

# Market Comment | Positive week amid China's growth and an uneventful ECB meeting

Global Financial Markets Unit  
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- **Volatility receded in financial markets** (VIX -15%, VSTOXX -13%) in a week plenty of events ranging from the release of China's GDP to ECB and with the third and last of Presidential debates in the US.
- **As expected, the ECB remained on hold.** This week's ECB meeting provided little news apart from curbing expectations of tapering. Decisions have been postponed to December, as widely expected, and no clues were provided on the discussion of QE extension or technical changes to cope with bond scarcity problems. We continue to expect the ECB to announce an extension of QE by December. ([see details](#))
- Secondly, the last **US presidential debate** did not bring any surprises and the polls showed a widening difference between candidates ahead of the US presidential elections next month. Judging by market reaction, the Democrat candidate seems to be preferred by financial markets.
- Lastly, **China's 3Q GDP reassured investors** as economic growth stabilised at 6.7% YoY and contributed to easing concerns fuelled by recent worse-than-expected trade data. The latest economic indicators have led us to revise upwards our forecast for 2017 (from 6.4 to 6.6% YoY). Nonetheless, doubts still remain about the property sector and credit growth. ([see details](#))
- In this context, **equity indices rose across the board**, but more markedly in Europe (Euro Stoxx50 +1.6%, S&P500 -0.3%, Ibex35 +3.6%). In the US, stock prices continued hovering around historical high levels, as the **US earnings season** injected some confidence into financial markets. Among the outstanding performers around the world was the banking sector (US banks +2.4%, EZ banks +5.6%, UK banks +5.1%). In Asia share prices inched up (Nikkei +1.9%, Shanghai +0.9%).
- On the other hand, lower expectations of an ECB tapering and the stability of Fed interest rate hike probabilities (as Fed officials did not give any additional clues), **dragged sovereign bond yields down across the board during this week** (10YUS -6 bps, 10YGER -5 bps, 10YFRA -6 bps). Remarkably, the **Portuguese sovereign bond yield** continued declining in the week (10YPOR -12 bps) after its previous sharp rise, as concerns on the imminent **DBRS rating decision eased (to be released late today)**, after talks with the Minister of Finance. The decision is crucial as a downgrade for Portugal would jeopardise its participation in the ECB's QE programme.
- In FX markets, the **EUR depreciated signally against the USD** (-0.9%) as recent rumors of ECB's tapering have not been backed by Draghi. In the meantime, the GBP and the JPY appreciated slightly against the USD (DXY, -0.7%). On the other hand, oil prices had a volatile week as the significant gains (close to 3%) triggered by a large fall in US crude oil inventories were erased by subsequent profit-taking. In these circumstances, EM currencies mainly appreciated: CLP +0.5%, the MXN appreciated strongly favoured by the latest outcome regarding US election polls (+1.9%) while the TRY halted its depreciatory

trend (+0.2%) on the back of no changes in the monetary policy stance, despite markets' expectations for another rate cut of the Turkey's central bank.

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Table 1

Debt markets (10Y, % change in bp)					
	level	Daily	Weekly	Monthly	YTD
<b>Developed Markets</b>					
US (2-yr)	0.82	0.4	-1.1	5	22
US	1.74	-1.7	-5.9	9	-53
GER (2-yr)	0.66	0.5	0.2	-1	-32
Germany	0.03	0.2	-5.3	0	-62
France	0.28	-0.1	-5.6	-2	-71
Spain	1.11	0.1	-2.0	11	-67
Italy	1.36	-0.5	-1.6	8	-23
Portugal	3.18	-2.8	-11.7	-23	67
Greece	8.44	-0.2	6.6	-6	16
Japan (2-yr)	0.25	1.5	1.7	-3	-24
Japan	0.05	0.2	-2.5	-32	-32
<b>Emerging Markets</b>					
Brazil	11.07	1.2	-33.1	-95	-544
Chile	4.18	0.6	-4.5	-8	-48
Colombia	7.14	-0.2	9.1	-2	-152
Mexico	6.06	-0.1	0.3	-3	-21
Peru	5.72	-1.1	1.7	-14	-159
Poland	2.95	0.0	8.8	10	1
Russia	8.34	-4.7	-2.4	15	-122
Turkey	9.62	8.0	-10.0	10	-85
India	7.43	0.6	-2.7	-7	-22
Indonesia	7.08	-5.0	-5.2	12	-167
<b>Country risk (bp, change in bp)</b>					
<b>Developed Markets</b>					
10-yr sovereign spread vs Germany					
France	28	-0.3	0.3	-2	-8
Italy	136	-0.7	3.7	8	39
Portugal	318	-3.0	6.4	-23	129
Spain	110	-0.1	3.3	10	-4
2-yr sovereign spread vs Germany					
France	3	-0.7	-2.1	-2	0
Italy	58	-0.9	1.1	2	27
Portugal	92	-4.3	-2.1	-23	47
Spain	45	1.3	0.3	2	9
<b>Emerging Markets</b>					
5-yr sovereign CDS *					
Brazil	258	0	0	-23	-234
Chile	85	0	-1	-5	-42
Colombia	166	-5	-7	-15	-72
Mexico	142	0	-2	-29	-28
Peru	97	-2	-3	-22	-88
Venezuela	3,580	-228	268	-501	2463
Poland	75	0	0	0	3
Russia	222	-3	-13	5	-80
Turkey	241	-3	-11	-17	-32
China	105	0	0	-1	-3
India	139	0	2	3	-9
Indonesia	151	0	-3	0	-76
<b>Risk indicators</b>					
Volatility indicators (%)					
VIX	14	-0.2	-15	3	-4
VSTOXX	17	-1.5	-13	-16	-5
EM EFT volatility index	20	0.7	-13	3	-11
Dollar/euro volatility	7	3.9	-3	5	24
EM FX volatility index	9	-3.4	-8	-12	-18
Credit spread (BAA/Baa)	264	1.7	1	-8	-59
US bonds volatility index	60	-3.3	-8	-6	-12
Banking 5y CDS (bps) *					
US	74	-0.3	-5	-6	-1
EZ	111	-2.0	-6	-13	28
UK	102	-1.5	-7	5	24
Large Spanish	122	-2.0	-7	-9	-16
Medium Spanish	154	-0.1	-3	7	4
Corporate 5y CDS (bps) *					
US Non financial	196	-0.3	-5	-6	-1
EZ Non financial	107	-2.0	-8	-13	28
UK Non financial	136	-1.7	-5	-7	-56
<b>Interbank markets (% change in bp)</b>					
EONIA Index	-0.35	0.00	0.0	0.0	-0.2
Euribor 3m	-0.31	0.00	0.0	0.0	-0.2
Euibor 12m	-0.07	0.00	0.0	0.0	-0.1
Libor 3m	0.88	0.00	0.0	0.0	0.3
Libor 12m	1.57	0.00	0.0	0.0	0.4
EZ TED spread 3m	55.1	0.30	0.8	11.4	14.3
<b>Stock markets (%)</b>					
<b>Asian indices</b>					
S&P500	2,136	-0.3	0.1	-11	-4
Dow Jones	18,071	-0.5	-0.4	-1	-4
Nikkei	17,185	-0.3	1.9	2	-10
FTSE 100	7,022	-0.1	0.1	3	12
EuroStoxx 50	3,072	-0.1	1.6	3	-6
BEX	9,080	0.2	3.6	4	-5
DAX	10,693	0.1	1.1	2	0
CAC	4,533	-0.2	1.4	3	-2
MB	17,151	0.1	3.4	5	20
ASE Athens	594	-0.3	0.8	6	-6
MSCI Latam *	76,089	0.1	3.3	7	28
Bovespa (Brazil)	63,901	0.1	3.5	9	47
MoBI	48,314	0.1	1.3	3	12
MSCIEM Europe *	4,503	-0.1	0.9	1	6
Poland	1,753	0.2	2.0	0	-6
Mircs (Russia)	1,959	0.1	0.4	-2	11
Ise 100 (Turkey)	78,844	-0.5	1.7	1	10
MSCIEM Asia *	723	-0.2	1.6	1	9
Shanghai Com (China)	3,091	0.2	0.9	2	-13
Jakarta (Indonesia)	5,409	0.0	1.3	2	18
<b>Banking sector</b>					
<b>US banks</b>					
JPM	89.6	-0.2	2.4	5	-5
Citi	68.0	-0.4	0.7	2	-3
BofA	49.3	-0.6	1.4	5	-5
MS	16.5	-0.2	3.3	6	-2
GS	33.0	0.4	3.0	4	4
WFC	174.0	0.3	2.0	4	-3
<b>EZ banks</b>					
BNP	83.2	0.0	5.6	8	-23
Credit Agricole	51.5	0.8	6.8	11	-1
Deutsche Bank	9.5	0.0	3.4	8	-12
ING	13.1	0.4	6.9	16	-42
Intesa	11.8	-0.8	4.2	6	-6
SG	2.1	-0.1	6.2	3	-32
UniCredit	34.7	-0.3	5.6	10	-19
UK banks	2.3	0.9	7.8	8	-56
HSC	74.8	0.4	5.1	3	-15
RBS	625.5	0.6	1.0	6	17
Barclays	189.9	1.9	9.9	4	-37
Lloyds	183.0	-0.1	7.6	7	-16
<b>Large Spanish banks</b>					
Santander	55.3	-0.4	5.5	-3	-24
BBVA	69.9	-0.3	7.3	11	7
Cajabank	4.3	0.5	6.3	8	-6
Populär	6.1	-1.0	7.7	14	-9
<b>Medium Spanish banks</b>					
Sabadell	62.7	0.6	6.8	3	-24
CaixaBank	2.6	0.5	8.8	8	-19
Bankinter	1.1	1.5	5.3	-9	-60
Banqueparibas	78.2	-1.0	7.7	14	-9
Banque	1.2	2.0	9.1	4	24
Banque	6.8	-0.7	5.5	3	4
<b>Currencies (% net for currency depreciation)</b>					
<b>Developed</b>					
EURUSD	1.09	-0.5	-0.9	-2.8	0
GBPUSD	1.22	-0.4	0.1	-6.3	-17
USDJPY	103.84	0.1	0.3	-3.5	14
DOY	98.68	-0.4	-0.7	-3.2	0
<b>Emerging</b>					
USDARS (Argentina)	15.15	0.0	0.1	0.0	-17
USDBRL (Brazil)	3.16	-0.6	1.5	1.5	20
USDCUP (Cuba)	667.14	0.0	0.5	-0.3	6
USDCOP (Colombia)	295.3	-0.8	-1.0	-0.0	7
USDMXN (Mexico)	18.65	-0.1	1.9	5.5	-8
USDPEN (Peru)	3.37	0.2	1.0	0.0	1
USDPLN (Poland)	65.51	0.3	1.2	2.3	5
USDPLN (Poland)	3.98	-0.8	-1.3	-3.9	-2
USDTRY (Turkey)	62.48	-0.1	0.8	2.3	14
USDRUB (Russia)	3.09	-0.8	0.2	-4.4	-6
USDCNY (China)	6.77	-0.3	0.6	-1.5	-4
USDINR (India)	66.89	-0.1	-0.3	0.2	-1
USDIDR (Indonesia)	13,042	-0.3	-0.1	0.7	5
ADXY	105.9	-0.3	-0.2	-1.5	-1
<b>Commodities (%)</b>					
<b>Energy</b>					
Brent	51.8	0.8	-0.3	11	39
WTI	50.8	0.8	0.9	12	37
Copper	209	0.0	-0.6	-2	-2
Gold	1,266	0.0	1.2	-5	19
S&P Spot commodity *	374	-1.4	-0.4	5	20
S&P Brent Spot *	445	-2.2	-0.7	10	39
S&P Metals Spot *	272	-0.7	-1.5	0	8
S&P Agricultura *	302	-1.2	-0.4	1	6

Source: Bloomberg, Datastream and Haver

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