BBVA Research

Market Comment | Economic data and Portugal’s debt rating review fuelled EZ risk assets

Global Financial Markets Unit
24 Oct 2016

- **EZ PMIs point to improved growth in Q4 2016, driven by Germany.** The composite euro zone PMI in October increased above expectations, by 1.1 pt to 53.7 pts (consensus: 52.8 pts). This improvement is due to increased confidence in both the service sector (53.5 pts, up from 52.2) and the manufacturing sector (53.3 pts, from 52.6). This suggests that the pace of growth could be strengthened or even accelerated slightly, as forward-looking indicators point to a more optimistic outlook in the coming months.

- **The rating agency DBRS maintained Portugal’s long-term Sovereign debt rating at BBB low with a stable outlook.** The decision was crucial for Portugal’s sovereign bond markets because a downgrade would have left the ECB unable to purchase Portuguese sovereign debt or accept it as collateral. The main rationale for the DBRS maintaining the sovereign rating was the reduction of the fiscal deficit. Nonetheless, the agency pointed out important challenges that could add downward pressure in the future, such as high indebtedness and weakening in the political commitment to sustainable economic policies. (see)

- **The Fed’s interest rate hike probabilities for the December meeting remained anchored to 70%**, despite dovish comments from the Fed’s Bullard (“A single US interest rate rise would be all that was necessary for the time being”, he said) while Dudley did not shed light on the Fed’s future route map . The economic data that will be released during this week may weigh on the Fed’s tone (GDP QoQ Q3 2016, consumer confidence and pending and new home sales).

- The most remarkable movement in financial markets was felt in the **European peripheral countries, especially in Portugal** (10YPOR -4 bps), which benefited from the favourable decision of DBRS rating agency, to maintain the debt rating. The loosening of the political deadlock in Spain also played a role (10YSPA -1 bps). Meanwhile the remaining sovereign yields remained almost unchanged (10YFRA +1 bps, 10YGER +2 bps).

- In this context, **equity prices rose across the board**, led by European stocks (Euro Stoxx50 +0.5%, Ibex35 +1.3%, Dax +0.5%), underpinned by a significantly outperforming banking sector (EZ banks, +2.4%). In this regard, it seems that concerns about the Italian banking sector are fading, to judge from market reaction (MDP rose by 28% today after rising above 50% during last week ahead of the industrial plan from the new chief executive; UniCredit +4%, Intensa +2.1%), despite the fact that the talks about the deal to support the banking sector are still under way. In the US, shares rose moderately (S&P500 +0.5%) while Asian stocks rose appreciably (Nikkei +0.3%, Shanghai +1.2%).

- Against this backdrop, developed currencies remained almost stable (EURUSD 0%, USDJPY -0.4%, GBUSD -0.2%) while high volatility in oil prices - ahead of the official OPEC meeting next month in Vienna - did not hamper EM currencies (MXN +0.1%, CLP +1.1%, COP +0.2%).

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Table 1

Debt markets (10Y, %, changes in bp)					
Developed Markets	**level**	**Daily**	**Week**	**Month**	**YTD**
US (2-yr)	0.84	1.2	2.1	7	-21
US	1.76	3.0	-0.1	15	-50
GER (2-yr)	-0.65	0.7	0.3	2	-31
Germany	0.02	1.8	-3.1	12	-61
France	0.30	1.5	-3.9	10	-69
Spain	1.11	-1.0	-0.8	19	-67
Italy	1.39	1.6	-1.0	20	-21
Portugal	3.15	-4.1	-10.1	-22	64
Greece	8.42	-1.8	-1.6	0	14
Japan (2-yr)	-0.24	0.9	2.6	-2	-23
Japan	-0.05	0.1	-2.4	-32	-32
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
Brazil	11.07	-9.4	-28.8	-79	-544
Chile	4.18	0.0	-4.9	-7	-48
Colombia	7.22	0.8	17.0	13	-144
Mexico	6.08	1.4	3.5	4	-19
Peru	5.72	0.0	1.7	-9	-159
Poland	2.97	1.0	-10.0	20	2
Russia	8.37	2.4	-13.2	25	-119
Turkey	9.60	-2.0	-21.0	37	-87
India	7.39	-3.5	-5.4	-10	-25
Indonesia	7.05	-3.2	-4.5	19	-170
Country risk (bp, changes in bp)					
Developed Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
10-yr sovereign spread vs Germany					
France	28	-0.3	-0.8	-2	-8
Italy	137	-0.3	2.0	8	40
Portugal	313	-5.9	-7.0	-34	124
Spain	108	-2.8	2.3	7	-6
2-yr sovereign spread vs Germany					
France	3	-1.0	-1.8	-2	0
Italy	57	-1.7	-1.0	2	26
Portugal	92	-0.2	-4.0	-27	47
Spain	44	-0.7	0.1	-2	9
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
5-yr sovereign CDS *					
Brazil	256	-1	-8	-11	-235
Chile	85	0	-5	3	-42
Colombia	165	-2	-13	-3	-74
Mexico	141	-2	-7	-20	-29
Peru	95	-2	-8	-12	-90
Venezuela	3,531	-48	-20	-297	-2512
Poland	75	0	0	0	3
Russia	224	2	-5	12	-77
Turkey	243	2	-5	-8	-30
China	107	2	2	2	-1
India	139	0	2	2	-9
Indonesia	150	0	-1	5	-76
Risk indicators					
Volatilty indicators (%)	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
VIX	13	-2.3	-20	8	-5
VSTOXX	18	6.7	-14	3	-4
EM EFT volatility Index	20	2.4	-13	6	-12
Dollar/euro volatility	7	-1.2	-7	14	-25
EM FX volatility index	10	2.1	-5	-8	-16
Credit spread (BAA) (bps)	258	-3.0	-5	-10	-66
US bonds volatility index	57	-4.2	-11	-7	-16
Banking 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US	74	0.0	-2	-4	-1
EZ	111	-0.7	-6	-11	27
UK	102	-0.1	-5	5	24
Large Spanish	121	-0.7	-6	-9	-16
Medium Spanish	154	0.3	-2	-7	-4
Corporate 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Non-financial	197	0.0	-2	-4	-1
EZ Non-financial	106	-0.7	-6	-11	27
UK Non-financial	136	0.3	-5	-6	-56
Interbank markets (%, changes in bp)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
EONIA Index	-0.35	0.00	0.0	0.0	-0.2
Euribor 3m	-0.31	0.00	0.0	0.0	-0.2
Euribor 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	54.0	-1.10	0.2	10.7	13.2
Stock markets (%)					
Main indices	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
S&P500	2,151	0.5	1.2	-1	5
Dow Jones	18,232	0.5	0.8	-1	5
Nikkei	17,234	0.3	2.0	3	-9
FTSE 100	6,986	-0.5	0.6	1	12
EuroStoxx 50	3,094	0.5	2.8	1	-5
IBEX	9,216	1.3	5.4	3	-3
DAX	10,761	0.5	2.5	1	0
CAC	4,553	0.4	2.3	1	-2
MIB	17,306	0.8	4.1	4	-19
ASE Athens	593	-0.1	1.2	4	-6
MSCI Latam *	76,342	0.3	3.1	6	29
Ibovespa (Brazil)	64,248	0.2	2.5	9	48
Mexbol	48,441	0.0	1.6	1	13
MSCI EM Europe *	4,499	-0.1	0.7	0	6
Poland	1,783	1.7	4.0	0	-4
Micex (Russia)	1,963	0.3	0.3	-3	11
Ise 100 (Turkey)	79,933	1.4	3.2	0	11
MSCI EM Asia *	722	-0.1	1.1	0	9
Shanghai Com (China)	3,128	1.2	2.9	3	-12
Jakarta (Indonesia)	5,421	0.3	0.4	1	18
Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	90.6	0.3	3.9	5	-4
JPM	68.9	0.6	2.5	2	4
Citi	49.7	0.3	2.3	6	-4
BoA	16.8	0.5	4.4	7	0
MS	33.5	0.2	5.4	4	5
GS	175.2	0.3	3.7	4	-3
EZ banks	85.5	2.4	7.7	10	-21
BNP	52.7	2.0	8.6	11	1
Crédit Agricole	9.9	3.3	6.4	10	-9
Deutsche Bank	13.4	1.8	9.3	15	-41
ING	12.0	1.6	5.7	7	-4
Intesa	2.2	2.1	7.7	5	-30
SG	35.7	2.9	8.4	10	-16
Unicredito	2.4	4.0	10.1	12	-54
UK banks	74.5	-0.3	5.2	3	-15
HSBC	624.3	-0.3	1.7	8	16
RBS	188.0	-1.1	10.3	1	-38
Barclays	183.5	0.2	8.2	6	-16
Lloyds	55.0	-0.3	4.1	-4	-25
Large Spanish banks	72.6	3.4	11.3	13	-4
Santander	4.5	3.7	11.2	10	-1
BBVA	6.4	3.2	11.3	15	-6
Medium Spanish banks	65.1	3.4	10.1	8	-21
Caixabank	2.7	4.7	11.4	17	-15
Popular	1.1	4.2	9.1	-4	-58
Sabadell	1.3	2.8	12.6	7	-22
Bankinter	7.0	2.2	8.3	5	6
Bankia	0.8	4.0	10.1	11	-25
Currencies (%, red for currency depreciation)					
Developed	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
EURUSD	1.09	0.0	-1.0	-2.9	0
GBPUSD	1.22	-0.2	0.2	-6.6	-17
USDJPY	104.23	-0.4	-0.3	-3.4	13
DXY	98.70	0.0	-0.8	-3.4	0
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
USDARS (Argentina)	15.10	0.2	0.7	0.5	-17
USDBRL (Brazil)	3.13	0.9	2.4	2.9	21
USDCLP (Chile)	659.09	1.1	1.7	0.0	7
USDCOP (Colombia)	2926	0.2	-0.2	-1.5	8
USDMXN (Mexico)	18.58	0.1	1.5	5.3	-8
USDPEN (Peru)	3.35	0.4	1.5	-0.1	2
LACI	65.98	0.6	1.6	2.7	5
USDPLN (Poland)	3.97	0.2	-0.9	-3.9	-1
USDRUB (Russia)	62.20	0.3	1.5	2.3	14
USDTRY (Turkey)	3.08	0.0	0.5	-4.7	-6
USDCNY (China)	6.78	-0.1	-0.6	-1.7	-4
USDINR (India)	66.85	0.1	0.1	-0.3	-1
USDIDR (Indonesia)	13,012	0.2	0.4	0.5	6
ADXY	105.9	0.0	-0.2	-1.4	-1
Commodities (%)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
Brent	51.2	-1.2	-0.7	7	37
WTx	50.2	-1.3	0.5	8	36
Copper	209	0.2	-0.5	-5	-2
Gold	1,263	-0.3	0.6	-6	19
S&P Spot commodity *	376	0.5	0.3	5	21
S&P Brent Spot *	448	0.8	0.9	9	40
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BoA	16.8	0.5	4.4	7	0
MS	33.5	0.2	5.4	4	5
GS	175.2	0.3	3.7	4	-3
EZ banks	85.5	2.4	7.7	10	-21
BNP	52.7	2.0	8.6	11	1
Crédit Agricole	9.9	3.3	6.4	10	-9
Deutsche Bank	13.4	1.8	9.3	15	-41
ING	12.0	1.6	5.7	7	-4
Intesa	2.2	2.1	7.7	5	-30
SG	35.7	2.9	8.4	10	-16
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GBPUSD	1.22	-0.2	0.2	-6.6	-17
USDJPY	104.23	-0.4	-0.3	-3.4	13
DXY	98.70	0.0	-0.8	-3.4	0
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
USDARS (Argentina)	15.10	0.2	0.7	0.5	-17
USDBRL (Brazil)	3.13	0.9	2.4	2.9	21
USDCLP (Chile)	659.09	1.1	1.7	0.0	7
USDCOP (Colombia)	2926	0.2	-0.2	-1.5	8
USDMXN (Mexico)	18.58	0.1	1.5	5.3	-8
USDPEN (Peru)	3.35	0.4	1.5	-0.1	2
LACI	65.98	0.6	1.6	2.7	5
USDPLN (Poland)	3.97	0.2	-0.9	-3.9	-1
USDRUB (Russia)	62.20	0.3	1.5	2.3	14
USDTRY (Turkey)	3.08	0.0	0.5	-4.7	-6
USDCNY (China)	6.78	-0.1	-0.6	-1.7	-4
USDINR (India)	66.85	0.1	0.1	-0.3	-1
USDIDR (Indonesia)	13,012	0.2	0.4	0.5	6
ADXY	105.9	0.0	-0.2	-1.4	-1
Commodities (%)					
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Brent	51.2	-1.2	-0.7	7	37
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DISCLAIMER

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