

Market Comment | Easing political risks tighten European risk premiums

Global Financial Markets Unit
12 Jun 2017

- **President Macron's party won the first round of the legislative vote.** It suggests they could win an absolute majority of seats (70% - 400 seats - according to analysts' estimates), far more than the 289 seats needed for a majority, and thus be able to carry out their ambitious programme. The elections were marked by the high rate of abstention and the poor result of the National Front, diminishing the risk of a change in the current status of France within the euro area ([see](#)). **This risk also diminished due to the poor result of Italy's populist "Five Star Movement" in municipal elections ([see](#)).**
- **ECB executive board member Benoît Coeuré stated that it was still early to discuss tapering,** and that inflation was becoming less dependent on ECB stimulus but its current positive trend it was not solid enough to start talking about tapering ([see](#))
- **Easing political risk in Europe tightened European risk premium across the board,** especially in Italy and France, while safe bonds remained steady. Despite the rally in European peripheral debt, equity markets declined across the board (implied volatility in the US equity market increased to 12%), led by the EZ and the technology sector ([see](#)), which mirrored the sell-off in technological shares started last Friday in the US. More specifically, the semiconductor sector led the sell-off, and this behaviour introduces uncertainties about the equity outlook, since this sector is a bellwether for the equity cycle. Nonetheless, this sector has accumulated a 16% increase YTD in both Europe and the US. Thus investors may have decided to take some profits.
- **Fx markets remained broadly flat, with the euro still above 1.12 USD,** while the British pound extended its weakness, while at the same time providing support to the equity market in the UK. Despite the slight recovery in oil prices, EM fx remained stable or slightly depreciated.

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Table 1

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.34	0.8	1.1	1	13
US	2.19	-0.9	1.0	-20	-25
GER (2-yr)	0.72	0.5	-1.8	-5	5
Germany	0.25	-1.5	-3.8	-10	-3
France	0.60	-4.8	-12.3	-28	-21
Spain	1.45	0.2	-13.3	-20	-7
Italy	2.02	-6.6	-25.3	-27	15
Portugal	2.98	-3.3	-7.0	-41	-119
Greece	5.87	-14.6	-17.5	23	-102
Japan (2-yr)	-0.11	-0.3	3.8	7	8
Japan	0.06	0.8	0.4	-1	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.71	-16.4	-19.4	61	-20
Chile	4.11	-3.9	6.7	6	-22
Colombia	6.21	-1.1	5.7	-11	-89
Mexico	7.10	0.8	-8.3	-15	-53
Peru	5.47	2.8	0.9	-5	-100
Poland	3.16	-1.1	-3.7	-20	-56
Russia	7.80	0.0	-3.5	3	-65
Turkey	10.17	-7.0	5.0	-23	-83
India	6.52	1.4	-13.0	-43	14
Indonesia	6.90	-4.6	-9.5	-36	-94
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	-3.3	-8.5	-10	-18
Italy	177	-5.1	-21.5	-9	18
Portugal	273	-1.9	-3.3	-23	-89
Spain	120	1.7	-9.5	-2	4
2-yr sovereign spread vs Germany					
France	21	-3.0	1.5	-3	11
Italy	48	-0.1	-4.7	-4	-13
Portugal	86	-4.9	-12.8	-16	-61
Spain	45	2.5	0.8	5	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	234	-0.1	1	29	-38
Chile	69	-0.3	-1	-5	-14
Colombia	126	-1.0	0	-3	-37
Mexico	109	-1.3	9	-7	-47
Peru	88	-0.3	5	-12	-20
Venezuela	4,178	3.5	552	302	273
Poland	63	0.2	-1	-4	-13
Russia	156	-0.4	6	4	-20
Turkey	192	-2.0	-1	-11	-80
China	70	-1.7	-5	-9	-47
India	91	-1.2	-1	-5	-36
Indonesia	117	-2.2	-3	-8	-39
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	12	0.2	1.7	11	9
VST OXX	15	8.3	4	1	-2
EM EFT volatility Index	16	1.9	3	1	-19
Dollar/Euro volatility	6	-2.5	-10	-11	-42
EM FX volatility index	8	-0.8	-1	-3	-29
Credit spread (BAA) (bps)	223	0.7	-1	-2	-4
US bonds volatility index	53	-2.2	-1	-4	-31
Downgrading CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	58	-1.6	-1	3	-14
EZ	76	-2.5	-6	-4	-32
UK	63	-1.0	-3	4	-27
Large Spanish	73	-1.8	-16	-16	-44
Medium Spanish	119	2.5	-67	-31	-32
Corporate CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	150	-1.6	-1	3	-14
EZ Non-financial	85	-2.5	-6	-4	-32
UK Non-financial	114	-1.2	-1	2	-11
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EDNA 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	-0.15	-0.01	0.0	0.0	-0.1
Libor 3m	1.24	0.01	0.0	0.1	0.2
Libor 12m	1.73	0.00	0.0	-0.1	0.0
EZ TED spread 3m	46.7	2.30	2.0	9.2	19.7
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,426	-0.3	0.4	1	7
Dow Jones	21,213	-0.3	0.1	-1	6
Nikkei	19,509	-0.5	-1.3	0	2
FTSE 100	7,512	-0.2	0.2	2	4
EuroStoxx 50	3,544	-1.2	-1.0	-2	7
BSE	10,842	-1.2	0.4	0	15
DAX	12,690	-1.0	-1.0	0	10
CAC	5,241	-1.1	-1.3	-3	7
IBEX	20,910	-1.0	0.9	-3	7
ASE Athens	785	0.3	0.3	-2	19
MSCI Latam *	75,405	-0.5	0.5	-5	3
Ibovespa (Bovespa)	61,235	-0.8	-1.1	-8	0
Merckel	49,235	0.3	-0.7	-1	6
MSCI EM Europe *	4,829	0.2	0.1	-4	-4
Poland	2,295	-1.8	0.8	-3	15
Mircex (Russia)	1,883	0.0	0.0	6	17
Ise 100 (Turkey)	99,442	0.5	1.3	5	31
MSCI EM Asia *	821	-0.2	0.8	4	18
Shanghai Com (China)	2,140	-0.6	1.6	3	-1
Jakarta (Indonesia)	5,691	-0.2	0.9	1	8
Banking sector					
US banks	level	Daily	Weekly	Monthly	YTD
JPM	119.9	-0.5	4.4	1	0
Citi	86.4	0.6	4.4	-1	-1
Chf	64.1	-0.5	4.7	6	4
BofA	23.6	-0.3	5.4	-2	3
MS	44.6	-0.7	3.9	4	2
GS	221.0	-0.6	3.3	-2	-9
EZ banks	109.9	-1.6	1.2	-4	4
BNP	63.4	-1.7	0.5	-9	-1
Credit Agricole	14.0	-1.6	2.2	-1	14
Deutsche Bank	15.5	-2.2	-0.8	-11	-5
ING	15.3	-1.5	2.2	0	10
Intesa	2.6	-0.5	0.7	9	1
SG	47.0	-2.1	-0.1	-5	-3
Unicredit	16.0	-1.1	4.5	-4	14
UK banks	88.1	-0.7	-1.1	0	0
HSSC	691.6	-0.6	1.5	2	3
RBS	250.1	-0.3	-3.7	-4	7
Barclays	205.3	-0.7	-3.0	-1	-13
Lloyds	69.1	-1.3	0.4	-1	7
Large Spanish banks	90.1	-1.2	2.8	0	16
Santander	6.1	-0.9	4.4	0	18
BBVA	7.4	-1.4	1.3	0	13
Medium Spanish banks	79.1	-1.5	-1.0	-7	8
Cakabank	4.1	-2.1	0.3	-3	25
Sabanci	1.7	-1.7	-4.8	-6	26
Bankstar	8.2	-1.1	0.5	-3	9
Bankia	4.2	-1.6	1.0	-5	2
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	0.1	0.2	31	7
GBPUSD	1.27	-0.7	-1.9	-1.8	3
USD JPY	109.73	0.5	0.7	-3.6	-6
DKK	57.24	0.0	0.5	2.4	5
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.95	-0.3	0.3	-3.3	1
USD BRL (Brazil)	3.21	-0.5	0.5	-5.5	-3
USD CLP (Chile)	661.09	0.4	1.1	1.6	2
USD COP (Colombia)	2926	-0.3	-1.0	0.1	1
USD MXN (Mexico)	18.17	0.0	0.9	3.5	15
USD PEN (Peru)	3.28	-0.3	0.3	0.3	3
LACI	64.92	-0.2	0.4	-0.6	5
USD PLN (Poland)	3.75	-0.2	0.7	3.7	10
USD RUB (Russia)	56.87	0.1	-0.6	0.2	6
USD TRY (Turkey)	3.52	0.4	0.1	1.5	1
USD CNY (China)	6.80	0.0	0.1	1.5	2
USD INR (India)	64.44	-0.3	-0.1	-0.1	5
USD IDR (Indonesia)	12,208	-0.1	-0.2	0.3	1
ADXY	106.3	-0.2	-0.3	0.8	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	49.7	1.2	-1.5	-4	-14
WTI	46	1.4	-2.0	-3	-13
Copper	262	-1.1	2.4	5	3
Gold	1266	-0.1	-1.1	-3	9
S&P Spot commodity *	370	0.5	-0.5	-2	-7
S&P Brent Spot *	412	0.7	-2.2	-5	-14
S&P Metals Spot *	317	1.1	1.7	2	-4
S&P Agricultural *	292	0.3	3.6	1	-3

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level	Daily	Weekly	Monthly	YTD	
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Chile	4.11	3.9	6.7	6	22
Colombia	6.21	-1.1	5.7	-11	-89
Mexico	7.10	0.8	8.3	-15	-53
Peru	5.47	2.8	0.9	-5	-100
Poland	3.16	-1.1	-3.7	-20	-56
Russia	7.80	0.0	-3.5	3	-65
Turkey	10.17	-7.0	5.0	23	-63
India	6.52	1.4	-13.0	-43	14
Indonesia	6.50	-1.6	-5.5	-36	-94
Country risk bp changes \$/bp					
Developed Markets	level	Daily	Weekly	Monthly	YTD
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Turkey	192	-2.0	-1	-11	-60
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Ranking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
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EZ	76	-2.5	6	-4	-32
UK	63	-1.0	-3	4	-27
Large Spanish	73	-1.8	-16	1	-44
Medium Spanish	119	2.5	-67	-31	-32
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Euribor 12m	-0.15	-0.01	0.0	0.0	-0.1
Libor 3m	1.24	0.01	0.0	0.1	0.2
Libor 12m	1.73	0.00	0.0	-0.1	0.0
EZ TED spread 3m	46.7	2.30	-2.0	9.2	-19.7
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,426	-0.3	-0.4	1	-7
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EuroStoxx 50	3,544	-1.2	-1.0	-2	-7
IBEX	10,842	-1.2	-0.4	0	15
DAX	12,690	-1.0	-1.0	0	10
CAC	5,241	-1.1	-1.3	-3	-7
MIB	29,810	-1.0	0.9	-1	7
ASE Athens	785	0.3	-0.3	-2	19
MSCI Latam *	75,405	-0.5	0.5	-5	3
Bovespa (Brazil)	61,235	-0.8	-1.1	-9	0
Mexbol	49,235	0.3	-0.7	-1	6
MSCI EM Europe *	4,829	0.2	-0.1	-4	-4
Poland	2,295	-1.5	0.8	-3	15
Mircs (Russia)	1,883	0.0	0.3	-6	-17
Ise 100 (Turkey)	99,442	0.5	1.3	5	31
MSCI EM Asia	821	-0.2	0.8	4	18
Shanghai Com (China)	3,140	-0.6	1.6	3	-11
Jakarta (Indonesia)	5,691	-0.2	-0.9	1	8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	119.9	-0.5	4.4	1	0
JPM	86.4	-0.6	4.4	-1	-1
Citi	64.1	-0.5	4.7	6	4
BoA	23.6	-0.3	5.4	-2	3
MS	44.6	-0.7	3.9	4	-2
GS	221.0	-0.6	3.3	-2	9
EZ banks	109.9	-1.6	1.2	-4	-4
BNP	63.4	-1.7	0.5	-5	1
Credit Agricole	14.0	-1.6	2.2	-1	14
Deutsche Bank	15.5	-2.2	0.8	-11	-5
ING	15.3	-1.5	2.2	0	10
Intesa	2.6	-0.5	0.7	-9	-1
SG	47.0	-2.1	-0.1	-5	-3
Unicredit	16.0	-1.1	4.5	-4	14
UK banks	88.1	-0.7	-1.1	0	0
HSBC	691.6	-0.6	1.5	-2	3
RBS	250.1	-0.3	-3.7	-4	7
Barclays	205.3	-0.7	-3.0	-1	-13
Lloyds	69.1	-1.3	-0.4	-1	-7
Large Spanish banks	90.1	-1.2	2.8	0	16
Santander	6.1	-0.9	4.4	0	18
BBVA	7.4	-1.4	1.3	0	13
Medium Spanish banks	79.1	-1.5	-1.0	-7	8
Cajabank	4.1	-2.1	-0.3	-3	25
Sabadell	1.7	-1.7	-4.8	6	26
Bankinter	8.2	-1.1	0.5	-3	9
Banks	4.2	-1.6	1.0	-5	2
Currencies (% ind for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	0.1	-0.5	3.1	7
GBPUSD	1.27	-0.7	1.9	-1.8	3
USDJPY	109.73	0.5	0.7	-3.6	6
DX1Y	97.24	0.0	0.5	2.4	5
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	15.95	-0.3	0.3	-3.2	1
USDBRL (Brazil)	3.31	0.5	0.5	-5.5	-3
USDCLP (Chile)	661.09	0.4	1.1	1.6	2
USDCOP (Colombia)	2926	-0.3	-1.0	0.1	-1
USDMXN (Mexico)	18.17	-0.0	0.9	3.5	15
USDPEN (Peru)	3.28	-0.3	-0.3	0.3	3
LACI	64.92	-0.2	0.4	-0.6	5
USDPLN (Poland)	3.75	-0.2	0.7	3.7	10
USD RUB (Russia)	56.97	0.1	-0.6	0.2	6
USDTRY (Turkey)	3.52	0.4	0.1	1.5	1
USD CNY (China)	6.80	0.0	0.1	1.5	2
USDINR (India)	64.44	-0.3	-0.1	-0.1	5
USDIDR (Indonesia)	13,308	-0.1	-0.2	0.3	1
ADXY	106.3	-0.2	-0.3	0.8	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	48.7	1.2	-1.5	-4	-14
WTX	46	1.4	-2.0	-3	-13
Copper	262	-1.1	2.4	5	3
Gold	1266	-0.1	-1.1	3	9
S&P Spot commodity *	370	0.5	-0.5	-2	-7
S&P Brent Spot *	412	0.7	-2.2	-5	-14
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Source: Bloomberg, Datastream and Haver

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* With one day delay

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