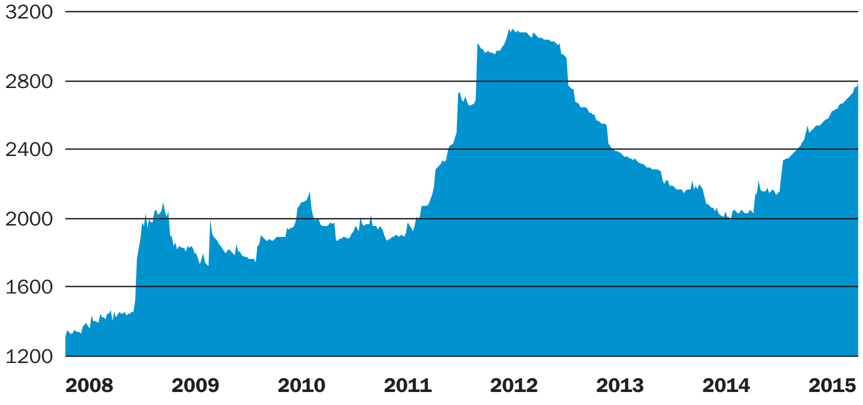
## Monetary Policies and Financial Markets

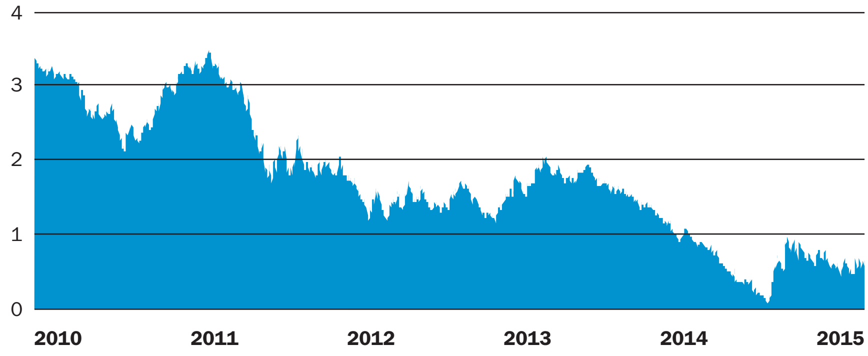
The monetary policy of the main central banks has continued to be accommodating. In the Eurozone, the ECB extended its private asset purchase program in March, to allow public debt to also be purchased. This new program included monthly purchases of assets for €60 million. At its December meeting, the ECB extended this program by six months, up to March 2017, and also reduced the deposit interest rate to up to –0.30%. The ECB's monetary policy has enabled the German short part of its price curve to remain in negative figures throughout the year. In fact, the two-year profitability of the German bond has reached historical minimum levels. In the United States, the Fed, in its December meeting, increased the benchmark interest rate for the first time in nine years, to 0.25-0.50%. The improvement in labour market conditions was an influencing factor in this decision. In the United Kingdom, the benchmark interest rate of the Bank of England has remained unchanged, at 0.50%, and the *stock* of assets acquired under its purchase program has also remained stable, at GBP 375 million. Lastly, in Japan, the central bank has not made any changes to the monthly purchase volume of assets. In its December meeting, it qualitatively modified some of the characteristics of its asset purchase program to facilitate its implementation (G7).

The profitability of long-term public debt markets in the United States and Germany have remained at very reduced levels, ending the year at levels only slightly above those of 2014. These assets have been supported by reduced inflation, the accommodating characteristics of monetary policies and doubts concerning global economic growth. The yield of the ten year German bond reached a new record low in April, due in part to the start of the ECB purchase programs and the uncertainty surrounding Greece. The yield of the German bond over 10 years, after having reached levels close to 0.0%, suffered a significant and historic increase, which can be explained, in part, by the idiosyncrasies of the operation of the public debt market itself. This rate of increase gradually slowed throughout the second half of the year. In Europe, public debt has continued to be supported by the ECB's monetary policy, as shown by the limited recovery of country-risk premiums when uncertainty surrounding Greece was at its highest. Credit rating agencies have introduced new credit rating improvements in these countries. Throughout the year, risk premiums in Italy and Portugal have declined, while in Spain the year-end has seen levels which are slightly above 2014 levels. Political uncertainty in Spain due to the various elections, has contributed to worse behaviour in terms of assets. In any event, the yield of public debt of these countries has reached historic minimums (G8 and G9).

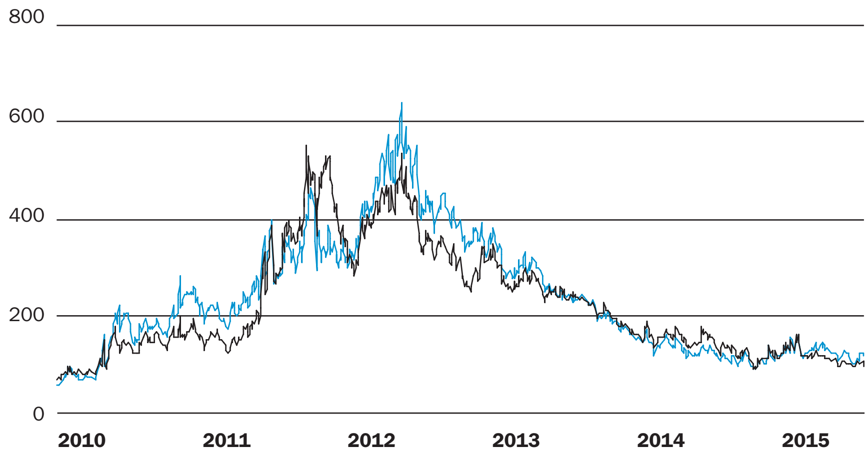
In currency markets, the euro has once again been significantly devalued compared with the dollar and the pound sterling. This depreciation largely occurred in the first quarter, coinciding with the announcement of the purchase of public debt by the ECB. The yen, quoted against the dollar, ended the year at levels similar to those in 2014. The outflow of capital from the Japanese economy, in a context where various domestic investors have diversified their portfolios to give more weight to foreign assets, have caused the yen to depreciate. However, during the financial instability over the summer, the yen acted as a safe asset and appreciated (G10).



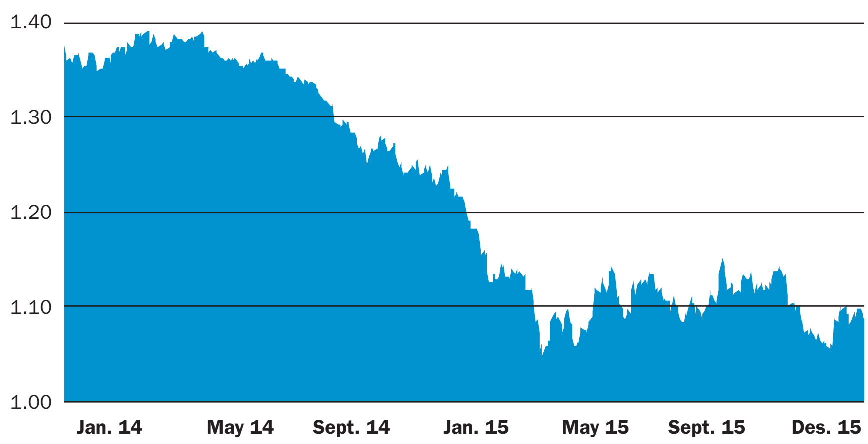

**G7** ECB balance sheet (€ billions)
*Source:* Bloomberg




**G8** Yields on German 10-year government bonds (%)
*Source:* Bloomberg



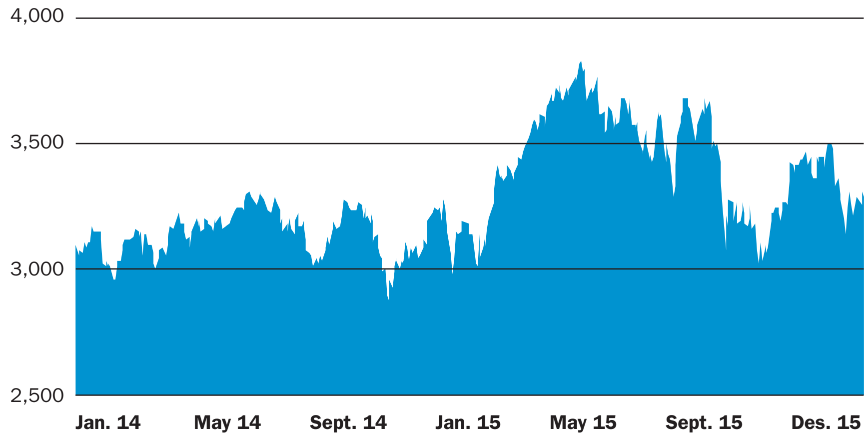

**G9** Risk premium on Spanish and Italian 10-year government bonds (basis points)
*Source:* Bloomberg



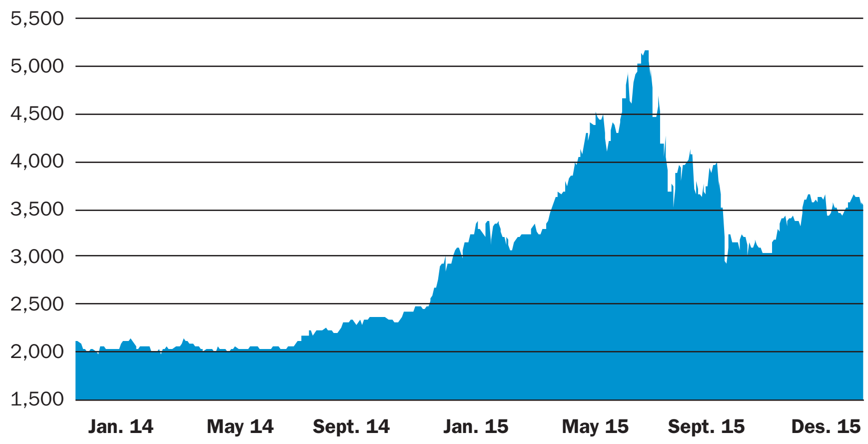

**G10** Dollar/euro rate
*Source:* Bloomberg

In terms of equity markets, European indices have been supported by the ECB's monetary policy. During the summer, the indexes in both Europe and the United States were severely affected by doubts concerning global economic growth. Throughout the year, in the United States, the S&P 500 has increased, in euro, by over 10%, although this improvement is due exclusively to the appreciation of the dollar. In Europe, the EURO STOXX 50 has grown by almost 4%, although with a similar behaviour over all the European countries. The IBEX-35 in Spain has ended the year below its 2014 levels, with a 7% fall, while the German DAX, despite the Volkswagen scandal, has recorded an increase of close to 10% (G11).

Lastly, financial markets in emerging countries have maintained high volatility and were severely affected during summer, with strong exchange depreciations and an abrupt stock market decline in China. The high volatility has been linked to doubts concerning the extent of the economic deceleration in China, political instability in some countries, reduced prices of commodities and concerns over a possible increase in the benchmark interest rate in the United States. In this context of strong exchange depreciations, some central banks have been forced to increase their official interest rates in order to avoid falling short of inflation expectations. Standard&Poor's and Fitch withdrew the investment grade of Brazilian sovereign debt in foreign currencies, which had been maintained since 2008 (G12).




**G11** EURO STOXX 50
*Source:* Bloomberg




**G12** Shanghai Stock Exchange (index)
*Source:* Bloomberg