BBVA Research

Market Comment | Bond yields rose during the week on Yellen's remarks

Global Financial Markets Unit
20 Jan 2017

- **Sovereign bond yields rose during the week across the board led by the US, underpinned by Yellen's hawkish speech** in which she warned against the risk of waiting too long to raise interest rates, promising "a few" interest rate hikes this year (see). US yields extended gains ahead of the U.S. presidential inauguration later today. The only exception to rising yields was Portugal, whose sovereign bond yields declined as the Portuguese government expects to comply with the EU deficit target (see). The US dollar also strengthened after Yellen's hawkish speech, while it extended gains on Thursday after the ECB downplayed the rebound in inflation. Nonetheless, equity markets remained steady in US, while declining in the euro zone, despite positive US 4Q16 company results, although in the euro zone stocks trimmed losses at the end of the week due to China's positive GDP growth. The major market sensitive events during the week were the following:

- **China's 2016 Q4 GDP growth** came out today at 6.8% y/y, marginally higher than market expectations, and 2016 full year GDP growth turned out to be 6.7%, surpassing the authorities' target of 6.5% (see).

- At the monetary policy meeting the **ECB decided to maintain its monetary policy stance** (see). The ECB highlighted the improvement in the euro zone economic outlook, although it still sees risks to euro zone growth tilted to the downside. The key issue in this meeting was the ECB's view on the recent upward trend in headline inflation. For Mr. Draghi, recent increasing headline inflation reflected the sharp rebound in the energy component, while he does not see a convincing improvement in core inflation.

- The **GBP appreciated during the week, after May delivered her speech on Brexit**. Despite the fact that May confirmed that UK will leave the single market, the clarification implied a removal of uncertainty. Besides, May also confirmed that the UK Parliament will have a final vote on Brexit negotiations (see), which implies that MPs against Brexit may have a greater influence on the final exit deal.

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Table 1

Debt markets (10Y, %, changes in bp)

Developed Markets	level	Daily	Week	Month	Year
US (2-yr)	1.21	-1.2	1.6	2	17
US	2.50	2.8	10.6	-3	26
GER (2-yr)	-0.67	2.8	4.0	12	-32
Germany	0.42	4.5	8.6	18	-14
France	0.91	5.1	10.7	21	-3
Spain	1.51	3.1	7.9	14	-21
Italy	2.03	3.8	13.1	21	48
Portugal	3.88	-0.4	-2.9	11	133
Greece	7.10	3.7	15.5	-20	-105
Japan (2-yr)	-0.23	0.4	-1.0	-5	-22
Japan	0.07	1.6	0.5	-20	-20

Emerging Markets	level	Daily	Weekly	Monthly	Year
Brazil	10.94	-4.2	-12.4	-67	-547
Chile	4.21	0.1	0.8	-17	-44
Colombia	6.93	5.3	9.6	-19	-181
Mexico	7.61	-8.0	4.8	32	139
Peru	6.17	0.0	-2.9	-18	-135
Poland	3.74	4.0	8.4	32	58
Russia	8.28	1.6	11.7	-36	-124
Turkey	10.96	-18.0	-19.0	4	19
India	6.47	-1.1	4.8	0	-126
Indonesia	7.57	1.4	-4.6	-29	-125

Country risk (bp, changes in bp)

Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	49	0.6	2.1	3	11
Italy	160	-0.7	4.5	3	62
Portugal	345	-4.9	-11.5	-7	147
Spain	109	-1.4	-0.7	-3	-7
2-yr sovereign spread vs Germany					
France	15	0.3	1.7	-5	11
Italy	58	-3.7	-4.7	-6	23
Portugal	76	-6.2	-16.9	-28	33
Spain	40	-4.4	-3.0	-13	7

Emerging Markets	level	Daily	Weekly	Monthly	Year
5-yr sovereign CDS *					
Brazil	252	2	2	-27	-242
Chile	84	0	3	1	-46
Colombia	152	0	1	-9	-89
Mexico	178	1	7	25	5
Peru	110	1	5	3	-78
Venezuela	3,672	-127	-172	-162	-2488
Poland	70	0	0	-8	-2
Russia	184	2	5	3	-120
Turkey	280	1	-4	4	6
China	114	-1	-1	-6	6
India	118	0	-1	-9	-33
Indonesia	151	0	-1	-9	-78

Risk indicators

Volatility indicators (%)	level	Daily	Weekly	Monthly	Year
VIX	12	-6.3	7	6	-9
VSTOXX	15	-1.5	-2	-1	-12
EM EFT volatility Index	18	-3.2	0	-5	-31
Dollar/euro volatility	9	-1.7	-5	-13	-14
EM FX volatility index	11	0.7	-2	-3	-6
Credit spread (BAA) (bps)	218	-2.8	-6	-7	-106
US bonds volatility index	78	5.9	5	6	14

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US	72	-0.6	-2	-1	-3
EZ	107	-1.2	-7	-8	23
UK	91	-1.0	-4	-3	14
Large Spanish	117	0.0	-6	-7	-20
Medium Spanish	156	0.9	1	1	-4

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US Non-financial	152	-0.6	-2	-1	-3
EZ Non-financial	99	-1.2	-7	-8	23
UK Non-financial	122	-1.6	-2	-3	-72

Interbank markets (%, changes 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
Euribor 12m	-0.10	0.00	0.0	0.0	-0.2
Libor 3m	1.04	0.01	0.0	0.0	0.4
Libor 12m	1.73	0.02	0.0	0.0	0.6
EZ TED spread 3m	55.6	2.00	-4.2	-6.9	10.2

Stock markets (%)

Main indices	level	Daily	Weekly	Monthly	Year
S&P500	2.275	0.5	0.0	0	13
Dow Jones	19,826	0.5	-0.3	-1	16
Nikkei	19,138	0.3	-0.8	-2	4
FTSE 100	7,202	-0.1	-1.9	2	18
EuroStoxx 50	3,301	0.3	-0.7	1	4
IBEX	9,387	0.1	-1.3	0	1
DAX	11,627	0.3	0.0	1	13
CAC	4,854	0.3	-1.4	0	7
MIB	19,538	0.2	0.1	2	-6
ASE Athens	639	-0.5	-1.9	0	3
MSCI Latam *	75.013	-0.3	0.1	7	27
Ibovespa (Brazil)	64,363	0.6	1.1	12	53
Mexbol	46.292	0.1	0.2	3	10
MSCI EM Europe *	4,924	-0.4	-1.6	0	16
Poland	2,006	-0.5	-0.5	4	11
Micex (Russia)	2,160	-0.1	-1.6	-2	25
Ise 100 (Turkey)	83.067	0.9	1.9	7	18
MSCI EM Asia *	716	0.1	-0.1	4	8
Shanghai Com (China)	3,123	0.7	0.3	0	-5
Jakarta (Indonesia)	5,254	-0.8	-0.7	2	14

Banking sector	level	Daily	Weekly	Monthly	Year
US banks	115.6	0.6	-3.2	-3	25
JPM	83.7	0.4	-3.5	-4	32
Citi	56.7	0.1	-4.9	-7	11
BoA	22.9	1.5	-0.6	1	39
MS	42.8	0.8	-2.4	-1	36
GS	231.5	0.0	-5.2	-4	31
EZ banks	102.4	0.5	-1.9	-1	-3
BNP	60.1	0.6	-3.3	-2	17
Crédit Agricole	12.4	0.2	-1.5	4	17
Deutsche Bank	18.0	1.8	-0.6	0	-16
ING	13.4	0.7	-3.0	-2	10
Intesa	2.5	0.4	0.1	1	-17
SG	46.0	0.6	-3.1	-2	11
Unicredito	2.7	-1.5	0.7	-5	-46
UK banks	86.9	0.2	-1.1	1	2
HSBC	677.9	-0.2	0.0	3	30
RBS	221.4	0.6	0.1	-3	-25
Barclays	228.0	-0.2	-3.1	0	6
Lloyds	65.4	1.0	-1.0	2	-8
Large Spanish banks	75.7	0.6	-1.0	-1	3
Santander	5.1	0.9	-0.3	3	16
BBVA	6.1	0.3	-1.6	-5	-7
Medium Spanish banks	72.3	-0.2	-0.6	1	-11
Caixabank	3.3	0.0	-0.9	4	4
Popular	1.0	-1.3	5.0	3	-63
Sabadell	1.3	-1.1	-0.5	-3	-17
Bankinter	7.6	0.2	0.3	2	18
Bankia	1.0	0.1	-3.3	-1	-7

Currencies (%, red for currency depreciation)

Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.07	0.1	0.3	2.4	-1
GBPUSD	1.23	-0.1	1.2	-0.2	-16
USDJPY	115.01	-0.1	-0.5	-2.2	-4
DXY	101.17	0.0	0.0	1.8	-2

Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.86	0.3	0.0	-0.5	-20
USDBRL (Brazil)	3.19	0.4	0.9	4.2	21
USDCLP (Chile)	656.99	0.6	0.3	2.3	8
USDCOP (Colombia)	2923	0.8	0.8	2.4	9
USDMXN (Mexico)	21.69	1.2	-1.0	-5.5	-25
USDPEN (Peru)	3.30	0.6	1.9	2.8	4
LACI	62.06	0.7	0.2	0.2	0
USDPLN (Poland)	4.09	0.2	0.8	3.3	-3
USDRUB (Russia)	59.84	0.1	-0.4	2.3	18
USDTRY (Turkey)	3.79	0.9	-1.8	-8.1	-28
USDCNY (China)	6.88	-0.1	0.3	1.0	-5
USDINR (India)	68.18	-0.1	0.0	-0.4	-2
USDIDR (Indonesia)	13,410	-0.3	-0.5	0.4	4
ADXY	103.9	0.0	0.1	0.8	-2

Commodities (%)

	level	Daily	Weekly	Monthly	Year
Brent	55.7	2.8	0.4	2	50
WTx	52.7	2.6	0.6	0	43
Copper	261	0.2	-2.7	5	26
Gold	1,203	-0.1	0.5	6	12
S&P Spot commodity *	395	-0.1	-1.2	1	28
S&P Brent Spot *	465	0.5	-2.2	-1	45
S&P Metals Spot *	319	-0.6	-1.4	4	29
S&P Agricultural *	305	-0.9	0.7	6	10

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MS	42.8	0.8	-2.4	-1	36
GS	231.5	0.0	-5.2	-4	31
EZ banks	102.4	0.5	-1.9	-1	-3
BNP	60.1	0.6	-3.3	-2	17
Crédit Agricole	12.4	0.2	-1.5	4	17
Deutsche Bank	18.0	1.8	-0.6	0	-16
ING	13.4	0.7	-3.0	-2	10
Intesa	2.5	0.4	0.1	1	-17
SG	46.0	0.6	-3.1	-2	11
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USD CLP (Chile)	656.99	0.6	0.3	2.3	8
USD COP (Colombia)	2923	0.8	0.8	2.4	9
USD MXN (Mexico)	21.69	1.2	-1.0	-5.5	-25
USD PEN (Peru)	3.30	0.6	1.9	2.8	4
LACI	62.06	0.7	0.2	0.2	0
USD PLN (Poland)	4.09	0.2	0.8	3.3	-3
USD RUB (Russia)	59.84	0.1	-0.4	2.3	18
USD TRY (Turkey)	3.79	0.9	-1.8	-8.1	-28
USD CNY (China)	6.88	-0.1	0.3	1.0	-5
USD INR (India)	68.18	-0.1	0.0	-0.4	-2
USD IDR (Indonesia)	13.410	-0.3	-0.5	0.4	4
ADXY	103.9	0.0	0.1	0.8	-2

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