Market Comment | Fed’s comments drove financial markets today

Global Financial Markets Unit
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- **DBRS warned on Portugal’s debt**. The head of sovereign ratings at DBRS, a credit agency, said that the low-growth economy, and high levels of government and corporate debt along with concerns about the banking sector could reduce Portugal's creditworthiness. DBRS rating for Portugal (BBB low) allowed its bonds to remain part of the ECB bond buying programme, ahead of the rating review, that carries a stable outlook and is due on October 21.

- **Comments of Fed’s official grabbed markets’ attention**. Early this morning the US dollar depreciated sharply on the back of the market’s perception of the dovish tone reinforced by **Fed’s Williams** as he said that central banks could explore new alternatives such as modifying (increasing) the **inflation target**. Later on, mixed indicators in the US (US inflation close to market’s expectations) coupled with comments of Fed’s **Dudley**, who said that a rate rise in **September is on the table** - he also pointed out that market expectations do not reflect the Fed’s expected policy path - contributed to change slightly the previous mood. Nonetheless, the USD lost some steam today, against its main peers (+0.97% JPY, +1.06% GBP, EUR +0.85%) reinforced by encouraging data from Europe: euro zone and Germany ZEW euro zone economic sentiment surprised positively.

- Against this backdrop, the speech of Fed’s Dudley weighed on bond markets, **triggering a rise in the US yield curve** (USD2Y +2 bps; US10Y +2 bps) and thereby pushing up 10Y Government bond yields across the board (GER +4 bps, FRA +5 bps). However, **risk premiums of European peripherals rose slightly**, led by Portugal whose sovereign debt yield soared (10YPOR +15 bps), triggered by the DBRS warning, ahead of the October rating review by DBRS.

- **Major equities markets went down across the board** and consolidated after the recent rally (S&P500 -0.3%, Euro Stoxx -0.7%). Asian equities led the drop (Nikkei -1.6%, FTSE China A50 -1.35%), after worse-than-expected Q2 economic growth figures were published by Japan (0%QoQ, consensus 0.2%QoQ, prior 0.5%QoQ). In China, the authorities signalled a trading interconnection between the Shenzhen and Hong Kong stock exchanges, to be effective before year-end, allowing foreign investors access to a market focused on start-ups and technology companies.

- **Oil prices continued the rally amid hopes that oil producers could agree an output freeze** in an **OPEC** meeting in Algeria (September 26-28) reinforced by comments from non-OPEC members such as the Russian energy minister who said his country was willing to agree with other oil producers to achieve market stability. However, during the session the rally moderated and the oil price ended up 1% higher. EM currencies appreciated in this context, shored up by a weaker dollar and oil prices (MXN +0.5%, COP +0.4%, TRY +0.4%).

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Table 1

BBVA Research

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

Debt markets *(changes in bp)*

Developed Markets
US 2-yr 0.74 (2) (3) (7) (-31)
US 5-yr 1.16 (2) (5) (5) (-60)
US 10-yr 1.58 (2) (3) (3) (-69)

Japan 10-yr -0.09 (0) (-1) (14) (-35)

GER 2-yr -0.61 (0) (1) (4) (-27)
GER 5-yr -0.5 (2) (3) (5) (-46)
GER 10-yr -0.031 (4) (5) (-4) (-66)

Belgium 10-yr 0.19 (4) (4) (-7) (-78)
France 10-yr 0.19 (5) (5) (-4) (-79)
Greece 10-yr 8.15 (1) (-13) (31) (-14)
Ireland 10-yr 0.41 (5) (4) (-9)
Italy 10-yr 1.12 (6) (0) (-14) (-48)
Netherlands 10-yr 0.07 (4) (6) (-5) (-72)
Portugal 10-yr 2.84 (15) (4) (-29) (32)
Spain 10-yr 0.98 (4) (-2) (-25) (-79)

Emerging Markets
Brazil 10-yr 11.78 (-2) (4) (-17) (-474)
Chile 10-yr 4.36 (0) (0) (-2) (-30)
Colombia 10-yr 7.52 (0) (-3) (-11) (-113)
Mexico 10-yr 5.81 (0) (-8) (-17) (-45)
Peru 10-yr 5.71 (0) (0) (-1) (-159)

Poland 10-yr 2.71 (8) (1) (-24) (-24)
Russia 5-yr 8.6 (4) (15) (-2) (-128)
Russia 10-yr 8.32 (3) (9) (-5) (-123)
Turkey 10-yr 9.41 (-1) (2) (52) (-106)

India 10-yr 7.11 (0) (-2) (-17) (-66)
Indonesia 10-yr 6.84 (3) (0) (-32) (-191)

Country risk *(changes in bp)*

Developed Markets
10-yr sovereign spreads *(against Germany)*
Belgium 22 (0) (0) (-3) (-12)
France 23 (1) (1) (0) (-13)
Greece 818 (-3) (-17) (35) (52)
Ireland 44 (1) (0) (-6) (-8)
Italy 115 (2) (-5) (-10) (18)
Netherlands 10 (0) (1.2) (-1) (-6)
Portugal 287 (11) (-0.6) (-26) (98)
Spain 101 (0) (-7) (-21) (-13)

5-yr sovereign spreads *(against Germany)*
Belgium 5 (0) (1.3) (-6) (-2)
France 11 (0) (-1) (-9) (-2)
Greece 1652 (-2) (-3) (-5) (45)
Ireland 50 (-2) (-3) (-5) (25)
Italy 74 (1) (-3) (-14) (19)
Netherlands 8 (0) (0.2) (-6) (7)
Portugal 221 (13) (6) (-29) (110)
Spain 63 (1) (-3) (-20) (-9)

2-yr sovereign spreads *(against Germany)*
Belgium 11 (1) (1) (1) (7)
France 5 (0) (-1.9) (-6) (2)
Ireland 25 (1) (5) (2) (11)
Italy 53 (1) (-2) (-8) (22)
Netherlands 4 (0) (0) (-1) (6)
Portugal 108 (9) (5) (-30) (63)
Spain 46 (1) (0) (-8) (11)

5-yr sovereign CDS
5-yr CDS Belgium 36 (-1) (-5) (-9) (4)
5-yr CDS France 29 (-1) (-2) (-4) (4)
5-yr CDS Germany 17 (0) (0) (-3) (5)
5-yr CDS Greece   980 (34) (2) (16) (-79)
5-yr CDS Ireland   61 (-5) (5) (-8) (21)
5-yr CDS Italy   128 (-4) (10) (-4) (33)
5-yr CDS Netherlands 25 (-1) (-3) (-1) (10)
5-yr CDS Portugal 256 (-9) (-3) (-19) (88)
5-yr CDS Spain 78 (-1) (-3) (-11) (-10)
5-yr CDS UK 33 (0) (-3) (-1) (14)
5-yr CDS US 32 (0) (0) (12) (14)

Emerging Markets

5-yr sovereign CDS
5-yr CDS Argentina 364 (-9) (-32) (-28) (-10933)
5-yr CDS Brazil 249 (-5) (-19) (-38) (-243)
5-yr CDS Chile 67 (-1) (-4) (-12) (-60)
5-yr CDS Colombia 166 (-6) (-8) (-17) (-73)
5-yr CDS Mexico 133 (-4) (-6) (-5) (-38)
5-yr CDS Peru 99 (-4) (-8) (-25) (-86)
5-yr CDS Venezuela 4370 (-68) (40) (234) (-1673)

5-yr CDS Poland73 (-3) (-6) (-19) (1)
5-yr CDS Russia 221 (-7) (10) (3) (-81)
5-yr CDS Turkey 236 (-5) (-8) (16) (-37)

5-yr CDS China 103 (-1) (-1) (-8) (-6)
5-yr CDS India 146 (0) (-4) (-8) (-2)
5-yr CDS Indonesia 142 (-1) (-5) (-16) (-85)

Credit risk

Risk indicators *(changes in percentage except for BAA spreads, bp)*
VIX 12.33 (4.4) (5.7) (-2.7) (-6)
VSTOXX 20.07 (6.5) (9.7) (-4.1) (-2)
EM EFT volatility Index 19 (4) (6) (-7) (-15)
Dollar/euro volatility 7.4 (7.3) (3.9) (-9.8) (-24)
EM FX volatility index 10 (0) (0) (3) (-12)
Credit spread (BAA) 267.4 (-1.9) (-2.9) (-1.7) (-56)
US bonds volatility index 64 (0) (-1) (-15) (-6)

Bank risk *(changes in bp)*
US banks CDS 77 (0) (-1) (2) (2)
EMU banks CDS 106 (-2) (-3) (-11) (23)
UK banks CDS 92 (-2) (-6) (-19) (14)

Large Spanish banks CDS 118 (-1) (-6) (-19) (-20)
Medium Spanish banks CDS 152 (-3) (-6) (-14) (-6)

Greek banks CDS 892 (0) (-212) (-87) (-760)
Russian banks CDS 338 (16) (9) (7) (-44)

Corporate risk *(changes in bps)*
EMU Non-financial CDS 0 (0) (0) (-107) (-173)
UK Non-financial CDS 0 (0) (0) (-158) (-192)

Interbank markets *(changes in bp)*

UEM OIS spread 3m 5 (0) (0) (-1) (-5)
UEM OIS spread 12m 35 (-1) (-1) (-1) (1)
UEM TED spread 3m 50 (0) (4.9) (5) (9)

US OIS spread 3m 39 (-1) (-1) (10) (16)
US OIS spread 12m 99 (-1) (-4) (15) (43)
US TED spread 3m 53 (1) (-1) (14) (8)

Spain Ted Spread 3m 4 (0) (-0.6) (2) (-1)

EONIA Index -0.35 (0) (-0.8) (-1) (-22)
Euribor 3m -0.3 (0) (-0.1) (-1) (-17)
Euribor 12m -0.05 (0) (0) (1) (-11)

Libor 3m 0.8 (0) (-1) (12) (19)
Libor 12m 1.51 (0) (-2) (20) (33)

Stock markets *(Changes in percentage)*

Developed Markets
Main equity indices
S&P500 2183.1 (-0.3) (0.1) (1) (7)
Dow Jones 18583.4 (-0.3) (0.3) (0.4) (7)
Nikkei 16596.5 (-1.6) (-1) (0.6) (-13)
FTSE 100 6905.5 (-0.5) (0.8) (3.5) (11)
EuroStoxx 50 3024.2 (-0.7) (-0.2) (2.2) (-7)
IBEX 8643.2 (-0.9) (-0.3) (1.3) (-9)
DAX 10702.5 (-0.3) (0.1) (6.3) (0)
CAC4473.3 (-0.5) (0.1) (2.3) (-4)
MIB 16834.5 (-1) (0.2) (0.5) (-21)
ASE Athens 572.4 (-0.6) (1.8) (2.7) (-9)

Bank stocks
JPM 65.7 (-0.1) (-0.3) (2.3) (-1)
Citi 46.5 (0.2) (1.2) (4.8) (-10)
BoA 15.1 (0.4) (-0.8) (10.4) (-10)
MS 30.3 (2.1) (3.2) (8.1) (-5)
GS 166 (0.3) (1.6) (2.7) (-8)

HSBC 542.3 (-0.9) (0.3) (13.1) (1)
RBS 191.7 (-0.7) (-0.3) (4.2) (-37)
Barclays 162.3 (-0.8) (0.7) (8.3) (-26)
Lloyds 54 (-0.9) (-1.9) (-3.6) (-26)

EMU banks 74.7 (-1) (-0.1) (2.6) (-31)
BNP 44.1 (-1.1) (-1.6) (3.1) (-16)
Crédit Agricole 8.2 (-0.6) (-0.3) (4.4) (-25)
Deutsche Bank 12.7 (-0.3) (2.8) (-2.3) (-44)
ING 10.5 (-1.1) (-1) (7) (-16)
Intesa 1.9 (-1.7) (0.5) (0.6) (-37)
SG 31.4 (-1.2) (-1.4) (3.6) (-26)
Unicredito 2.1 (-0.2) (3.8) (-3.1) (-59)

Large Spanish banks 60.9 (-0.3) (0.8) (-0.6) (-19)
Santander 3.8 (-0.5) (0.4) (0.4) (-16)
BBVA 5.3 (-0.2) (1) (-1.3) (-22)

Medium Spanish banks 60 (-0.5) (1) (3.3) (-27)
Caixabank 2.4 (-1) (2.8) (10.8) (-25)
Popular 1.2 (-0.2) (3.6) (-1.1) (-55)
Sabadell 1.2 (-0.5) (0.7) (-4.2) (-25)
Bankinter 6.3 (-0.2) (-0.5) (5) (-3)
Bankia 0.7 (-0.7) (0.9) (5.2) (-34)

Greek banks 2.6 (-2.7) (-4.5) (-13.2) (-43)
Alpha Bank1.7 (-3.5) (-6.8) (-8.3) (-34)
Pireus Bank0.1 (-1.5) (1.6) (-21.2) (-53)
National Central Bank0.2 (0.5) (2.2) (-6.5) (-45)
Eurobank Ergasias0.4 (-1.4) (0.2) (-26.6) (-59)

Emerging Markets
Main equity indices
MSCI Latam 73425 (0.89) (2.2) (4.8) (23.8)
Ibovespa (Brazil) 59146 (1.5) (2.6) (6.6) (36.4)
Mexbol 48695 (0.7) (2.8) (4.7) (13.2)

MSCI EM Europe 4529 (0.58) (1.2) (0.8) (6.6)
Poland 1858 (0) (1.1) (6.4) (-0.1)
Micex (Russia) 1977 (0.5) (1) (1.8) (12.3)
Ise 100   (Turkey) 78473 (0.3) (0.9) (-5) (7.2)

MSCI EM Asia 713 (0.37) (1.6) (4.6) (8)
Shanghai Composite (China) 3125 (2.44) (4) (2.3) (-12.5)
Jakarta Composite (Indonesia) 5321 (-1.1) (-2.5) (4.7) (16)

Bank stocks
Turkish banks 82 (-1.4) (-1.5) (-7.8) (11.2)
Akbank T.A.S. 8 (-2.1) (-1.4) (-10.4) (19.3)
Garanti 8 (-1.3) (-1.5) (-7.6) (9.3)
Turkiye Is Bankasi 5 (-0.8) (-1.6) (-4.6) (4.1)

Russian banks 176 (-1) (-0.9) (-0.7) (15.7)
Sberbank 138 (-1) (-0.8) (0) (36.4)
VTB Bank 0.1 (-1) (-1.3) (-2.3) (-16.2)

Currencies *(in percentage, positive for dollar depreciation)*

Developed Markets
EURUSD 1.128 (0.85) (1.46) (2.2) (3.8)
GBPUSD 1.3 (1.06) (0.11) (-1.3) (-11.7)
USDJPY 100.28 (0.97) (1.57) (4.4) (16.6)
DXY 94.81 (0.9) (1.4) (1.8) (3.9)

Emerging Markets
USDARS (Argentina) 14.67 (0) (0.6) (1.8) (-13.5)
USDBRL (Brazil) 3.18 (0.2) (-1.1) (3) (19.7)
USDCLP (Chile) 650.7 (-0.4) (0.3) (0.2) (8.2)
USDCOP (Colombia) 2916.03 (0.4) (2.3) (0.3) (8.1)
USDMXN (Mexico) 17.98 (0.5) (2.5) (3.3) (-4.5)
USDPEN (Peru) 3.31 (-0.1) (-0.2) (-1.1) (3)
LACI 66.68 (0.3) (0.8) (2.3) (6.5)

USDPLN (Poland) 3.79 (0.6) (1.1) (5.5) (3.3)
USDRUB (Russia) 63.84 (0.3) (1.4) (-0.2) (12)
USDTRY (Turkey) 2.93 (0.4) (1.3) (2.9) (-0.4)

USDCNY (China) 6.63 (0.2) (0.5) (1) (-2)
USDINR (India) 66.77 (0.2) (0.1) (0.5) (-0.9)
USDIDR (Indonesia) 13085 (0) (0.3) (0.1) (5.1)
ADXY 108.15 (0.2) (0.5) (1.3) (1.5)

Commodities *(change in percentage)*

Brent   48.87 (1.1) (8.6) (2.6) (31.1)
WTx   46.31 (1.2) (8.3) (0.8) (25)
Copper 217.05 (0.9) (1) (-2.7) (2.1)
Gold   1347.67 (0.6) (0.5) (0.8) (27)
Baltic Dry Index 681 (1.5) (7.9) (-8.6) (42.5)
S&P GSCI Spot commodity index 359.647 (1.8) (4.2) (-0.4) (15.4)
S&P GSCI Brent Spot 413.703 (2.9) (7.5) (1) (29)
S&P GSCI Metals Spot 277.1 (0.9) (0.7) (-0.7) (9.5)
S&P GSCI Agricultural Spot 295.964 (0.7) (0.7) (-1.7) (4.4)

Source: Bloomberg, Datastream and Haver

CDS, EMBI & MSCI indices with one day delay
**Credit spread (BAA) with two days delay
***S&P GSCI with one day delay

DISCLAIMER

Spain with number 0182.