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Market Comment | Markets upbeat as Macron emerges as potential next French president

Global Financial Markets Unit
24 Apr 2017

- Financial markets rallied after **Emmanuel Macron, the pro-EU candidate, won the first round of the French elections** (see results), easing concerns about a potential Frexit. Mr. Macron will face off against Ms. Marine Le Pen, the eurosceptic candidate, in the second round of the elections on 7 May. However, based on the results of the first round, it is widely expected that Macron will comfortably beat Le Pen (bookmakers' odds suggest an 85% probability of a Macron win), easing political uncertainty in France.

- As a result, investors abandoned the cautious stance of the last few weeks, thereby dragging down core European bond yields and boosting both European stocks and European peripheral debt, with a significant narrowing of peripheral risk premiums. The **EUR also appreciated significantly**, throwing off fears of a potential euro zone break-up (see).

- The **increase in European stocks** (especially French stocks and in the banking sector) led German stocks to all-time highs (see) and spread a noticeable **risk-on sentiment** through global markets, as reflected in the performance of sensitive assets. Gold fell appreciably, as it did the JPY, both being perceived as **safe-haven assets**. Meanwhile, equity **volatility narrowed** significantly around the globe.

- Despite the fact that the **Fitch rating agency downgraded Italy to just two notches above junk** last Friday (see), Italian sovereign debt also benefited from the moderation of political risk in the EMU. On the other hand, Portugal's risk premium narrowed sharply after the credit rating agency DBRS decided to maintain its sovereign credit rating (BBB low),easing concerns about a potential downgrade below investment grade.

ECB's Thursday meeting: What to expect?
At its 27 April meeting, we expect the ECB to leave rates on hold.

- During the past month, markets have shifted their expectations of ECB monetary policy significantly downwards, following the recent dovish comments by central bank officials (reluctant to alter the expected sequence of exit measures and cooling expectations of an early hike in the deposit rate) and disappointing inflation figures.

- After the outcome of the first round of the French elections, uncertainties regarding political developments in the euro area eased somewhat, removing some pressure from the ECB or, at least allowing it to pay increasing attention to the economic outlook.

- The euro zone economy has been gaining momentum since the beginning of this year, while the increase in inflation has not so far been a problem. Confidence data continued to surprise slightly upwards over 1Q17, but this positive mood has yet to be confirmed by hard data, especially after disappointing retail sales and industrial output figures, although trade data point to the economy's benefiting from the

improvement in global demand. Regarding prices, both headline and core inflation moderated in March somewhat more than expected, mainly due to the change in the Easter calendar, but they should increase again in April, though still remaining somewhat below the ECB's target. Overall, there have not been any significant changes in the economic outlook over the past month, so we do not expect any significant adjustments in the ECB's assessment of the macroeconomic outlook, especially as inflation pressures are still subdued.

- In the April meeting, the Governing Council (GC) will maintain a cautious mood regarding any change in the monetary policy stance, along the lines of the March meeting minutes and ECB members' recent speeches. However, the central bank is expected to gradually reassess its forward guidance as economic conditions improve.

- Thus, in the short term, it is probable that it could adopt a neutral bias regarding interest rates (removing the downward bias) although maintaining a very cautious stance. Probably it will wait until the June meeting to make changes in its communication, but we cannot rule out its doing so at this week´s meeting. Regarding the normalization process, our baseline scenario remains unchanged: changes in forward guidance at the coming meetings, tapering talks by summer, slower pace of asset purchases to start by early 2018, QE to end by mid-2018 and rate hike cycle to start by end 2018. In all this process, communication will be key, trying to avoid any "taper tantrum".

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Table 1

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.23	4.5	2.4	-3	1
US	2.27	1.8	1.6	-15	-17
GER (2-yr)	-0.69	10.0	16.6	4	8
Germany	0.33	7.6	14.2	-10	5
France	0.83	-10.9	-8.7	-21	2
Spain	1.61	-9.0	-10.2	-13	9
Italy	2.18	-8.1	-13.6	-9	31
Portugal	3.56	-18.5	-32.7	-64	-62
Greece	6.45	-19.0	-22.3	-95	-44
Japan (2-yr)	-0.21	0.7	-0.6	6	-2
Japan	0.02	1.4	-3.5	4	4

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.08	-8.3	-1.6	-17	-133
Chile	3.89	0.3	-1.8	-28	-44
Colombia	6.34	-1.3	-28.0	-46	-75
Mexico	7.20	-0.8	4.3	12	-44
Peru	5.72	-2.3	-6.3	-22	-75
Poland	3.41	-0.7	0.2	-16	-30
Russia	7.90	5.2	-15.3	-24	-55
Turkey	10.29	-8.0	-29.0	-22	-71
India	6.94	1.8	9.5	11	56
Indonesia	7.11	0.0	3.4	-2	-74

Country risk (bp, changes in bp)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	50	-18.5	-22.9	-11	-3
Italy	185	-15.7	-27.8	1	26
Portugal	323	-26.1	-46.9	-54	-39
Spain	128	-16.6	-24.4	-2	12
2-yr sovereign spread vs Germany					
France	26	-24.1	-27.8	-3	15
Italy	65	-14.9	-20.2	-5	4
Portugal	107	-15.0	-19.1	-34	-40
Spain	47	-13.9	-20.6	-6	-1

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	221	-3	-2	-15	-51
Chile	78	-1	2	-1	-4
Colombia	134	-1	0	-10	-29
Mexico	129	-2	0	-13	-28
Peru	104	-1	1	-4	-4
Venezuela	3.561	71	71	82	-345
Poland	69	1	1	1	-6
Russia	162	-1	-5	-15	-14
Turkey	228	0	-3	-7	-45
China	86	-3	-2	-1	-31
India	104	0	4	-4	-23
Indonesia	132	-2	-5	0	-24

Risk indicators

Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	11	-22.1	-22	-13	0
VSTOXX	16	-35.3	-31	8	0
EM EFT volatility Index	16	-18.7	-19	-10	-19
Dollar/euro volatility	8	-36.7	-39	-1	-21
EM FX volatility index	9	-2.1	-4	-3	-20
Credit spread (BAA) (bps)	226	-1.8	-4	5	-1
US bonds volatility index	77	4.5	9	18	1

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	61	-0.1	-1	-6	-10
EZ	111	-1.6	-5	0	3
UK	79	-0.3	-2	3	-11
Large Spanish	105	-0.1	-1	-8	-12
Medium Spanish	165	0.8	0	0	13

Corporate 5y CDS (bps) ^	level	Daily	Weekly	Monthly	YTD
US Non-financial	152	-0.1	-1	-6	-10
EZ Non-financial	102	-1.6	-5	0	3
UK Non-financial	122	-1.0	-2	-2	-3

Interbank markets (%, changes in bp)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.12	0.00	0.0	0.0	0.0
Libor 3m	1.16	0.00	0.0	0.0	0.2
Libor 12m	1.74	0.01	0.0	-0.1	0.1
EZ TED spread 3m	47.7	-1.80	0.5	-13.5	-18.7

Stock markets (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,370	0.9	0.9	1	4
Dow Jones	20,742	0.9	0.5	0	4
Nikkei	18,876	1.4	2.8	-1	-4
FTSE 100	7,265	2.1	-0.9	-1	1
EuroStoxx 50	3,577	4.0	3.7	4	8
IBEX	10,767	3.8	4.3	4	14
DAX	12,455	3.4	2.9	3	8
CAC	5,269	4.1	3.9	5	8
MIB	20,684	4.8	4.6	3	5
ASE Athens	683	1.7	0.0	7	4
MSCI Latam *	76,280	-0.1	0.8	0	4
Ibovespa (Brazil)	64,598	1.3	0.4	2	5
Mexbol	49,465	1.0	0.9	2	6
MSCI EM Europe *	4,799	0.1	1.2	-2	-5
Poland	2,297	1.5	2.8	3	15
Micex (Russia)	1,980	1.8	1.9	-3	-13
Ise 100 (Turkey)	93,803	1.5	3.5	4	23
MSCI EM Asia *	762	0.5	0.3	0	9
Shanghai Com (China)	3,130	-1.4	-2.9	-4	-1
Jakarta (Indonesia)	5,664	1.2	0.9	2	7

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	116.9	3.2	1.6	0	-2
JPM	87.4	3.4	1.7	0	1
Citi	59.3	2.7	0.5	2	-3
BoA	23.5	3.4	3.0	2	2
MS	43.3	3.5	4.3	2	-1
GS	223.7	3.1	-1.1	-4	-8
EZ banks	113.3	8.8	13.7	8	7
BNP	66.7	7.5	14.3	9	6
Crédit Agricole	13.8	10.9	15.7	12	12
Deutsche Bank	17.0	9.2	12.3	8	4
ING	15.1	6.0	9.1	8	8
Intesa	2.7	7.5	10.8	6	6
SG	50.9	9.9	16.9	7	5
Unicredito	15.4	13.2	19.8	7	10
UK banks	86.4	3.6	3.5	-1	-2
HSBC	638.3	2.3	-0.9	-1	-5
RBS	249.3	4.0	9.2	4	6
Barclays	219.2	5.4	3.1	-2	-7
Lloyds	66.2	2.9	5.6	-3	2
Large Spanish banks	91.4	6.6	10.2	5	17
Santander	6.0	5.8	9.3	5	17
BBVA	7.6	7.3	11.1	6	17
Medium Spanish banks	82.7	4.1	8.7	3	13
Caixabank	4.1	4.4	9.6	4	25
Popular	0.7	1.6	12.4	-25	-30
Sabadell	1.8	5.1	11.2	4	28
Bankinter	8.3	3.3	5.3	7	10
Bankia	1.1	4.6	9.4	2	8

Currencies (%, red for currency depreciation)

Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.08	1.1	1.9	0.6	3
GBPUSD	1.28	-0.3	1.7	2.1	4
USDJPY	109.73	-0.6	-0.8	-1.1	-6
DXY	99.11	-0.9	-1.2	0.6	3

Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.45	0.2	-1.6	1.0	4
USDBRL (Brazil)	3.13	0.7	-0.8	0.5	3
USDCLP (Chile)	655.00	-0.4	-1.4	1.2	2
USDCOP (Colombia)	2875	0.1	-0.8	1.5	3
USDMXN (Mexico)	18.69	0.6	-1.1	1.2	13
USDPEN (Peru)	3.24	-0.2	0.2	0.0	4
LACI	65.96	0.3	-0.9	0.6	7
USDPLN (Poland)	3.91	1.6	1.9	1.1	6
USDRUB (Russia)	55.87	1.4	0.1	2.6	7
USDTRY (Turkey)	3.58	1.8	3.4	1.6	0
USDCNY (China)	6.88	0.0	-0.1	0.0	1
USDINR (India)	64.44	0.3	0.1	1.7	5
USDIDR (Indonesia)	13,310	0.1	-0.2	0.1	1
ADXY	105.5	0.1	0.0	0.1	2

Commodities (%)

	level	Daily	Weekly	Monthly	Year
Brent	51.7	-0.6	-6.7	2	-9
WTx	49	-0.7	-6.4	3	-7
Copper	255	0.6	-1.7	-3	0
Gold	1275	-0.7	-0.7	2	10
S&P Spot commodity *	383	-1.2	-4.1	1	-3
S&P Brent Spot *	446	-1.9	-6.2	4	-7
S&P Metals Spot *	317	-0.6	-0.9	-4	4
S&P Agricultural *	288	0.1	-1.9	-1	-4

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Poland	3.41	-0.7	0.2	-16	-30
Russia	7.90	5.2	-15.3	-24	-55
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Libor 3m	1.16	0.00	0.0	0.0	0.2
Libor 12m	1.74	0.01	0.0	-0.1	0.1
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BoA	23.5	3.4	3.0	2	2
MS	43.3	3.5	4.3	2	-1
GS	223.7	3.1	-1.1	-4	-8
EZ banks	113.3	8.8	13.7	8	7
BNP	66.7	7.5	14.3	9	6
Crédit Agricole	13.8	10.9	15.7	12	12
Deutsche Bank	17.0	9.2	12.3	8	4
ING	15.1	6.0	9.1	8	8
Intesa	2.7	7.5	10.8	6	6
SG	50.9	9.9	16.9	7	5
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USD JPY	109.73	-0.6	-0.8	-1.1	-6
DXY	99.11	-0.9	-1.2	0.6	3

Emerging	level	Daily	Weekly	Monthly	Year
USD ARS (Argentina)	15.45	0.2	-1.6	1.0	4
USD BRL (Brazil)	3.13	0.7	-0.8	0.5	3
USD CLP (Chile)	655.00	-0.4	-1.4	1.2	2
USD COP (Colombia)	2875	0.1	-0.8	1.5	3
USD MXN (Mexico)	18.69	0.6	-1.1	1.2	13
USD PEN (Peru)	3.24	-0.2	0.2	0.0	4
LACI	65.96	0.3	-0.9	0.6	7
USD PLN (Poland)	3.91	1.6	1.9	1.1	6
USD RUB (Russia)	55.87	1.4	0.1	2.6	7
USD TRY (Turkey)	3.58	1.8	3.4	1.6	0
USD CNY (China)	6.88	0.0	-0.1	0.0	1
USD INR (India)	64.44	0.3	0.1	1.7	5
USD IDR (Indonesia)	13.310	0.1	-0.2	0.1	1
ADXY	105.5	0.1	0.0	0.1	2

Commodities (%)

	level	Daily	Weekly	Monthly	Year
Brent	51.7	-0.6	-6.7	2	-9
WTx	49	-0.7	-6.4	3	-7
Copper	255	0.6	-1.7	3	0
Gold	1275	-0.7	-0.7	2	10
S&P Spot commodity *	383	-1.2	-4.1	1	-3
S&P Brent Spot *	446	-1.9	-6.2	4	-7
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Source: Bloomberg, Datastream and Haver

* With one day delay

Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

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