

Financial Markets Report - Second Quarter of 2017

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AUTHORS AND/OR EDITORS Vargas-Herrera, Hernando Cardozo-Ortiz, Pamela Andrea Rojas-Moreno, Juan Sebastián Romero-Chamorro, José Vicente Lemus-Esquivel, Juan Sebastián Martínez-Cruz, Diego Alejandro Mendoza, Andrés Mauricio Reyes, María Fernanda Rojas, Luis Alejandro Venegas-Karpf, Tatiana Vergara, Daniel Ricardo Roberto-Vargas, Valeria Publication Date: Wednesday, 8 of February 2023

Banco de la República (the Central Bank of Colombia) produces information intended for decision-making and accountability processes as well as for public knowledge. In particular, the Financial Markets Report responds to the principle of public dissemination, thus contributing to the Bank's service of providing quality economic information and research.

In line with the above, this report seeks to provide the public with a general analysis of the performance and trends of domestic and international financial markets. Additionally, the report points out the main factors that explain the performance of these markets, as well as their interactions. The report also presents an overview of the main changes in monetary policy and central bank decisions worldwide.

During the second quarter of 2017 (2Q17), financial markets in developed economies were mainly influenced by: i) a strengthening of growth and labor markets in these economies that contrasts with low inflation levels; ii) the relative convergence of their monetary policies to a contractionary cycle; and iii) the uncertainty caused by political events such as the presidential elections in France and the scandal of possible Russian intervention in the US presidential elections. In this context, the US dollar weakened, the public debt market curve flattened, and its stock markets appreciated and continued in a state of low volatility. The region showed heterogeneous behavior influenced by the dynamics in the price of some commodities, such as oil and copper, idiosyncratic political events, and a lower growth outlook for most countries. In Colombia, price increases were observed in the stock and fixed-income markets. Indeed, at the end of 2Q17, the MSCI COLCAP Index (an index created by MSCI and BVC to measure the performance of the Colombian equity market) was the index with the highest appreciation in the region, driven by the performance of financial and energy sector stocks. In turn, the performance of the domestic local currency public bonds market was influenced by lower observed and expected inflation, cuts in the monetary policy rate, and foreign demand. However, purchases of TES (bonds issued by the Colombian government) by these investors were partially reversed at the end of June, which caused depreciations in this market.

The document is divided into eight sections, with this introduction being the first. Section two presents an executive summary of the document. Section three describes the most significant developments in the international economic environment. Subsequently, section four presents the performance of the main local risk perception indicators. Section five describes the global and local foreign exchange market. Section six presents an analysis of the money and fixed-income global and local markets. In addition, section seven describes the performance of the local primary private debt market. Finally, section eight analyzes the performance of the regional and local stock markets.