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Global Daily Report

Summary

- As expected, the Fed raised interest rates; its balance sheet may shrink this year but start with trivial steps.
- The eurozone released cheering macroeconomic data.

Ahead of the Fed's rate decision, Wednesday's trading started optimistically, but investors' enthusiasm subsided by the end of the session, and Western Europe's major indices closed down, except for the DAX's 0.3% gain. In America only the Dow Jones Industrial Average could maintain the impetus towards new highs, after the decision and the plans of Janet Yellen and the FOMC had been released. The ailing tech sector (Microsoft, Cisco, IBM, Apple, and Intel) dragged the NASDAQ down. The end-of-the-day fall in crude prices made Exxon and DuPont the losers of the day. The rise in Europe halted, only the German, Romanian, Greek and Hungarian stock exchanges climbed higher. The latter reached a record high, as did one of its components Richter, which surged 3.5%. MTelekom and OTP also fared well – owing to the rally seen in recent months, the latter returned to the highs seen in February. This morning the sentiment was mixed in Asia, where the Hong Kong, the Korean, the Japanese and the Indian markets stood in the red, while others made modest gains.

As expected, the Fed Open Market Committee has raised its policy rate target by 25 basis points, to between 1.0% and 1.25% range. Fed officials monitor the slight drop in core inflation but see them as temporary (Janet Yellen mentioned the one-off decline in the prices of mobile services and prescription drugs), and they expect the gauge return to 2% by the beginning of 2018. The Fed lowered its unemployment rate forecast (from 4.5% to 4.2%, for the end of 2018), but central bankers' opinion on long-term sustainable unemployment level did not change meaningfully; the Fed now foresees 4.6%, instead of 4.7%. Markets expect that the rate of unemployed among active workers may sink to 4% as early as by the end of this year. This suggests that the central bank would like to leave a clear reason for further tightening, even with the core rate below 2%: the FOMC's median forecast is one more rate hike in 2017, and a total of three increases in 2018, by 25 bps each time.

What is more important than the unsurprising rate hike and the updated forecast is that this was the first time for the Fed to lay out a timetable for normalizing its balance sheet. Owing to the quantitative easing programmes, its balance expanded from less than USD 1,000 billion to more than 4,300 billion over the past ten years, and its reduction will cause significant narrowing of money supply in America (and elsewhere). Accordingly, the Fed is very cautious: it will start reducing its balance by not re-investing all the returned principal from maturing securities, shrinking its asset holdings by USD 10 billion each month, and this amount is to increase by USD 10 billion in each quarter). The programme may start 'relatively soon', Janet Yellen said; this suggests that it could commence in the fourth quarter. At the outset, its impact may be meagre. Accordingly, the announcement did not shake the EUR/USD, and this morning the pair traded near 1.12, where it had hovered in recent days. Bond yields edged down.

Cheering statistics came from the eurozone, where industrial production grew by 0.5% month/month in April, and the job market has improved. The USA published lower-than-expected inflation indices, and the May reading of retail sales was short of analysts' median forecast.

In addition to Bank of England's rate decision (forecast: on hold at 0,25%), the US industrial production figure is worth keeping an eye on today.

	Stocks				Bonds				Commodity & FX			
	Product name	Close	Daily change (%)	YTD (%)	Product name	Yield	Daily change*	YTD*	Product name	Close	Daily change (%)	YTD (%)
Global	S&P500	2437,9	-0,1	8,9	VIX	10,6	2,1	-24	WTI	44,66	-3,9	-16,9
	DOW	21374,6	0,2	8,2	US 2Y	1,34	-2,0	15	Brent	47,00	-3,5	-17,3
	Nasdaq100	5727,1	-0,4	17,8	US 10Y	2,14	-6,9	-29	Gold	1260,7	-0,4	9,5
	DAX	12806,0	0,3	11,5	GER 2Y	-0,69	1,1	10	Silver	16,87	0,1	5,9
	CAC40	5243,3	-0,4	7,8	GER 10Y	0,23	-3,3	3	EUR/USD	1,1217	0,0	6,7
	FTSE 100	7474,4	-0,3	4,6	PT10Y	2,83	-9,8	-93	EUR/GBP	0,8794	0,1	3,2
	FTSE MIB	20960,6	-0,6	9,0	IT 10Y	1,93	-4,3	11	EUR/NOK	9,4430	-0,1	3,9
	Stoxx600	387,6	-0,3	7,2	SP 10	1,38	-5,5	-2	USD/CAD	1,3245	0,0	-1,4
	- Banks	151,2	-0,7	12,7	iTRAXX	56,3	-1,5	-22	AUD/USD	0,7585	0,7	5,1
	Nikkei 225	19853,8	-0,1	3,9	JPY 2Y	-0,11	-0,4	6	USD/JPY	109,56	-0,4	-6,3
SSEC	3130,4	0,0	0,9	JPY 10Y	0,06	-1,1	1	GBP/USD	1,2751	0,0	3,4	
Regional	RTS	1013,8	-1,7	-12,0	RUS10	7,61	0,4	-9	USD/RUB	57,376	0,7	-6
	WIG20	2295,99	-0,3	17,9	POL 10	3,14	-0,8	-13	EUR/PLN	4,1963	0,1	-4,7
	PX50	1000,2	-0,1	8,5	CZ10	0,78	0,0	67	EUR/RON	4,5744	0,2	0,9
Hungary	BUX	35986	1,1	12,4	3MTB	0,10	-5	-6	EUR/HUF	305,60	-0,1	-1,0
	OTP	9300	1,4	10,7	1Y	0,20	0	2	USD/HUF	272,61	-0,2	-7,1
	MOL	22035	-1,2	6,8	3Y	0,81	0	-5	CHF/HUF	280,44	-0,5	-2,6
	MTelekom	476	1,1	-4,4	5Y	1,88	-1	11	PLN/HUF	72,790	-0,3	3,9
	Richter	7200	3,5	15,9	10Y	2,97	-4	-24	GBP/HUF	347,23	-0,3	-4

* In the case of bond yields, the change is in basis points instead of percentage (VIX and ITRAXX not included).

Data	Cd.	Event/Data	Period	Fact	Cons.	Prev.
2017 6. 12. 20 : 00	US	Federal budget balance (USDbn)	May	-88,0	-	182
13. 10 : 30	UK	Inflation (yoy, %)	May	2,9	2,7	2,7
11 : 00	DE	ZEW Economic Sentiment (points)	June	18,6	21,5	20,6
14. 4 : 00	CN	Infrastructural spending (yoy, %)	May	8,6	8,8	8,9
4 : 00	CN	Industrial production (yoy, %)	May	6,5	6,3	6,5
4 : 00	CN	Retail sales (yoy, %)	May	10,7	10,6	10,7
8 : 00	DE	CPI (final, yoy, %)	May	1,5	1,5	1,5*
9 : 00	HU	Industrial production (second estimate, yoy, %)	Apr.	-3,0	-	-3,0*
11 : 00	EZ	Industrial production (mom, %)	Apr.	0,5	0,5	-0,1
14 : 30	US	CPI (yoy, %)	May	1,9	2	2,2
14 : 30	US	CPI (mom, %)	May	-0,1	0	0,2
14 : 30	US	core-CPI (yoy, %)	May	1,7	1,9	1,9
14 : 30	US	core-CPI (yoy, %)	May	0,1	0,2	0,1
14 : 30	US	Retail sales (mom, %)	May	-0,3	0,1	0,4
16 : 00	US	Business inventories (mom, %)	Apr.	-0,2	-0,2	0,2
20 : 00	US	Interest rate decision (%)	June	1,0-1,25	1,0-1,25	0,75-1,0
15. 9 : 00	HU	Construction output (yoy, %)	Apr.	22,1	-	33,3
10 : 30	UK	Retail sales (mom, %)	May		-0,8	2,3
13 : 00	UK	Interest rate decision (%)	June		0,25	0,25
14 : 30	US	New York Fed Manufacturing index (points)	June		1	-1
15 : 15	US	Industrial production (mom, %)	May		0,2	1
16. 6 : 00	JP	Interest rate decision (%)	June		0	0
	EZ	CPI (final, yoy, %)			1,4	1,4*
14 : 30	US	Housing starts (annualized monthly, '000s)	May		1215,0	1172
14 : 30	US	Building permits (annualized monthly, '000s)	May		1248	1228
16 : 00	US	Michigan Consumer confidence (preliminary, points)	June		97,1	97,1
11.	FR	Parliamentary elections (2nd round)			-	-

*preliminary data

Source: Reuters, OTP Research

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