

Market Comment | Growing expectations of divergence ahead of ECB meeting

Global Financial Markets Unit
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- **US employment improves in November.** US ADP employment rose in the private sector in November, against estimates of decreasing (by 21K to 217K; consensus: 190K, previous month 196K).
- **Eurozone CPI remains unexpectedly stable in November** (at 0.1%YoY; BBVAe: 0.3% YoY, consensus: 0.2% YoY). Moderation of core inflation by 0.1pp to 0.9% YoY was not expected, which offset the lower fall in energy prices. Although these data may have responded to volatility in the services sector in recent months, they provide more ammunition for the ECB to take action at its meeting on 3 December ([see](#)). Meanwhile in Spain, social security affiliation increased and unemployment fell more than expected. November's figures confirm the dynamism of the labour market shown in the September and October data. After seasonal adjustments, BBVA Research estimates that affiliation increased by 60,000 people, while the fall in unemployment exceeded 40,000 ([see](#)).
- **Growing expectations of divergence ahead of ECB meeting.** Ahead of tomorrow's ECB meeting, the release of today's economic indicator supported the forecast divergence between Fed and ECB monetary policies. In this regard, the positive US employment figure bodes well for the Fed to start its lift-off in December, while the worse-than-expected inflation data provide more ammunition for the ECB to take action at tomorrow's meeting. Consequently, European and US bond markets have diverged further. The 2Y German yield declined further today to new lows (-1bp to -0.45%), whereas the 2Y US yield increased (by 3bp to +0.93%). The European and US 10Y yields also had opposite reactions today, inching up in the US and down in Europe, led by Italy (US +3bp, FRA 10Y: -1bp, ITA 10Y: -2bp, SPA 10Y: -1bp, POR 10Y: -1bp). On FX markets, the USD appreciated against all major currencies (EUR: -0.55%, GBP: -0.92%, JPY: -0.49%) underpinned by the unexpected improvement in the US labour data. EM currencies depreciated against the dollar (COP: -1.8%, MXN: -0.5%, RUB: -0.3%, BRL: -0.3%, CLP: -0.1%), dragged mainly by falls in commodity prices (Brent: -1.3%, WTI: -1.7%, copper: -0.3%), which dropped today following the worse-than-expected crude oil inventories data and the expectations of this week's OPEC meeting. Moreover, some new flows suggest that Saudi Arabia and the Gulf states will not support a cut in their oil quotas. Equity markets remained broadly steady, with a mixed performance in Europe (Euro Stoxx: +0.2%, IBEX 35: 0.0%, CAC: +0.4%, DAX: -0.1%), while US equity indices were unchanged today.

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Table1

Current level and changes at daily, weekly, monthly and annual frequencies

Debt markets (changes in bps)

US Treasury

US 2yr	4.80	(2)	(0)	(0)	(27)
US 5yr	4.03	(1)	(4)	(0)	(22)
US 10yr	2.7	(0)	(4)	(0)	(0)

Non-US

Canada	3.2	(2)	(2)	(0)	(1)
CDX 2yr	4.4	(1)	(1)	(1)	(4)
OE 5yr	4.22	(2)	(4)	(0)	(2)
OE 10yr	4.4	(0)	(4)	(0)	(2)

Europe

Belgium	5.75	(2)	(4)	(1)	(4)
France	5.75	(1)	(2)	(1)	(4)
Germany	5.75	(2)	(2)	(0)	(1)
Ireland	5.75	(1)	(2)	(1)	(4)
Italy	5.75	(1)	(2)	(1)	(4)
Netherlands	5.75	(1)	(2)	(1)	(4)
Portugal	5.75	(1)	(2)	(1)	(4)
Spain	5.75	(1)	(2)	(1)	(4)

Emerging Markets

Brazil	10.0	(1)	(0)	(0)	(27)
China	4.8	(1)	(0)	(0)	(27)
Colombia	10.0	(1)	(0)	(0)	(27)
India	8.2	(1)	(0)	(0)	(27)
Indonesia	7.5	(1)	(0)	(0)	(27)
Poland	5.0	(1)	(0)	(0)	(27)
Russia	9.75	(1)	(0)	(0)	(27)
Saudi	10.0	(1)	(0)	(0)	(27)
Turkey	10.0	(1)	(0)	(0)	(27)

Country risk (changes in bps)

US sovereign spreads (against Germany)

Belgium	21	(1)	(2)	(4)	(2)
France	21	(1)	(2)	(4)	(2)
Germany	20	(0)	(0)	(0)	(0)
Ireland	21	(1)	(2)	(4)	(2)
Italy	21	(1)	(2)	(4)	(2)
Netherlands	21	(1)	(2)	(4)	(2)
Portugal	21	(1)	(2)	(4)	(2)
Spain	21	(1)	(2)	(4)	(2)

EU sovereign spreads (against Germany)

Belgium	12	(0)	(1)	(1)	(2)
France	12	(0)	(1)	(1)	(2)
Germany	10	(0)	(0)	(0)	(0)
Ireland	12	(0)	(1)	(1)	(2)
Italy	12	(0)	(1)	(1)	(2)
Netherlands	12	(0)	(1)	(1)	(2)
Portugal	12	(0)	(1)	(1)	(2)
Spain	12	(0)	(1)	(1)	(2)

2yr sovereign spreads (against Germany)

Belgium	8	(0)	(0)	(0)	(0)
France	8	(0)	(0)	(0)	(0)
Germany	8	(0)	(0)	(0)	(0)
Ireland	8	(0)	(0)	(0)	(0)
Italy	8	(0)	(0)	(0)	(0)
Netherlands	8	(0)	(0)	(0)	(0)
Portugal	8	(0)	(0)	(0)	(0)
Spain	8	(0)	(0)	(0)	(0)

Sovereign CDS

Spr CDS Belgium	34	(0)	(1)	(1)	(4)
Spr CDS France	27	(1)	(0)	(2)	(2)
Spr CDS Germany	13	(0)	(0)	(0)	(0)
Spr CDS Greece	90	(2)	(0)	(1)	(4)
Spr CDS Ireland	41	(0)	(1)	(1)	(4)
Spr CDS Italy	41	(0)	(1)	(1)	(4)
Spr CDS Netherlands	10	(0)	(0)	(0)	(0)
Spr CDS Portugal	31	(1)	(1)	(1)	(4)
Spr CDS Spain	31	(1)	(1)	(1)	(4)
Spr CDS UK	11	(0)	(0)	(0)	(0)
Spr CDS US	21	(0)	(0)	(0)	(0)

Emerging Markets

Spr CDS Brazil	42	(0)	(1)	(1)	(4)
Spr CDS China	22	(0)	(1)	(1)	(4)
Spr CDS Colombia	21	(0)	(1)	(1)	(4)
Spr CDS India	10	(0)	(0)	(0)	(0)
Spr CDS Indonesia	10	(0)	(0)	(0)	(0)
Spr CDS Poland	10	(0)	(0)	(0)	(0)
Spr CDS Russia	10	(0)	(0)	(0)	(0)
Spr CDS Saudi	10	(0)	(0)	(0)	(0)
Spr CDS Turkey	10	(0)	(0)	(0)	(0)

Cost of risk

US Treasury

VIX	14.8	(1)	(1)	(1)	(4)
VIX30	22.7	(3)	(3)	(3)	(3)
ED FTF	10.0	(0)	(0)	(0)	(0)
Default spread	11	(1)	(1)	(1)	(4)
ED FTF	10.0	(0)	(0)	(0)	(0)
Cost of risk	10.0	(0)	(0)	(0)	(0)
US bank	10.0	(0)	(0)	(0)	(0)

Bank risk (changes in bps)

US banks

US banks CDS	70	(2)	(2)	(1)	(4)
EU banks CDS	70	(2)	(2)	(1)	(4)
UK banks CDS	70	(2)	(2)	(1)	(4)

Large Spanish banks

Large Spanish banks CDS	110	(2)	(2)	(1)	(4)
Medium Spanish banks	140	(0)	(1)	(1)	(4)

Other banks

Other banks CDS	100	(0)	(0)	(0)	(0)
Russian banks	100	(0)	(0)	(0)	(0)

Corporate risk (changes in bps)

US Non-financial CDS	60	(0)	(0)	(0)	(0)
UK Non-financial CDS	60	(0)	(0)	(0)	(0)

Interbank markets (changes in bps)

US

LIBOR US 3m	15	(1)	(1)	(1)	(4)
LIBOR US 6m	15	(1)	(1)	(1)	(4)
LIBOR US 12m	15	(1)	(1)	(1)	(4)
US OIS 3m	15	(1)	(1)	(1)	(4)
US OIS 6m	15	(1)	(1)	(1)	(4)
US OIS 12m	15	(1)	(1)	(1)	(4)

Europe

LIBOR EU 3m	11	(2)	(2)	(2)	(2)
LIBOR EU 6m	11	(2)	(2)	(2)	(2)
LIBOR EU 12m	11	(2)	(2)	(2)	(2)
EU OIS 3m	11	(2)	(2)	(2)	(2)
EU OIS 6m	11	(2)	(2)	(2)	(2)
EU OIS 12m	11	(2)	(2)	(2)	(2)

Stock markets (Change in percentage)

Major equity indices

S&P500	110.0	(0)	(0)	(0)	(0)
Dow Jones	1700	(0)	(0)	(0)	(0)
Nikkei	1800	(0)	(0)	(0)	(0)
FTSE 100	6000	(0)	(0)	(0)	(0)
Euro Stoxx 50	1000	(0)	(0)	(0)	(0)
MSCI World	1000	(0)	(0)	(0)	(0)
MSCI Europe	1000	(0)	(0)	(0)	(0)
MSCI Asia	1000	(0)	(0)	(0)	(0)
MSCI Africa	1000	(0)	(0)	(0)	(0)
MSCI Latin America	1000	(0)	(0)	(0)	(0)
MSCI Russia	1000	(0)	(0)	(0)	(0)
MSCI Brazil	1000	(0)	(0)	(0)	(0)
MSCI India	1000	(0)	(0)	(0)	(0)
MSCI Indonesia	1000	(0)	(0)	(0)	(0)
MSCI Turkey	1000	(0)	(0)	(0)	(0)
MSCI Saudi Arabia	1000	(0)	(0)	(0)	(0)
MSCI Russia	1000	(0)	(0)	(0)	(0)
MSCI Brazil	1000	(0)	(0)	(0)	(0)
MSCI India	1000	(0)	(0)	(0)	(0)
MSCI Indonesia	1000	(0)	(0)	(0)	(0)
MSCI Turkey	1000	(0)	(0)	(0)	(0)
MSCI Saudi Arabia	1000	(0)	(0)	(0)	(0)

Commodities (in percentage, positive for dollar depreciation)

Energy

WTI	100	(0)	(0)	(0)	(0)
Brent	100	(0)	(0)	(0)	(0)
Natural Gas	100	(0)	(0)	(0)	(0)
Coal	100	(0)	(0)	(0)	(0)
Oil	100	(0)	(0)	(0)	(0)

Metals

Gold	100	(0)	(0)	(0)	(0)
Silver	100	(0)	(0)	(0)	(0)
Copper	100	(0)	(0)	(0)	(0)
Platinum	100	(0)	(0)	(0)	(0)
Palladium	100	(0)	(0)	(0)	(0)

Grains

Wheat	100	(0)	(0)	(0)	(0)
Corn	100	(0)	(0)	(0)	(0)
Soybeans	100	(0)	(0)	(0)	(0)
Rice	100	(0)	(0)	(0)	(0)

Other

Iron Ore	100	(0)	(0)	(0)	(0)
Aluminum	100	(0)	(0)	(0)	(0)
Nickel	100	(0)	(0)	(0)	(0)
Zinc	100	(0)	(0)	(0)	(0)
Lead	100	(0)	(0)	(0)	(0)
Steel	100	(0)	(0)	(0)	(0)

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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