

Market Comment | Zero pressure on US wages supports bond prices

Global Financial Markets Unit
03 Feb 2017

- **After starting the week in a very weak mood due to the uncertainty regarding US policies, financial markets gained some ground, underpinned by positive economic data.** However, global stocks ended the week slightly declining, led by airline companies amid concerns about US travel restrictions imposed on several Muslim countries ([see](#)). **US and German sovereign yields, which swung during most of the week, fell sharply on Friday after the US labour report showed no inflationary pressure despite strong job creation([see](#)).**
- **Major central banks held their monetary policy stance, as expected.** The Fed gave no firm signal on the timing of its next rate hike ([see](#)), the BoJ ([see](#)) slightly revised upward its economic forecast, as did the BoE ([see](#)).
- **The GBP showed high volatility** during the week amid news flows about a roadmap for Brexit: the UK government published a Brexit white paper on Thursday ([see](#)), BoE meeting and UK parliament approval to begin Brexit negotiations.
- **The USD depreciated significantly against other major currencies, amid references from Trump and his trade advisor to "devalued" currencies ([see](#)).** The weak USD supported commodities during the week such as oil prices and gold.
- **European peripheral sovereign bond yields rose significantly** amid political uncertainty in Europe and bond supply effects. The increase was especially sizeable in Greece, boosted by a leaked report from the IMF ([see](#)) pointing to a surge in Greek debt by 2030 and reiterating that the country needs debt relief.

BBVA Research suggest the following reading list:

- Is the Deflation Cycle Over? ([see](#))
- R-Star and the Yellen rules ([see](#))
- Donald Trump's tough talk will not bring US jobs back ([see](#))
- Economic forecasters need alternative thinking in this uncertain world ([see](#))
- We Are the Last Defense Against Trump ([see](#))

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Table 1

Debt markets (10Y % changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
US (2-yr)	1.18	-2.8	-4.1	-4	-4	
US	2.43	-0.0	-5.1	-1	-1	
GER (2-yr)	0.74	-0.8	-7.5	3	3	
Germany	0.42	-1.2	-4.7	14	14	
France	1.08	2.9	4.4	27	27	
Spain	1.67	3.3	8.7	24	24	
Italy	2.26	2.1	2.8	39	39	
Portugal	4.16	3.6	1.7	26	26	
Greece	7.52	-3.9	34.0	64	64	
Japan (2-yr)	0.23	-1.8	-3.3	-4	-4	
Japan	0.10	1.6	3.5	4	4	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	10.59	-13.9	-20.6	62	62	
Chile	4.18	-3.3	-3.3	-14	-14	
Colombia	6.78	-1.2	-0.5	-31	-31	
Mexico	7.39	-1.2	-11.4	-25	-25	
Peru	6.06	-0.3	-0.4	-41	-41	
Poland	3.77	-3.7	-13.6	5	5	
Russia	8.23	-5.6	-4.5	-7	-7	
Turkey	10.55	-11.0	-44.0	-45	-45	
India	6.41	0.8	0.7	3	3	
Indonesia	7.60	-4.6	-1.8	-24	-24	
Country Risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	66	4.1	9.1	13	13	
Italy	184	3.3	7.5	25	25	
Portugal	374	4.8	6.4	12	12	
Spain	126	4.6	13.5	10	10	
2-yr sovereign spread vs Germany						
France	19	-0.7	0.2	9	9	
Italy	74	0.4	6.2	13	13	
Portugal	81	-1.1	5.3	-1	-1	
Spain	46	-0.1	4.5	-2	-2	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	239	-3	-10	-32	-32	
Chile	79	-2	-5	-4	-4	
Colombia	146	-4	-6	-17	-17	
Mexico	161	-3	4	4	4	
Peru	105	-3	-3	-3	-3	
Venezuela	3,450	8	106	-455	-455	
Poland	69	-1	-1	-6	-6	
Russia	179	-4	-3	3	3	
Turkey	254	-8	-15	-18	-18	
China	110	-1	1	-7	-7	
India	117	-1	3	-10	-10	
Indonesia	148	-3	2	-8	-8	
Risk indicators (%)						
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD	
VIX	11	-6.0	6	-5	-1	
VST OXX	15	-5.2	-3	-7	-1	
EM EFT volatility index	17	0.0	3	-15	-15	
Dollar Euro volatility	8	-0.2	-2	-24	-24	
EM FX volatility index	10	-1.8	4	-6	-6	
Credit spread (BAA) (bps)	227	3.3	7	-3	0	
US bonds volatility index	70	-1.3	-3	-6	-6	
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD	
US	70	-0.9	0	-2	-2	
EZ	111	-1.9	4	4	4	
UK	82	-0.6	0	-8	-8	
Large Spanish	105	-2.8	0	-12	-12	
Medium Spanish	151	-1.3	2	0	0	
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD	
US Non-financial	146	-0.9	0	-2	-2	
EZ Non-financial	103	-1.9	4	4	4	
UK Non-financial	117	-1.1	-3	-8	-8	
Interbank markets (changes in bp)						
level	Daily	Weekly	Monthly	YTD		
EONIA Index	-0.35	0.00	0.0	0.0	0.0	
Euribor 3m	-0.33	0.00	0.0	0.0	0.0	
Euribor 12m	-0.10	0.00	0.0	0.0	0.0	
Libor 3m	1.03	0.00	0.0	0.0	0.0	
Libor 12m	1.72	0.00	0.0	0.0	0.0	
EZ TED spread 3m	51.5	0.00	1.3	-14.9	-14.9	
Stock markets (%)						
indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,231	0.4	0.2	1	1	
Dow Jones	19,979	0.5	0.6	0	0	
Nikkei	18,918	0.0	2.8	-3	-3	
FTSE 100	7,193	0.7	0.1	0	0	
EuroStoxx 50	3,278	0.7	0.8	-1	-1	
IBEX	9,471	0.7	0.3	0	0	
DAX	11,661	0.3	-1.3	1	1	
CAC	4,838	0.9	0.0	-1	-1	
MIB	19,034	0.6	-1.5	-3	-3	
ASE Athens	628	0.7	-1.4	-5	-5	
MSCI Latam *	75,637	0.1	2.0	3	3	
Ibovespa (Brazil)	64,986	0.6	-1.6	6	6	
Moex01	47,095	0.0	0.7	1	1	
MSCI EM Europe *	5,033	-0.3	0.7	1	1	
Poland	2,071	0.3	-0.6	4	4	
Moex (Russia)	2,225	0.3	-1.8	-2	-2	
Ne 100 (Turkey)	88,165	0.9	5.2	16	16	
MSCI EM Asia *	723	-0.3	0.6	4	4	
Shanghai Com (China)	3,140	-0.6	-0.6	-1	-1	
Jakarta (Indonesia)	5,361	0.6	0.8	2	2	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	114.5	0.0	2.8	-5	-5	
JPM	86.1	1.7	-1.0	-1	-1	
Citi	56.0	0.0	-2.0	-9	-9	
BaK	22.7	0.0	2.7	-1	-1	
MS	42.1	0.0	-3.5	-3	-3	
GS	230.4	0.0	2.8	-5	-5	
EZ banks	101.6	1.1	1.9	4	4	
BNP	61.4	1.8	0.2	2	2	
Crédit Agricole	12.2	0.8	-1.8	0	0	
Deutsche Bank	18.5	1.9	3.4	1	1	
ING	13.9	1.8	1.5	0	0	
Intesa	2.2	1.7	2.2	-13	-13	
SG	45.8	0.3	-3.3	-5	-5	
Unicredit	25.6	-2.0	-7.8	-6	-6	
UK banks	87.7	1.9	-0.7	0	0	
HSBC	684.0	1.0	-0.5	2	2	
RIS	227.3	2.2	1.9	-3	-3	
Barclays	228.5	3.2	-0.9	-3	-3	
Lloyds	65.9	1.5	0.0	2	2	
Large Spanish banks	77.6	1.0	1.7	-1	-1	
Santander	5.3	1.0	-0.3	4	4	
BBVA	6.2	1.1	-3.0	-5	-5	
Medium Spanish banks	74.2	0.3	0.8	2	2	
Cáscasbank	3.6	1.6	1.5	9	9	
Populr	0.9	-5.2	-9.5	-9	-9	
Sabadell	1.5	1.5	4.4	6	6	
Bankinter	7.6	0.3	0.5	0	0	
BanKia	1.0	-0.2	0.8	-3	-3	
Currencies (% ind for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	Year	
EURUSD	1.08	0.1	0.6	2.6	3	
GBPUSD	1.25	-0.3	-0.5	1.4	1	
USDJPY	112.73	0.1	2.1	-3.9	-4	
DXF	99.90	0.1	0.6	2.7	3	
Emerging	level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	15.65	0.2	1.5	2.7	3	
USDBRL (Brazil)	3.12	0.2	0.8	3.3	3	
USDCLP (Chile)	640.95	0.4	1.5	4.6	5	
USDCOP (Colombia)	2859	0.7	2.5	3.7	4	
USDMXN (Mexico)	20.38	0.9	2.4	5.0	5	
USDPEN (Peru)	3.25	-0.1	1.2	3.9	4	
USCNY (China)	64.29	0.4	1.7	4.3	4	
USDPLN (Poland)	3.99	0.5	1.5	4.2	4	
USD RUB (Russia)	59.20	0.4	1.1	1.9	2	
USDTRY (Turkey)	3.71	0.7	4.1	3.9	4	
USDCNY (China)	6.87	0.2	0.2	1.0	1	
USDINR (India)	67.32	0.1	1.1	1.1	1	
USDIDR (Indonesia)	13,343	0.1	0.1	0.7	1	
ADXY	105.1	0.2	1.2	1.7	2	
Commodities (%)						
level	Daily	Weekly	Monthly	Year		
Brent	56.6	0.1	2.0	0	0	
WTI	53.6	0.1	0.8	1	1	
Copper	264	-1.6	-1.7	3	3	
Gold	1,216	0.0	2.1	4	4	
S&P Spot commodity *	400	-0.3	0.7	1	1	
S&P Brent Spoz *	481	-0.4	1.5	0	0	
S&P Metals Spoz *	325	-0.3	1.3	7	7	
S&P Agricultural *	306	-0.3	0.9	2	2	

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Peru	6.06	-0.3	-0.4	-41	-41
Poland	3.77	-3.7	-13.6	5	5
Russia	8.23	-5.6	-4.5	-21	-21
Turkey	10.55	-11.0	14.0	-45	-45
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Indonesia	7.60	-4.6	-1.8	-24	-24
Country risk (bp changes in bp)					
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Russia	179	-4	3	3	3
Turkey	254	-8	-15	-18	-18
China	110	-1	1	-7	-7
India	117	-1	3	-10	-10
Indonesia	143	-3	2	8	8
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	11	-6.0	6	-5	-1
VSTOXX	15	-5.2	3	-7	-1
EM EFT volatility Index	17	0.0	3	-15	-15
Dollar/euro volatility	8	-0.2	-2	-24	-24
EM FX volatility index	10	-1.8	4	6	6
Credit spread (BAA) (bps)	227	3.3	7	-3	0
US bonds volatility index	70	1.3	-3	-8	-8
Banking S&P CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	70	-0.9	0	-2	-2
EZ	111	-1.9	4	4	4
UK	82	0.6	0	-8	-8
Large Spanish	105	-2.8	0	-12	-12
Medium Spanish	151	-1.3	2	0	0
Deposits by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	146	-0.9	0	-2	-2
EZ Non-financial	103	-1.9	4	4	4
UK Non-financial	117	-0.1	-3	-8	-8
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Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.10	0.00	0.0	0.0	0.0
Libor 3m	1.03	0.00	0.0	0.0	0.0
Libor 12m	1.72	0.00	0.0	0.0	0.0
EZ TED spread 3m	51.5	0.00	1.3	-14.9	-14.9
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,291	0.4	-0.2	1	1
Dow Jones	19,979	0.5	0.6	0	0
Nikkei	18,918	0.0	-2.8	-3	-3
FTSE 100	7,193	0.7	0.1	0	0
Eurostoxx 50	3,278	0.7	0.8	-1	-1
IBEX	9,471	0.7	0.3	0	0
DAX	11,661	0.3	-1.3	1	1
CAC	4,838	0.9	0.0	-1	-1
MBI	19,034	0.8	-1.5	-3	-3
ASE Athens	628	0.7	-1.4	-5	-5
MSCI Latam *	75,637	-0.1	-2.0	3	3
Bovespa (Brazil)	64,986	0.6	-1.6	6	6
Moodi	47,095	0.0	-0.7	1	1
MSCI EM Europe *	5,023	-0.3	-0.7	-1	-1
Poland	2,071	0.3	-0.6	4	4
Misc (Russia)	2,235	0.3	-1.8	-2	-2
Ise 100 (Turkey)	88,165	0.9	5.2	16	16
MSCI EM Asia *	723	-0.3	0.6	4	4
Shanghai Com (China)	3,140	-0.6	0.6	-1	-1
Jakarta (Indonesia)	5,361	0.6	0.8	2	2
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	114.5	0.0	-2.8	-5	-5
JPM	86.1	1.7	-1.0	-1	-1
Citi	56.0	0.0	-2.0	-9	-9
BoA	22.7	0.0	-2.7	-1	-1
MS	42.1	0.0	-3.5	-3	-3
GS	230.4	0.0	2.8	-5	-5
EZ banks	101.6	1.1	-1.9	-4	-4
BNP	61.4	1.8	0.2	-2	-2
Credit Agricole	12.2	0.0	-1.8	0	0
Deutsche Bank	18.5	1.9	-3.4	1	1
ING	13.9	1.8	1.5	0	0
Intesa	2.2	3.7	-2.2	-13	-13
SG	45.8	0.3	-3.3	-5	-5
Unicredit	25.6	-2.0	-7.5	-8	-8
UK banks	87.7	1.9	0.7	0	0
HSBC	684.0	1.0	0.5	2	2
RBS	227.3	2.2	-1.9	-3	-3
Barclays	228.5	3.2	-0.9	-3	-3
Lloyds	65.9	1.5	0.0	2	2
Large Spanish banks					
BBVA	77.6	1.0	1.7	-1	-1
Santander	5.3	1.0	-0.3	4	4
Median Spanish banks	6.2	1.1	-3.0	-5	-5
Cajobank	74.2	0.3	0.8	2	2
Popublr	0.9	-5.2	-9.5	-9	-9
Sabadell	1.5	1.5	4.4	6	6
Banquepar	7.6	0.3	0.5	0	0
Bankia	1.0	-0.2	0.8	-3	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.08	0.1	0.6	2.6	3
GBPUSD	1.25	-0.3	-0.5	1.4	1
USDJPY	112.73	0.1	2.1	-3.9	-4
DKY	99.90	0.1	0.6	2.7	3
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.65	0.2	1.5	2.7	3
USD BRL (Brazil)	3.12	0.2	0.8	3.3	3
USD CLP (Chile)	640.95	0.4	1.5	4.6	5
USD COP (Colombia)	2859	0.7	2.5	3.7	4
USD MXN (Mexico)	20.38	0.9	2.4	5.0	5
USD PEN (Peru)	3.25	-0.1	1.2	3.9	4
LACI	64.39	0.4	1.7	4.3	4
USD PLN (Poland)	3.99	0.5	1.5	4.2	4
USD RUB (Russia)	59.20	0.4	1.1	1.9	2
USD TRY (Turkey)	3.71	0.7	4.1	-3.9	-4
USD CNY (China)	6.87	0.2	0.2	1.0	1
USD INR (India)	67.32	0.1	1.1	1.1	1
USD IDR (Indonesia)	13,343	0.1	0.1	0.7	1
ADXY	105.1	0.2	1.2	1.7	2
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	56.6	0.1	2.0	0	0
WTX	53.6	0.1	0.8	1	1
Copper	264	-1.6	-1.7	3	3
Gold	1,216	0.0	2.1	4	4
S&P Spot commodity *	400	-0.3	0.7	1	1
S&P Brent Spot *	481	-0.4	1.5	0	0
S&P Metals Spot *	325	-0.3	1.3	7	7
S&P Agricultural *	306	-0.3	0.9	2	2

Source: Bloomberg, Datastream and Haver

* With one day delay

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