

## US stocks rallied after FOMC meeting; energy shares jumped

### Key Takeaways

- ▶ US stocks rallied as the Fed signalled patience in policy normalisation; energy shares surged
- ▶ European stocks recovered from early session losses for the Euro STOXX to end little changed
- ▶ Most Asian stocks fell ahead of the Federal Open Market Committee (FOMC) meeting
- ▶ US Treasury yields rose on FOMC statement, Yellen comments, equity market rally and oil price rebound

### Equity Markets

#### US stocks rallied as the Fed signalled patience in policy normalisation; energy shares surged

- ▶ US stocks rallied on Wednesday, snapping a three-session losing streak, after the Fed said the central bank could be patient in beginning to normalise its monetary policy stance, and viewed that the statement as consistent with its previous pledge to keep interest rates low for a “considerable time.” The benchmarks also got a boost from a sharp rebound in energy shares. The S&P 500 closed up 2.0% at 2,013, led by a 4.2% surge in energy shares with all sectors on the benchmark posting gains. The Dow Jones Industrial Average rose 1.7% to 17,357.

#### European stocks recovered from early session losses for the Euro STOXX to end little changed

- ▶ European equities opened lower in yesterday’s trading session as concerns about the turmoil in Russian financial markets, in addition to falling oil prices, weighed on investor sentiment. However, stocks were subsequently able to recover these losses on signs that the Russian rouble had stabilised following foreign exchange intervention by the Central Bank of Russia. Risk appetite was also helped by investor optimism over the outcome of the Greek election and the FOMC meeting. On the data front, Eurozone CPI inflation was confirmed at just 0.3% yoy in November. Overall, the Euro STOXX 50 index closed little changed (+0.1%) at 3,052. France’s CAC outperformed, rising 0.5%, while in the core Germany’s DAX fell 0.2% and the UK’s FTSE 100 ended roughly flat. In the periphery, Italy’s FTSE MIB shed 0.5% and Spain’s IBEX fell 0.3%.

#### Most Asian stocks fell ahead of the FOMC meeting

- ▶ Most Asian stocks traded in positive territory for most of Wednesday, but profit taking took place shortly before market closed ahead of the FOMC meeting. Market sentiment remained weak as the rouble and other commodity-currencies were under pressure. In Japan, the yen depreciated on worse-than-expected trade data for November. The weaker yen helped large exporters advance, with the Nikkei ending up 0.4% whilst the broader Topix fell 0.1%. In Korea, the Kospi fell in the last hour of trading, down 0.2% and Taiwan’s Taix dropped 1.4%. Singapore’s Straits Times closed up 0.4%.
- ▶ Chinese stocks gained for a fourth time in five days, led by banks (+5.8%) on talks that China may ease loan-to-deposit ratio requirement and possible reserve requirement ratio cut, and financial services (5.9%) as brokers continued to hit new high on chatters that regulators may unveil rules to ease broker capital limit. However, these gains were highly concentrated in terms of sectors and number of stocks (one in four only). Hopes of further monetary easing are boosting rate sensitive sectors. The Shanghai Composite index closed up 1.3% whilst the Shenzhen Composite, less biased towards blue-chips, fell 0.7%. Hong Kong’s Hang Seng ended in negative territory at -0.4%.
- ▶ Indian shares tracked global markets lower edged lower on Wednesday. The NSE index ended 0.5% down while the benchmark Sensex index closed 0.3% after having fallen 1.2% earlier in the day.

#### Russian stocks were driven by the rouble and Brazilian stocks rallied on hopes of lower public spending

- ▶ Russian stocks continued to suffer from financial and economic uncertainty, dragged lower by the appreciation of the rouble, The Micex index closed down 2.1% whilst the USD-denominated RTS rose 14.2%.
- ▶ In Brazil, stocks rallied sharply after incoming Finance minister Joaquim Levy said the government needs to reduce spending, adding to hopes the new government will promote fiscal consolidation to restore growth. Financial stocks were the biggest winners (+5.1%). The Ibovespa ended up 3.6%.

## Bond Markets

### European bond yields fell across the board yesterday; German bund yields remained below 0.6%

- ▶ Investor nervousness over Russia's financial crisis and an upcoming presidential vote in Greece, kept German bund yields pinned near record lows on Wednesday. The flight to quality, however, lost a bit of steam during the session, as uncertainty on the outcome of the Federal Reserve's final policy statement of 2014 made investors cautious. Greek 10-year bond yields dropped 30bp to 8.76% and Spanish bond yields fell 3bp to 1.77% while German 10-year bund yields edged down 1bp to 0.59%.

### US Treasury yields rose on FOMC statement, Yellen comments, equity market rally and oil price rebound

- ▶ US Treasury ended higher on Wednesday, as investors reacted to the FOMC policy statement and press conference, a rally in the equity market and the rebound in oil prices. The Treasuries market got some brief relief after the statement suggested the Fed would be patient in policy normalisation and viewed the guidance as consistent with its pledge to keep interest rates low for a considerable time. However, Treasury yields rose after Yellen downplayed the drop in oil prices and possible market contagion at the press conference, saying it would ultimately be a "net positive" for the US economy, and said a rate increase would not take place for "at least the next couple of meetings." The market interpreted that the door remains open for rate hike, beyond "a couple" of meetings, which will ultimately depend on the data. The 5-year, 10-year and 30-year yields rose 9bp, 8bp and 4bp to 1.61%, 2.14% and 2.73%, respectively.

## Commodity Markets

### Oil rallied on technical factors and gold fell after changes in Fed forward guidance

- ▶ Crude oil prices rebounded from low levels on technical factors, although US crude inventories surged to their highest levels since March according to the US Energy Information Administration weekly report. Crude oil has been increasingly oversold month-to-date which increases the probability of short term rebounds. Crude oil for January delivery ended up USD0.4 at USD56.5 in the US and crude for February settlement rose USD1.3 to USD61.2 in Europe.
- ▶ Gold prices fell to their lowest level in three weeks. The downtrend accelerated after the Fed changed its forward guidance language. The precious metal tracked closely the appreciation of the USD against the EUR. The gold spot price finished the day down USD7.0 at USD1,190 per ounce

## Economic Data and Events

### Releases due today (18 December 2014)

Country	Indicator	Date as of	Survey	Prior
Germany	IFO Business Climate	Dec	105.5	104.7

## Key Data Releases and Events

### Yesterday

- ▶ **Japan's external trade for November** came in weaker than expected. Exports rose 4.9%yoy, down from 9.6% in October, and imports retreated by 1.7%yoy, their first decline in four months, although most of the decline was due to the collapse in energy prices (-21.6%yoy). Net of energy, Japanese imports actually rose (+2.5%) although still decelerating since the peak of 8.0% reached in September. Most of the deceleration in exports was explained by China and South East Asian countries. As imports contracted and exports rose, the trade deficit narrowed at the margin, at JPY925bn seasonally adjusted (JPY985bn in October).
- ▶ The **headline UK unemployment rate** was stable at 6.0% in the three months to October, 0.1pp higher than expected by the market consensus. This was the second consecutive month in which the headline rate had been stable despite expectations of a continued decline. The BoE central forecast in the November Inflation Report was for unemployment to be 5.8% by now. **Earnings** surprised on the upside both in headline and core. Even though growth rates remained relatively subdued, average weekly earnings posted an upside surprise for the fourth month running, growing 1.4% 3m/y for the headline and 1.6% 3m/y for the core measure. The acceleration is even more visible in the private sector alone where earnings are now growing 2.3% y/y, the fastest in two years. In a separate release, the **Bank of England December meeting minutes** showed that the the MPC voted 7-2 to keep policy on hold as expected, with Martin Weale and Ian McCafferty again voting for an immediate 25bp interest rate rise. Unsurprisingly, the MPC thought that the biggest news on the month to its December meeting was the further fall in the oil price
- ▶ **Eurozone headline and core inflation** was confirmed at 0.3% and 0.7% in November, in line with expectations. Headline inflation was dragged down by energy prices (-2.6% y/y). Food, alcohol and tobacco inflation was benign but stable (+0.5%), similar to non-energy industrial goods and services price inflation, which remained unchanged at October's level, printing at -0.1% and +1.2%, respectively.
- ▶ At its **FOMC meeting**, the Fed decided to alter its policy rates forward guidance, judging that the Committee can be patient in beginning to normalize the stance of monetary policy. This change, decided by a 7-3 majority, was already discussed at the previous FOMC in October but participants feared at that time unintended market reactions. The tightening of the labour market over the past couple of months and, more generally, a better economic assessment, made participants more comfortable with the change in forward guidance language. However, the committee stressed that being "patient" is consistent with the "considerable time" used previously and that the timing and pace of rate hikes will remain data dependent. In terms of economic forecasts, PCE inflation was significantly revised downward for 2014 and 2015, reflecting the impact of lower crude oil prices, with moderate impact on core inflation. The unemployment rate has also been revised down for 2014, 2015 and 2016, and GDP growth remained

Source: Bloomberg, HSBC Global Asset Management. Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index and BarCap Global High Yield which are as of previous two trading days' market close.

fairly unchanged except for 2014 with a new forecast range of 2.3%-2.4%. Lastly, participants have also revised to the downside their interest rate projections. The interest rate median forecast for end 2015 is now at 1.125%, down from 1.375% in September.

## Today

- ▶ The Ifo business climate managed to surprise on the positive side in November after six monthly declines in a row. The sharply lower oil price supports the profit margins of firms in the manufacturing sector and the recent modest pickup in Ifo business sentiment should have been extended in December. The **German IFO business climate** is expected to rise to 105.5 in December from 104.7 in November.

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## Market Snapshot

	Close	1-day Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
<b>Equity Indices</b>									
<b>World</b>									
MSCI AC World Index (USD)	407	1.0	-2.9	-4.7	3.6	-0.3	434	383	15.5
<b>North America</b>									
US Dow Jones Industrial Average	17,357	1.7	-1.6	1.2	9.3	4.7	17,991	15,341	15.3
US S&P 500 Index	2,013	2.0	-1.4	0.6	13.0	8.9	2,079	1,738	16.8
US NASDAQ Composite Index	4,644	2.1	-0.6	1.8	15.4	11.2	4,811	3,946	23.2
Canada S&P/TSX Composite Index	14,214	2.5	-4.5	-8.1	7.8	4.3	15,685	13,170	15.4
<b>Europe</b>									
MSCI AC Europe (USD)	429	-0.5	-3.5	-9.5	-6.0	-11.0	507	411	14.2
Euro STOXX 50 Index	3,052	0.1	-1.1	-5.7	3.7	-1.8	3,326	2,790	14.0
UK FTSE 100 Index	6,336	0.1	-5.0	-6.6	-2.3	-6.1	6,905	6,073	13.5
Germany DAX Index*	9,544	-0.2	2.6	-1.2	5.1	-0.1	10,093	8,355	13.4
France CAC-40 Index	4,112	0.5	-2.7	-7.2	1.1	-4.3	4,599	3,789	14.3
Spain IBEX 35 Index	10,050	-0.3	-2.5	-7.9	7.6	1.3	11,249	9,343	16.6
<b>Asia Pacific</b>									
MSCI AC Asia Pacific ex Japan (USD)	449	-0.6	-5.8	-9.2	-1.9	-4.0	516	434	12.7
Japan Nikkei-225 Stock Average	16,820	0.4	-0.9	5.9	10.1	3.2	18,031	13,885	18.4
Australian Stock Exchange 200	5,162	0.2	-4.6	-4.5	1.1	-3.6	5,680	5,052	14.7
Hong Kong Hang Seng Index	22,586	-0.4	-5.1	-7.3	-2.1	-3.1	25,363	21,138	10.6
Shanghai Stock Exchange Composite Index	3,061	1.3	23.7	32.6	42.3	44.7	3,091	1,974	12.8
Hang Seng China Enterprises Index	11,269	1.2	6.8	3.5	3.4	4.2	11,950	9,160	7.8
Taiwan TAIEX Index	8,828	-1.4	-0.6	-4.0	5.7	2.5	9,594	8,230	13.7
Korea KOSPI Index	1,900	-0.2	-2.2	-7.9	-3.3	-5.5	2,093	1,886	13.0
India SENSEX 30 Index	26,710	-0.3	-5.2	0.3	29.6	26.2	28,822	19,963	17.0
Indonesia Jakarta Stock Price Index	5,036	0.2	-0.4	-2.9	20.4	17.8	5,263	4,154	16.9
Malaysia Kuala Lumpur Composite Index	1,682	0.5	-6.9	-8.8	-9.1	-9.9	1,896	1,672	15.8
Philippines Stock Exchange PSE Index	6,966	-2.7	-3.6	-3.7	17.5	18.3	7,414	5,835	19.9
Singapore FTSE Straits Times Index	3,227	0.4	-1.9	-2.1	5.2	1.9	3,388	2,953	14.0
Thailand SET Index	1,480	1.3	-5.7	-5.8	10.7	14.0	1,604	1,205	15.8
<b>Latam</b>									
Argentina Merval Index	7,976	4.0	-17.6	-30.7	47.1	47.9	12,599	5,245	9.3
Brazil Bovespa Index*	48,714	3.6	-5.0	-17.6	-2.7	-5.4	62,305	44,905	11.4
Chile IPSA Index	3,779	0.7	-3.6	-6.2	3.0	2.2	4,120	3,370	17.4
Colombia IGBC Index	10,930	4.3	-15.5	-23.2	-16.4	-16.4	14,767	10,199	12.5
Mexico Index	41,004	1.9	-5.5	-10.9	-1.8	-4.0	46,554	37,752	18.4
<b>EEMEA</b>									
Russia MICEX Index	1,414	-2.1	-6.2	-2.5	-4.4	-6.0	1,623	1,183	4.3
South Africa JSE Index	47,282	-0.2	-6.4	-7.6	7.8	2.2	52,324	42,921	14.8
Turkey ISE 100 Index*	80,821	2.1	0.4	2.3	13.9	19.2	87,048	60,754	11.1

	Close	1-day Change (bp)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
<b>Bond indices</b>						
BarCap GlobalAgg (Hedged in USD)*	474	0.5	1.0	2.4	7.0	7.3
JPM EMBI Global*	647	11.9	-4.1	-4.4	2.9	3.1
BarCap US Corporate Index (USD)*	2,583	-0.7	0.8	1.9	7.0	7.3
BarCap Euro Corporate Index (Eur)*	231	0.1	0.4	1.4	7.9	8.0
BarCap Global High Yield (USD)*	367	-2.8	-4.3	-4.8	0.4	0.0
JPM Asian Investment grade (USD)*	169	-0.3	0.0	1.6	8.5	8.6
HSBC Asian Bond Index*	372	-0.3	0.0	1.6	8.7	8.7

\* Indices expressed as total returns. All others are price returns.

Source: Bloomberg, HSBC Global Asset Management. Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index and BarCap Global High Yield which are as of previous two trading days' market close.

## Market Snapshot 2

<b>Bonds</b>	<b>Close</b>	<b>1-day Ago</b>	<b>1-month Ago</b>	<b>3-months Ago</b>	<b>1-year Ago</b>	<b>Year End 2013</b>
<b>US Treasury yields (%)</b>						
3-month	0.02	0.03	0.01	0.02	0.06	0.07
2-Year	0.62	0.55	0.51	0.57	0.32	0.38
5-Year	1.61	1.52	1.63	1.83	1.49	1.74
10-Year	2.14	2.06	2.34	2.62	2.84	3.03
30-Year	2.73	2.69	3.06	3.37	3.87	3.97

<b>Developed market 10-year bond yields (%)</b>						
Japan	0.36	0.36	0.48	0.56	0.66	0.74
UK	1.77	1.78	2.12	2.52	2.87	3.02
Germany	0.59	0.60	0.80	1.05	1.83	1.93
France	0.87	0.88	1.15	1.41	2.43	2.55
Italy	1.96	2.01	2.31	2.42	4.04	4.08
Spain	1.77	1.80	2.11	2.28	4.09	4.13

<b>Commodities</b>	<b>Latest</b>	<b>1-day ago</b>	<b>1-month Change (%)</b>	<b>3-month Change (%)</b>	<b>1-year Change (%)</b>	<b>YTD Change (%)</b>	<b>52-week High</b>	<b>52-week Low</b>
Gold	1,190	1,197	0.3	-2.8	-3.4	-1.3	1,392	1,131
Brent Oil	61.2	59.9	-22.9	-38.2	-43.6	-44.8	116	59
WTI Crude Oil	56.5	55.9	-25.3	-40.2	-41.9	-42.6	108	54
R/J CRB Futures Index	240	239	-10.3	-15.6	-14.2	-14.4	313	237
LME Copper	6,368	6,365	-5.0	-8.1	-12.5	-13.5	7,460	6,231

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