Market Comment | Expectations on central banks pushed up the EUR and dragged down yields

Global Financial Markets Unit
21 Jul 2017

- **The events that took place this week moderated the hawkish tone of the central banks shown in Sintra**. In line with our expectations, the ECB GC maintained the dovish stance, stressing that a very substantial degree of monetary accommodation is still needed. In the UK, inflation was weaker than expected, while the US healthcare reform vote was delayed, increasing uncertainty about a major tax reform (one of the main pillars of the US reflationary policy).

- The **EUR appreciated strongly**, after Mario Draghi said that in the autumn the GC would address the parameters of the PSPP (see ECB statement), hinting at a **tapering announcement in the autumn**, most likely in September (see BBVA ECB watch). However, the enduring appreciation trend in the euro also underscored a dovish tone from other central banks. Meanwhile, peripheral yields declined further as the ECB president suggested the bank wanted to avoid undue tightening of monetary policy conditions. A stronger EUR exerted some **downward pressure on European stocks**, especially in the export sector. Moreover, ZEW economic sentiment was lower than expected, attributed to the recent EUR strength (see) and stock prices declined mostly in Europe.

- Sovereign bond yields also declined across the board, underpinned by **disappointing UK June inflation** (see) which may imply a potential delay in expected rate hikes in the United Kingdom, **further cooling the central bank's recent hawkish sentiment**. The GBP also depreciated after the announcement.

- The **USD depreciated** and US Treasury yields declined, after the Trump administration delayed the healthcare vote again, increasing the likelihood of a final rejection (see). It triggered uncertainty about Trump's long-awaited reforms such as tax reform and infrastructure overhaul, triggering disappointment among investors.

- **Oil pricesinched down** this week despite lower-than-expected US crude oil inventories and a lower USD, as OPEC and non-OPEC producers will face a conundrum in St Petersburg this week on how to reduce the global oil glut (see).

- The publication of encouraging economic indicators on **China's economy**, whose Q217 GDP grew more than expected - along with a weaker USD - gave support to **EM currencies**, which appreciated across the board, as did Asian stock prices, while the **MSCI World Index** reached a new record high (see).

BBVA Research suggests the following reading list:

- US inflation decline is too persistent to ignore (see)

- Economic models vs 'techno-optimism': Predicting medium-term total factor productivity rates in the US (see)
- Slim returns for US bank investors from higher rates (see)
- Stitched up by robots: the threat to emerging economies (see)
- Seven charts that show how the developed world is losing its edge (see)
- Slow economic growth has many causes (see)

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Table 1

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.34	-1.2	-1.9	0	13
US	2.24	-3.0	-10.5	8	-20
GER (2-yr)	-0.64	-0.2	-2.8	1	13
Germany	0.53	-1.2	-14.9	19	18
France	0.78	-2.5	-10.5	17	-3
Spain	1.49	-7.4	-22.0	10	-3
Italy	2.11	-7.9	-21.7	21	25
Portugal	3.01	-6.2	-19.4	13	-117
Greece	5.26	0.3	-7.6	-31	-162
Japan (2 -yr)	-0.11	0.3	-0.1	0	8
Japan	0.08	-0.6	2.1	1	1

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.04	-2.0	-30.0	-49	-137
Chile	4.14	-0.7	0.2	6	-18
Colombia	6.66	0.0	-5.8	13	-43
Mexico	6.83	-0.9	-0.2	-9	-81
Peru	5.39	-2.2	-9.0	3	-108
Poland	3.28	0.2	-6.4	10	-44
Russia	7.87	-2.2	-7.5	-14	-57
Turkey	10.21	-2.0	-22.0	-1	-79
India	6.45	0.3	-0.4	0	7
Indonesia	6.94	1.1	-3.8	17	-90

Country risk (bp, changes in bp)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	-1.3	4.4	-2	-21
Italy	158	-6.7	-6.8	1	7
Portugal	248	-5.0	-4.5	-6	-107
Spain	96	-6.2	-7.1	-9	-13
2-yr sovereign spread vs Germany					
France	24	0.8	1.3	7	14
Italy	46	-1.1	-3.2	1	-15
Portugal	74	-1.2	-1.0	7	-72
Spain	35	-0.2	-2.3	0	-13

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	212	-6.3	-13	-22	-59
Chile	66	-0.9	1	-2	-16
Colombia	132	-1.4	-5	2	-31
Mexico	105	-2.6	-5	-5	-51
Peru	84	0.2	-1	-1	-24
Venezuela	4,219	114.8	20	-307	314
Poland	60	-0.2	0	-1	-15
Russia	163	-2.0	-1	-1	-13
Turkey	184	-2.0	-10	-4	-88
China	67	-0.7	-1	1	-50
India	86	0.3	-2	-2	-41
Indonesia	116	-1.0	-2	1	-40

Risk indicators

Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	10	1.5	0	-8	-2
VSTOXX	13	-1.4	0	-7	-3
EM EFT volatility index	14	-0.5	-3	-3	-30
Dollar/euro volatility	7	-1.2	8	14	-34
EM FX volatility index	8	-0.1	-2	-3	-32
Credit spread (BAA) (bps)	211	3.0	1	-8	-16
US bonds volatility index	48	-2.6	-8	-6	-37

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	53	-1.3	-1	-2	-19
EZ	52	-1.1	-5	-17	-56
UK	45	-0.5	-4	-11	-46
Large Spanish	52	-1.8	-6	-15	-65
Medium Spanish	95	-0.9	-3	-17	-56

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	136	-1.3	-1	-2	-19
EZ Non-financial	77	-1.1	-5	-17	-56
UK Non-financial	110	-1.0	-4	-3	-15

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	-0.15	0.00	0.0	0.0	-0.1
Libor 3m	1.31	0.00	0.0	0.0	0.3
Libor 12m	1.73	0.00	0.0	0.0	0.0

Stock markets (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,474	0.0	1.1	1	9
Dow Jones	21,616	-0.1	0.3	1	8
Nikkei	20,145	0.6	0.2	0	3
FTSE 100	7,488	0.8	1.0	0	4
EuroStoxx 50	3,499	0.0	-0.8	-2	5
IBEX	10,565	-0.2	-0.9	-2	12
DAX	12,447	0.0	-1.5	-3	7
CAC	5,199	-0.3	-0.7	-2	6
MIB	21,439	-0.2	-0.4	3	9
ASE Athens	855	0.1	0.1	3	30
MSCI Latam *	78,614	-0.2	0.6	4	7
Ibovespa (Brazil)	65,028	-0.2	-0.2	7	6
Mexbol	51,162	0.1	0.4	4	10
MSCI EM Europe *	5,026	0.7	1.0	4	-1
Poland	2,359	-0.7	0.3	2	18
Micex (Russia)	1,947	-0.3	-0.7	5	-14
Ise 100 (Turkey)	106,736	-0.6	2.4	8	40
MSCI EM Asia *	852	0.6	2.1	4	22
Shanghai Com (China)	3,245	0.4	0.8	3	3
Jakarta (Indonesia)	5,825	0.0	0.1	1	10

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	122.8	-0.3	-1.3	2	2
JPM	91.0	-0.2	-2.3	4	5
Citi	66.6	-0.1	-0.6	4	9
BoA	23.9	-0.7	-3.0	2	4
MS	46.6	-0.1	2.3	2	7
GS	222.3	-0.3	-3.5	-1	-9
EZ banks	114.1	-0.1	-2.4	5	8
BNP	64.3	-0.8	-3.9	3	2
Crédit Agricole	14.5	-0.3	-2.5	4	18
Deutsche Bank	15.8	-0.7	-4.1	4	-3
ING	15.5	0.6	-1.5	3	12
Intesa	2.9	0.4	0.6	13	13
SG	48.1	-0.1	-3.0	3	0
Unicredito	16.9	0.1	-3.1	8	20
UK banks	90.2	0.5	-0.6	4	3
HSBC	740.5	0.2	-0.5	8	11
RBS	249.2	-0.2	-3.0	0	6
Barclays	208.2	0.9	-1.5	3	-11
Lloyds	68.7	0.9	1.9	3	6
Large Spanish banks	89.5	0.7	-1.9	1	15
Santander	5.7	1.1	-2.2	-1	13
BBVA	7.5	0.3	-1.6	3	16
Medium Spanish banks	81.4	0.1	-2.8	4	11
Caixabank	4.3	1.2	-1.6	3	30
Sabadell	1.8	-1.0	-4.5	4	32
Bankinter	8.1	-0.2	-2.6	0	8
Bankia	4.4	0.4	-2.8	9	8

Currencies (%, red for currency depreciation)

Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.16	1.0	2.1	4.5	11
GBPUSD	1.30	-0.4	0.2	2.7	5
USDJPY	111.67	0.3	1.4	0.2	-5
DXY	94.21	-0.6	-1.6	3.6	8

Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	17.14	0.0	-1.1	-6.2	-7
USDBRL (Brazil)	3.14	0.4	2.3	5.7	3
USDCLP (Chile)	651.57	0.3	1.4	1.9	3
USDCOP (Colombia)	3000	0.1	1.5	1.1	-1
USDMXN (Mexico)	17.51	0.3	1.0	3.8	18
USDPEN (Peru)	3.24	0.1	0.2	1.0	4
LACI	66.47	0.2	1.2	3.0	8
USDPLN (Poland)	3.62	1.0	2.3	5.1	13
USDRUB (Russia)	58.86	0.2	1.6	1.2	2
USDTRY (Turkey)	3.52	0.0	1.2	0.6	1
USDCNY (China)	6.76	-0.1	0.4	1.0	3
USDINR (India)	64.43	-0.2	0.0	0.1	5
USDIDR (Indonesia)	13,333	-0.1	0.1	-0.3	1
ADXY	106.8	0.0	0.5	0.8	3

Commodities (%)

	level	Daily	Weekly	Monthly	Year
Brent	49.4	-0.5	2.1	7	-12
WTx	47	-0.5	1.8	8	-12
Copper	270	0.0	1.8	6	6
Gold	1247	0.5	2.4	0	7
S&P Spot commodity *	378	1.2	2.0	6	-5
S&P Brent Spot *	425	1.7	2.7	8	-12
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Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.15	0.00	0.0	0.0	-0.1
Libor 3m	1.31	0.00	0.0	0.0	0.3
Libor 12m	1.73	0.00	0.0	0.0	0.0

Stock markets (%)					
Main indices	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
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FTSE 100	7,488	0.8	1.0	0	4
EuroStoxx 50	3,499	0.0	-0.8	-2	5
IBEX	10,565	-0.2	-0.9	-2	12
DAX	12,447	0.0	-1.5	-3	7
CAC	5,199	-0.3	-0.7	-2	6
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Ibovespa (Brazil)	65,028	-0.2	-0.2	7	6
Mexbol	51,162	0.1	0.4	4	10
MSCI EM Europe *	5,026	0.7	1.0	4	-1
Poland	2,359	-0.7	0.3	2	18
Micex (Russia)	1,947	-0.3	-0.7	5	-14
Ise 100 (Turkey)	106,736	-0.6	2.4	8	40
MSCI EM Asia *	852	0.6	2.1	4	22
Shanghai Com (China)	3,245	0.4	0.8	3	3
Jakarta (Indonesia)	5,825	0.0	0.1	1	10
Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	122.8	-0.3	-1.3	2	2
JPM	91.0	-0.2	-2.3	4	5
Citi	66.6	-0.1	-0.6	4	9
BoA	23.9	-0.7	-3.0	2	4
MS	46.6	-0.1	2.3	2	7
GS	222.3	-0.3	-3.5	-1	-9
EZ banks	114.1	-0.1	-2.4	5	8
BNP	64.3	-0.8	-3.9	3	2
Crédit Agricole	14.5	-0.3	-2.5	4	18
Deutsche Bank	15.8	-0.7	-4.1	4	-3
ING	15.5	0.6	-1.5	3	12
Intesa	2.9	0.4	0.6	13	13
SG	48.1	-0.1	-3.0	3	0
Unicredito	16.9	0.1	-3.1	8	20
UK banks	90.2	0.5	-0.6	4	3
HSBC	740.5	0.2	-0.5	8	11
RBS	249.2	-0.2	-3.0	0	6
Barclays	208.2	0.9	-1.5	3	-11
Lloyds	68.7	0.9	1.9	3	6
Large Spanish banks	89.5	0.7	-1.9	1	15
Santander	5.7	1.1	-2.2	-1	13
BBVA	7.5	0.3	-1.6	3	16
Medium Spanish banks	81.4	0.1	-2.8	4	11
Caixabank	4.3	1.2	-1.6	3	30
Sabadell	1.8	-1.0	-4.5	4	32
Bankinter	8.1	-0.2	-2.6	0	8
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Currencies (%, red for currency depreciation)					
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EURUSD	1.16	1.0	2.1	4.5	11
GBPUSD	1.30	-0.4	0.2	2.7	5
USDJPY	111.67	0.3	1.4	0.2	-5
DXY	94.21	-0.6	-1.6	3.6	8
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**Year**
USDARS (Argentina)	17.14	0.0	-1.1	-6.2	-7
USDBRL (Brazil)	3.14	0.4	2.3	5.7	3
USDCLP (Chile)	651.57	0.3	1.4	1.9	3
USDCOP (Colombia)	3000	0.1	1.5	1.1	-1
USDMXN (Mexico)	17.51	0.3	1.0	3.8	18
USDPEN (Peru)	3.24	0.1	0.2	1.0	4
LACI	66.47	0.2	1.2	3.0	8
USDPLN (Poland)	3.62	1.0	2.3	5.1	13
USDRUB (Russia)	58.86	0.2	1.6	1.2	2
USDTRY (Turkey)	3.52	0.0	1.2	0.6	1
USDCNY (China)	6.76	-0.1	0.4	1.0	3
USDINR (India)	64.43	-0.2	0.0	0.1	5
USDIDR (Indonesia)	13,333	-0.1	0.1	-0.3	1
ADXY	106.8	0.0	0.5	0.8	3

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BBVA Research

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2-yr sovereign spread vs Germany					
France	24	0.8	1.3	7	14
Italy	46	-1.1	-3.2	1	-15
Portugal	74	-1.2	-1.0	7	-72
Spain	35	-0.2	-2.3	0	-13

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	212	-6.3	-13	-22	-59
Chile	66	-0.9	1	-2	-16
Colombia	132	-1.4	-5	2	-31
Mexico	105	-2.6	-5	-5	-51
Peru	84	0.2	-1	-1	-24
Venezuela	4,219	114.8	20	-307	314
Poland	60	-0.2	0	-1	-15
Russia	163	-2.0	-1	-4	-13
Turkey	184	-2.0	-10	-4	-88
China	67	-0.7	-1	1	-50
India	86	0.3	-2	-2	-41
Indonesia	116	-1.0	-2	1	-40

Risk indicators

Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	10	1.5	0	-8	-2
VSTOXX	13	-1.4	0	-7	-3
EM EFT volatility index	14	-0.5	-3	-3	-30
Dollar/euro volatility	7	-1.2	8	14	-34
EM FX volatility index	8	-0.1	-2	-3	-32
Credit spread (BAA) (bps)	211	3.0	1	-8	-16
US bonds volatility index	48	-2.6	-8	-6	-37

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	53	-1.3	-1	2	-19
EZ	52	-1.1	-5	-17	-56
UK	45	-0.5	-4	-11	-46
Large Spanish	52	-1.8	-6	-15	-65
Medium Spanish	95	-0.9	-3	-17	-56

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	136	-1.3	-1	-2	-19
EZ Non-financial	77	-1.1	-5	-17	-56
UK Non-financial	110	-1.0	-4	-3	-15

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	-0.15	0.00	0.0	0.0	-0.1
Libor 3m	1.31	0.00	0.0	0.0	0.3
Libor 12m	1.73	0.00	0.0	0.0	0.0

Stock markets (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,474	0.0	1.1	1	9
Dow Jones	21,616	-0.1	0.3	1	8
Nikkei	20,145	0.6	0.2	0	3
FTSE 100	7,488	0.8	1.0	0	4
EuroStoxx 50	3,499	0.0	-0.8	-2	5
IBEX	10,565	-0.2	-0.9	-2	12
DAX	12,447	0.0	-1.5	-3	7
CAC	5,199	-0.3	-0.7	-2	6
MIB	21,439	-0.2	-0.4	3	9
ASE Athens	855	0.1	0.1	3	30
MSCI Latam *	78.614	-0.2	0.6	4	7
Ibovespa (Brazil)	65.028	-0.2	-0.2	7	6
Mexbol	51,162	0.1	0.4	4	10
MSCI EM Europe *	5,026	0.7	1.0	4	-1
Poland	2,359	-0.7	0.3	2	18
Micex (Russia)	1,947	-0.3	-0.7	5	-14
Ise 100 (Turkey)	106,736	-0.6	2.4	8	40
MSCI EM Asia *	852	0.6	2.1	4	22
Shanghai Com (China)	3,245	0.4	0.8	3	3
Jakarta (Indonesia)	5,825	0.0	0.1	1	10

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	122.8	-0.3	-1.3	2	2
JPM	91.0	-0.2	-2.3	4	5
Citi	66.6	-0.1	-0.6	4	9
BoA	23.9	-0.7	-3.0	2	4
MS	46.6	-0.1	2.3	2	7
GS	222.3	-0.3	-3.5	-1	-9
EZ banks	114.1	-0.1	-2.4	5	8
BNP	64.3	-0.8	-3.9	3	2
Crédit Agricole	14.5	-0.3	-2.5	4	18
Deutsche Bank	15.8	-0.7	-4.1	4	-3
ING	15.5	0.6	-1.5	3	12
Intesa	2.9	0.4	0.6	13	13
SG	48.1	-0.1	-3.0	3	0
Unicredito	16.9	0.1	-3.1	8	20
UK banks	90.2	0.5	-0.6	4	3
HSBC	740.5	0.2	-0.5	8	11
RBS	249.2	-0.2	-3.0	0	6
Barclays	208.2	0.9	-1.5	3	-11
Lloyds	68.7	0.9	1.9	3	6
Large Spanish banks	89.5	0.7	-1.9	1	15
Santander	5.7	1.1	-2.2	-1	13
BBVA	7.5	0.3	-1.6	3	16
Medium Spanish banks	81.4	0.1	-2.8	4	11
Caixabank	4.3	1.2	-1.6	3	30
Sabadell	1.8	-1.0	-4.5	4	32
Bankinter	8.1	-0.2	-2.6	0	8
Bankia	4.4	0.4	-2.8	9	8

Currencies (%, red for currency depreciation)

Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.16	1.0	2.1	4.5	11
GBPUSD	1.30	-0.4	0.2	2.7	5
USD JPY	111.67	0.3	1.4	0.2	-5
DXY	94.21	-0.6	-1.6	3.6	8

Emerging	level	Daily	Weekly	Monthly	Year
USD ARS (Argentina)	17.14	0.0	-1.1	-6.2	-7
USD BRL (Brazil)	3.14	0.4	2.3	5.7	3
USD CLP (Chile)	651.57	0.3	1.4	1.9	3
USD COP (Colombia)	3000	0.1	1.5	1.1	-1
USD MXN (Mexico)	17.51	0.3	1.0	3.8	18
USD PEN (Peru)	3.24	0.1	0.2	1.0	4
LACI	66.47	0.2	1.2	3.0	8
USD PLN (Poland)	3.62	1.0	2.3	5.1	13
USD RUB (Russia)	58.86	0.2	1.6	1.2	2
USD TRY (Turkey)	3.52	0.0	1.2	0.6	1
USD CNY (China)	6.76	-0.1	0.4	1.0	3
USD INR (India)	64.43	-0.2	0.0	0.1	5
USD IDR (Indonesia)	13.333	-0.1	0.1	-0.3	1
ADXY	106.8	0.0	0.5	0.8	3

Commodities (%)

	level	Daily	Weekly	Monthly	Year
Brent	49.4	-0.5	2.1	7	-12
WTx	47	-0.5	1.8	8	-12
Copper	270	0.0	1.8	6	6
Gold	1247	0.5	2.4	0	7
S&P Spot commodity *	378	1.2	2.0	6	-5
S&P Brent Spot *	425	1.7	2.7	8	-12
S&P Metals Spot *	327	-1.0	0.3	5	8
S&P Agricultural *	297	0.0	0.7	3	-1

Source: Bloomberg, Datastream and Haver

* With one day delay

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