

Market Comment | Doubts about Trump's fiscal stimulus dragged down USD during the week

Global Financial Markets Unit
13 Jan 2017

- Overall, financial markets were calm during the first part of the week. However, higher volatility was perceived afterwards, following the **first press conference held by US president elect Donald Trump**. Following the Trump speech, the **USD depreciated and US Treasury yields declined**, as he did not mention his awaited plans to increase government spending, triggering investor disappointment ([see](#)).
- **ECB minutes**, which were published during this week ([see](#)), showed **disagreement** among its members between **two proposed decisions** (first: extend QE by €80bn for 6 months; or second: by €60bn for 9 months), although finally they accepted the second option partially in order to avoid **bond scarcity concerns** ([see](#)).
- **The GBP depreciated during the week**, amid “hard Brexit” concerns and coinciding with reports that November's UK trade deficit had worsened ([see](#)). Moreover, Theresa May will give a speech on Brexit next Tuesday ([see](#)). A weaker GBP sent the UK stock Index, FTSE100, to fresh new highs.
- **Differentiation among EM currencies**: Some appreciated supported by strong oil prices, while others suffered due to idiosyncratic factors: The TRY and the MXN plummeted to new fresh lows against the USD, the former amid concerns about political uncertainty and ahead of the Fitch rating decision on Turkey ([see](#)) and the latter due to Trump's potentially protectionist plans ([see](#)). However, both currencies recovered some territory at the end of the week.
- **Week ahead**: the major events that investors will be focused on are the publication by the IMF of the **World Economic Outlook (WEO)** on Monday, the speech that **Theresa May** will give on Tuesday about her Brexit plans, the fact that **Donald Trump** will officially become the 45th US president on Friday and the publication of Q416 **Chinese GDP** figures on Friday.

ECB Meeting, what we expect?

- On January 19 meeting, we expect the ECB to remain on hold after actions taken in December 2017. The extension of the Asset Purchase Programme has shielded the ECB against the background of high political uncertainty. In the coming months the political agenda will dominate the scene, both on the domestic side due to elections in some European countries and to the still unknown Brexit strategy, and on the external side as Trump takes office.
- However, both the statement and the press conference could give us some clues about how the ECB stance could evolve in the coming months regarding the economic outlook. In this regard, manufacturing confidence is surging across the Eurozone and globally. Thus, GDP growth is expected to have accelerated in 4Q16 both in the Eurozone (to around 0.5% QoQ) while global growth could increase also at a faster pace than in 3Q16 (around 0.8%). Eurozone inflation is expected to further increase in the

coming months due to the combined effect of oil price base effects and a weaker euro. Such rebound, though expected, will very likely contribute to increase the pressure from hawkish members of the ECB Governing Council. However, the big question mark regards the underlying rate of inflation that still remains below 1%; the extent that core inflation is affected by recent rises in energy prices and stronger demand pressures will likely determine the ECB stance in coming meetings. In principle we do not expect strong pressures on core inflation, which should remain well below 2% in the coming quarters.

- All in all, despite the expected acceleration of headline inflation in 1Q17, the ECB would probably continue to emphasize the need to see some strengthening of the underlying inflation. Draghi is likely to remain cautious about any change in communication at this stage.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	1.21	3.6	0.0	-6	17
US	2.42	5.3	0.3	15	17
GER (2-yr)	-0.71	0.2	1.1	6	-36
Germany	0.34	2.5	4.3	4	-23
France	0.81	3.2	-2.1	7	-13
Spain	1.44	3.4	-10.3	3	-28
Italy	1.91	1.2	-5.6	11	36
Portugal	3.92	1.1	-13.3	14	137
Greece	6.97	4.4	10.6	-13	-118
Japan (2-yr)	-0.22	-0.1	-1.8	-3	-21
Japan	0.05	0.5	0.9	-21	-21
Emerging Markets	level	Daily	Weekly	Monthly	Year
Brazil	11.01	-2.4	-35.9	-110	-540
Chile	4.18	0.0	0.1	23	-46
Colombia	6.80	3.2	-14.5	-50	-194
Mexico	7.96	-2.5	-7.8	29	135
Peru	6.19	-3.5	-23.5	-10	-133
Poland	3.66	8.8	-1.2	20	50
Russia	8.16	-3.7	-27.2	-29	-135
Turkey	11.15	-6.0	12.0	4	38
India	6.42	4.4	2.8	1	-131
Indonesia	7.62	3.2	-12.9	-21	-120
Country risk (Spreads in bp)	level	Daily	Weekly	Monthly	Year
Developed Markets					
10-yr sovereign spread vs Germany					
France	47	0.7	-6.4	3	10
Italy	156	-1.3	-9.9	7	58
Portugal	358	-1.4	-17.6	10	159
Spain	110	0.9	-14.6	-1	-6
2-yr sovereign spread vs Germany					
France	13	-0.8	0.3	-4	9
Italy	62	-0.6	-2.7	0	27
Portugal	96	0.0	1.9	-9	53
Spain	43	0.2	-4.4	-6	10
Emerging Markets					
5-yr sovereign CDS *					
Brazil	250	-1	-1	-36	-244
Chile	82	0	4	3	49
Colombia	151	-3	0	-13	-90
Mexico	170	-3	8	14	-2
Peru	105	-3	1	-1	-83
Venezuela	3,844	28	157	54	-2316
Poland	71	-4	0	-7	-2
Russia	179	-4	10	7	-125
Turkey	285	-10	18	5	10
China	115	0	4	0	7
India	119	-4	-6	-7	-31
Indonesia	152	-1	7	-7	-78
Risk indicators	level	Daily	Weekly	Monthly	Year
Volatility indicators (%)					
VIX	11	-3.4	-2	-15	-10
VSTOXX	15	-7.6	-2	-12	-12
EM ETT volatility index	19	-1.9	-2	-13	-29
Dollar/euro volatility	9	-2.8	-3	-1	-9
EM FX volatility index	11	0.7	2	2	-3
Credit spread (BAA) (bps)	219	-5.3	-5	-4	-104
US bonds volatility index	74	1.3	2	-3	7
Banking 5y CDS (bps) *					
US	74	1.0	4	0	-1
EZ	114	1.8	7	-6	30
UK	95	0.2	5	1	18
Large Spanish	123	0.1	7	-3	-14
Medium Spanish	155	3.5	7	2	-5
Corporate 5y CDS (bps)					
US Non-financial	153	1.0	0	0	-1
EZ Non-financial	101	1.0	7	-6	30
UK Non-financial	124	0.1	0	1	-70
Interbank markets (% change in bp)	level	Daily	Weekly	Monthly	Year
EONIA Index	-0.35	0.00	0.0	0.0	-0.1
Euribor 3m	-0.33	0.00	0.0	0.0	-0.2
Earibor 12m	-0.09	0.00	0.0	0.0	-0.2
Libor 3m	1.02	0.00	0.0	0.1	0.4
Libor 12m	1.70	0.00	0.0	0.0	0.5
EZ TED spread 3m	60.9	1.30	-4.9	0.9	15.5
Stock markets (%)	level	Daily	Weekly	Monthly	Year
Main Indices					
S&P500	2,277	0.3	0.0	1	13
Dow Jones	19,902	0.1	0.3	1	16
Nikkei	19,287	0.8	-0.9	0	5
FTSE 100	7,323	0.4	1.6	5	20
EuroStoxx 50	3,320	1.0	0.0	3	5
BEX	9,500	1.0	0.2	3	2
DAX	11,613	0.8	0.1	3	13
CAC	4,918	1.1	0.2	3	9
MIB	19,488	1.7	-1.0	5	6
ASE Athens	652	-2.0	-1.3	5	5
MSCI Latam *	74,925	1.6	1.6	4	26
Ibovespa (Brazil)	63,798	-0.2	3.5	10	51
Mercol	46,348	0.6	0.6	0	10
MSCI EM Europe *	5,006	0.5	0.9	1	18
Poland	2,016	-0.3	0.9	4	12
Moscú (Russia)	2,195	-0.8	-0.8	2	27
Ise 100 (Turkey)	81,524	0.8	5.7	6	16
MSCI EM Asia *	716	0.1	1.5	2	8
Shanghai Com (China)	3,113	-0.2	-1.3	-1	-6
Jakarta (Indonesia)	5,273	-0.5	-1.0	0	15
Banking sector					
US banks	120.0	0.9	0.4	2	30
JPM	87.1	1.0	1.1	3	37
Citi	59.9	1.2	-1.0	1	17
BoA	23.2	1.0	2.1	2	41
MS	44.0	0.9	0.4	3	40
GS	245.3	0.6	0.2	2	38
EZ banks	104.4	2.9	-0.8	5	-1
BNP	62.1	2.6	-0.6	6	21
Credit Agricole	12.6	3.5	1.7	9	18
Deutsche Bank	18.1	3.6	-1.4	5	16
ING	13.8	1.9	-1.0	3	13
Intesa	2.5	1.9	-2.7	5	17
SG	47.5	3.5	0.3	3	15
Unicredit	2.7	4.4	-4.4	2	-46
UK banks	87.6	0.6	-0.5	4	2
HSC	676.4	0.5	1.1	3	30
RIS	220.8	1.1	-5.0	2	-25
Barclays	234.8	1.1	-0.2	6	10
Lloyds	65.9	-0.2	0.0	5	-8
Large Spanish banks	76.6	1.8	-2.8	1	4
Santander	5.2	1.8	-0.5	5	17
BBVA	6.2	2.1	-4.9	-2	-5
Medium Spanish banks	72.5	1.0	-1.6	2	-11
Caixabank	3.3	2.0	0.8	7	4
Populr	0.9	-0.1	-7.3	-8	-65
Sabadell	1.3	0.2	-3.6	-2	-17
Banqueparibas	7.6	1.3	0.3	2	17
Banika	1.0	0.8	-3.1	3	-4
Currencies (% red for currency depreciation)	level	Daily	Weekly	Monthly	Year
Developed					
EURUSD	1.06	0.1	0.9	0.3	2
GBPUSD	1.22	0.3	-0.7	-2.9	-17
USDJPY	115.07	-0.3	1.7	-1.7	-4
DXY	101.40	0.0	-0.8	0.4	-3
Emerging					
USDARS (Argentina)	15.85	-0.2	-0.3	0.8	-20
USDBRL (Brazil)	3.21	-0.9	0.3	4.7	20
USDCLP (Chile)	659.15	0.4	1.3	-0.5	8
USDCOP (Colombia)	2841	-0.6	-0.6	0.7	9
USDMXN (Mexico)	21.66	0.5	-2.1	-5.8	-25
USDPEN (Peru)	3.37	-0.1	0.3	0.6	2
LACI	618.3	0.1	-0.5	-0.2	0
USDPLN (Poland)	4.13	-0.1	0.3	2.0	4
USD RUB (Russia)	59.71	-0.5	-0.1	3.9	18
USDTRY (Turkey)	3.75	0.3	-2.9	-6.1	-26
USDCNY (China)	6.90	-0.1	0.3	0.1	-6
USDINR (India)	68.16	-0.1	-0.3	-1.1	-2
USDIDR (Indonesia)	13,338	-0.4	0.2	-0.3	4
ADXY	103.8	-0.1	0.6	0.2	-2
Commodities (%)	level	Daily	Weekly	Monthly	Year
Brent	55.6	-0.7	-2.6	3	49
WTI	52.5	-0.8	-2.7	3	43
Copper	264	-0.7	4.1	2	28
Gold	1,194	0.1	1.8	4	11
S&P Spot commodity *	401	1.5	0.6	2	29
S&P Brent Spot *	480	1.8	-1.2	3	50
S&P Metals Spot *	318	1.9	4.5	0	29
S&P Agricultural *	303	1.3	1.2	3	9

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Intesa	13.8	1.9	-1.0	3	13
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UniCredit	47.5	3.5	0.3	3	15
UK banks					
RBS	2.7	4.4	4.4	2	-46
HSBC	87.6	0.6	0.5	4	2
Lloyds	676.4	0.5	1.1	3	30
Barclays	220.8	1.1	-5.0	2	-25
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BBVA	76.6	1.9	2.8	1	4
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CaixaBank	6.2	2.1	-4.9	-2	-5
Popular	72.5	1.0	-1.6	2	-11
Sabadell	3.3	2.0	0.8	7	4
Bankinter	0.9	-0.1	-7.3	-8	-65
Bankia	1.3	0.2	-3.6	-2	-17
CajaBank	7.6	1.3	0.3	2	17
Bankia	1.0	0.8	-3.1	3	-4
Commodities (%)					
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Brent					
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Source: Bloomberg, Datastream and Haver

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