bloomberg, Datastream and Haver

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Fuente: BBVA Research

Debt markets (10Y, %; changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.57	0.2	0.2	0	65
US	2.95	-2.0	2.6	13	48
GER (2-yr)	0.62	-3.7	-1.3	0	-1
Germany	0.43	-5.6	-5.8	-22	4
France	0.77	-7.5	-6.0	-10	-6
Spain	1.35	-6.9	-12.2	-1	-27
Italy	2.74	-6.9	-32.5	78	64
Portugal	1.92	-3.3	-11.6	17	9
Greece	4.60	1.1	1.8	47	49
Japan (2-yr)	-0.13	-0.3	-0.7	0	0
Japan	0.04	-3.2	-1.7	-1	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.92	10.6	-18.8	174	166
Chile	4.60	0.7	0.2	13	5
Colombia	6.57	-1.4	2.4	2	13
Mexico	7.93	-1.2	7.4	18	36
Peru	5.24	0.1	3.7	28	47
Poland	3.22	-3.7	-8.2	-7	-9
Russia	7.68	-1.5	10.9	20	5
Turkey	15.64	0.0	115.0	143	428
India	7.95	1.5	-4.8	4	56
Indonesia	7.30	0.0	3.8	21	100
Country risk (bp, changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	34	-1.9	-0.2	12	6
Italy	231	-1.3	-26.7	100	68
Portugal	149	2.3	-5.8	39	5
Spain	92	-0.6	6.4	21	-22
<b>2-yr sovereign spread vs Germany</b>					
France	12	0.7	0.4	3	5
Italy	140	-10.7	-44.9	92	104
Portugal	53	3.0	-6.9	-4	-15
Spain	43	0.5	4.0	19	16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	261	-2.2	22	77	100
Chile	56	-1.8	0	2	2
Colombia	122	-3.3	4	13	17
Argentina	361	3.5	35	39	143
Mexico	146	-0.0	2	29	39
Peru	87	-1.8	-1	6	16
Venezuela	16,599	0.0	0	0	0
Poland	69	2.6	3	14	20
Russia	142	3.1	10	13	24
Turkey	302	9.0	26	67	137
China	56	0.2	1	2	5
India	88	0.7	-1	9	19
Indonesia	127	1.2	2	15	42
Risk indicators					
Volatility Indicators (change in bps)	level	Daily	Weekly	Monthly	YTD
VIX	12	-0.9	0	-3	-2
VSTOXX	11	-1.8	-3	-1	-2
EM EFT volatility Index	16	1.4	-2	-3	0
Dollar/Euro volatility	7	-0.3	0	0	0
EM FX volatility index	10	-0.1	0	1	2
Credit Default Swaps (change in bps)	180	0.0	0	9	13
US bonds volatility index	54	-2.2	-3	1	5
Interest rate indicators (%)	level	Daily	Weekly	Monthly	YTD
US inflation expectations (5Y5Y)	2.43	-0.2	-2	-1	-1
EZ inflation expectations (5Y5Y)	1.74	-	0	0	0
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	55	-0.9	-2	5	13
EZ	92	-6.3	-4	38	53
UK	54	-1.7	6	12	13
Large Spanish	83	-2.7	-6	35	47
Medium Spanish	95	0.1	-7	25	21
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	146	-0.5	-2	5	13
EZ Non-financial	81	-5.3	-4	38	53
UK Non-financial	108	-0.3	1	4	15
Interbank markets US, changes in bp					
level	Daily	Weekly	Monthly	YTD	
EOHA Index	-0.36	0	-1	0	1
Euro3m 3m	-0.32	0	0	1	1
Euro3m 12m	-0.18	0	0	1	1
Libor 3m	2.34	0	2	1	65
Libor 12m	2.77	0	3	1	66
Stock markets (%)					
Main Indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,264	0.3	0.5	2.7	3
Dow Jones	25,186	-0.1	-0.2	1.9	1
Nikkei	22,739	-1.0	-0.4	-0.3	0
FTSE 100	7,266	0.8	0.8	0.5	2
EuroStoxx 50	3,527	1.4	1.9	-1.0	1
IBEX	9,958	0.6	1.3	2.4	-1
DAX	13,107	1.7	2.3	1.1	2
CAC	5,528	1.4	1.5	0.4	5
MB	22,486	1.2	3.3	7.5	3
ASE Athens	779	1.2	0.0	2.6	5
MSCI Latam *	81,890	-0.5	-2.2	0.7	-4
Ibovespa (Brazil)	71,870	-0.3	-2.7	-15.6	-8
Merval (Buenos Aires)	47,862	0.6	3.5	1.7	6
Merval (Argentina)	30,404	0.6	0.7	0.9	-2
MSCI EM Europe *	5,266	-0.3	-2.1	5.4	-2
Pikmi	2,238	0.0	-1.4	-1.7	-9
Mvex 10 (Russia)	4,348	-0.6	-2.8	-4.0	5
Isx 100 (Turkey)	94,541	1.1	-4.1	6.9	-20
MSCI EM Asia *	945	-0.4	-0.6	-0.2	2
Shanghai Com (China)	3,044	-0.2	-2.1	-4.8	-9
Jakarta Indonesia	5,994	0.0	-1.3	0.8	-6
Market sector	level	Daily	Weekly	Monthly	YTD
US banks	142.5	-1.1	-1.9	-5.7	-4
JPM	108.2	-1.6	-2.4	-4.3	0
Citi	66.3	-1.5	-3.2	-8.8	-11
BofA	28.5	-1.2	-2.0	9.5	-1
MS	51.2	-0.7	-1.7	6.6	-2
GS	233.5	-0.1	0.0	-3.3	9
EZ banks	93.2	0.1	1.5	12.6	-15
BNP	54.8	0.6	1.3	-13.2	-12
Credit Agricole	12.1	0.1	0.5	-11.2	-14
Deutsche Bank	9.7	0.0	0.4	14.4	-39
ING	12.7	-0.6	-0.3	5.2	-17
Intesa	2.6	-0.2	5.7	-18.4	-6
SG	37.5	-0.2	0.0	-12.2	-13
Unicredit	14.5	-1.2	4.1	-18.6	-8
UK banks	88.3	0.6	-0.6	-4.7	-4
HSBC	734.6	0.2	0.4	0.5	4
RBS	263.6	0.6	-2.4	-10.1	-5
Barclays	209.6	1.4	-0.3	5.2	-1
Lloyds	63.1	0.4	0.8	9.5	-7
Large Spanish banks	73.6	0.1	0.0	-10.9	-13
Santander	4.8	0.3	0.4	-12.4	-12
BBVA	6.1	-0.1	0.1	9.4	-14
Medium Spanish banks	73.6	-1.8	0.8	9.4	-4
CaixaBank	3.9	-1.8	0.3	-10.2	-3
Sabadell	1.5	-1.7	0.7	-15.8	-13
Bankinter	8.7	-1.8	2.6	5.8	9
Banque	3.4	-2.0	0.2	0.8	-16
Commodities (%; red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,163	-1.4	-1.5	-1.8	-4
GBPUSD	1.33	-0.4	-0.8	-1.4	-2
USDJPY	110.46	-0.1	-0.7	-0.1	2
DXF	94.49	1.0	1.1	1.4	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	27.30	-4.0	9.3	-13.5	-48
USDBRL (Brazil)	3.72	0.0	4.8	-1.8	-14
USDCUP (Cuba)	636.22	-0.6	-0.7	-0.7	-5
USDCOP (Colombia)	2862	0.1	0.4	0.4	2
USDMXN (Mexico)	20.72	-0.4	-1.2	5.2	-6
USDPEN (Peru)	3.27	0.2	-0.1	0.3	-1
IACT	57.05	-0.4	0.1	-0.9	-10
USDPN (Poland)	3.88	-1.4	-1.5	-1.4	-7
USDPLB (Russia)	62.22	0.5	0.3	0.1	8
USDTRY (Turkey)	4.70	-1.2	4.9	9.8	-25
USDCNY (China)	6.40	-0.1	-0.2	0.4	1
USDINR (India)	67.63	0.0	-0.7	0.7	-7
USDIDR (Indonesia)	13,932	0.0	0.4	0.7	-3
ADXY	109.5	-0.2	-0.4	-0.4	-1
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	76.1	-0.9	-1.6	-3	14
WTI	67	0.1	1.1	6	10
Copper	3.22	-0.9	-1.5	6	-1
Gold	1304	0.4	0.5	1	-1
S&P Spot commodity *	478	0.3	0.1	-2	8
S&P Brent Spot *	651	1.0	-1.0	-2	15
S&P Metals Spot *	399	0.0	-1.1	3	1
S&P Agriculture *	307	-0.8	1.2	1	8

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Source: Bloomberg, Datastream and Haver

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Fuente: BBVA Research

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