

Market Comment | The euro reaches pre-QE levels

Global Financial Markets Unit
08 Sep 2017

- **This week the euro reached levels of December 2014**, previous to the implementation of ECB's Public Sector Purchases Programme (PSPP). Although at Thursday's meeting the ECB forewent any change in the ECB's monetary policy stance, the strength in the European took place on the back of preliminary discussion on alternative scenario to calibrate the current QE -decision will most likely be taken in October- and more optimistic growth projections ([see](#)).
- However, **the weakness in the US dollar also contributed to the higher euro levels**. Concerns about the impact of the new powerful hurricane, looming devastating impact in Florida, the **heightening geopolitical tension with North Korea and the resignation of Vice Chair Fischer**, which tilts dovish the FOMC's balance of opinion, **have continued scaling back US rate hike expectations, dragging the US dollar and the US long-term yields**.
- Sovereign bond yields declined across the board led by the US yields, **as safe-haven assets attracted fresh flows due to above-mentioned geopolitical concerns** and the impact of hurricane. Yet the agreement on a three-month extension of US debt ceiling would delay any problem with the US Treasury payments until April 2018, relieving some pressure on US Treasury bills. Moreover, a more dovish key Fed speeches ([see](#)) also dragged down US Treasury yields. The European yields also dropped across the board, leading by the European peripherals, while the Spain's risk premia remain resilient.
- Oil prices increase during the week on the back of the impact of the hurricane on oil supply, lower US and ongoing geopolitical concerns. Gold prices also increase amid risk-off mood.
- Lower US dollar, decreasing markets' expectations of a US rate hike and higher oil prices improve EM asset valuation, with EM currency appreciating across the board and risk premia narrowing.
- On the other hand, equity markets were mixed with despite lower sovereign yields. Concerns about the impact of the hurricane on the US reinsurance sector, coupled with the negative impact of lower yield on the banking sector dragged the US equity markets. In Europe lower yields also dragged the European banking sector.

BBVA Research suggest the following reading list:

- Going beyond the Big Mac index: EQCHANGE - a new powerful database on actual and equilibrium effective exchange rates ([see](#))
- Understanding the Disconnect between Employment and Inflation with a Low Neutral Rate ([see](#))
- Global growth still at record rates for this expansion ([see](#))
- Does Low Unemployment Signal a Meaningful Rise in Inflation? ([see](#))

Update 18 CET 08 September, 2017
Table 1

Debt markets (% 10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.27	0.6	-7.4	-7	5
US	2.05	1.5	-11.2	-16	-38
GER (2-yr)	-0.76	0.2	-3.0	-7	2
Germany	0.33	1.8	-5.4	-10	-9
France	0.63	1.7	-5.4	-9	-18
Spain	1.56	6.8	-3.6	3	-1
Italy	1.98	5.2	-10.1	-4	11
Portugal	2.81	6.1	-3.2	3	-137
Greece	5.50	3.1	-3.2	-1	-139
Japan (2-yr)	-0.15	0.4	1.8	4	4
Japan	0.00	0.5	-3.4	-6	-6
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.67	12.0	-33.3	-35	-174
Chile	4.32	0.0	-3.0	6	-1
Colombia	6.65	0.6	-8.7	-14	-44
Mexico	6.75	-1.5	-10.0	-13	-80
Peru	5.15	-0.1	-2.4	-15	-132
Poland	3.15	0.8	-15.8	-23	-56
Russia	7.56	-2.9	-17.9	-28	-88
Turkey	10.37	-2.0	2.0	-12	-63
India	6.54	2.7	6.0	8	16
Indonesia	6.46	9.5	-23.6	-41	-138
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-0.1	0.0	2	-15
Italy	165	3.4	-4.7	7	13
Portugal	248	4.3	2.2	7	-106
Spain	124	5.0	1.8	12	-4
2-yr sovereign spread vs Germany					
France	21	0.1	-0.5	1	10
Italy	54	1.6	-0.4	8	-7
Portugal	78	3.8	4.3	5	-69
Spain	43	3.3	6.9	7	-5
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	180	-3.5	-13	-13	-91
Chile	55	-1.1	-2	-6	-27
Colombia	114	-2.0	-8	-10	-49
Mexico	97	-0.8	-4	-2	-59
Peru	70	-1.2	-4	-4	-38
Venezuela	6,403	203.7	-61	965	2497
Poland	54	0.1	-1	-4	-21
Russia	138	-2.3	-2	-12	-38
Turkey	162	-0.5	2	8	-110
China	60	-0.3	4	-3	-56
India	81	-1.5	0	-4	-46
Indonesia	101	-1.2	1	8	-55
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (%)					
VIX	12	4.2	19	0	0
VSTOXX	15	2.3	5	3	-1
EM EFT volatility index	17	0.0	7	-3	-18
Dollar/euro volatility	8	0.8	3	-2	-21
EM FX volatility index	8	0.5	4	-1	-30
Credit spread (BAA) (bps)	222	-1.5	7	15	-6
US bonds volatility index	54	2.1	9	9	-29
Banking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	50	0.1	2	4	-14
EZ	53	-1.3	-4	-1	-55
UK	47	-0.2	-1	-1	-43
Large Spanish	46	-1.0	-3	-4	-69
Medium Spanish	84	0.3	-5	-6	-67
Corporate by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	138	0.1	2	4	-14
EZ Non-financial	73	-1.1	-4	-1	-55
UK Non-financial	105	-0.4	2	-1	-20
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	-0.17	0.00	0.0	0.0	-0.1
Libor 3m	1.32	0.00	0.0	0.0	0.3
Libor 12m	1.71	0.00	0.0	0.0	0.0
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,465	0.0	-0.5	0	9
Dow Jones	21,785	0.0	-0.9	-1	9
Nikkei	19,275	-0.6	-2.1	-2	-2
FTSE 100	7,358	-0.4	-0.9	-2	2
EuroStoxx 50	3,448	0.0	0.1	-1	4
BSE	10,134	0.1	-1.9	-4	7
DAX	12,303	0.1	1.3	1	6
CAC	5,111	0.1	-0.2	-1	4
MIB	21,788	0.3	-0.3	0	11
ASE Athens	807	-0.5	-1.4	-3	23
MSCI Latam *	83,844	-0.1	1.5	4	14
Ibovespa (Brazil)	73,436	0.0	2.1	9	19
Mexcl	50,249	0.0	-1.6	-2	8
MSCI EM Europe *	5,174	-0.2	-0.5	1	2
Poland	2,482	-0.4	-1.8	3	24
Mosc (Russia)	2,036	1.3	1.3	3	10
Ise 100 (Turkey)	108,333	-1.3	-1.5	0	42
MSCI EM Asia *	866	0.5	-0.3	0	24
Shanghai Com (China)	3,365	0.0	-0.1	3	7
Jakarta (Indonesia)	5,857	0.5	-0.1	1	11
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	118.9	0.0	-4.3	-6	-1
Cit	88.5	0.0	-3.5	-5	2
Ch	66.1	0.0	-3.7	-3	8
BoA	23.0	0.0	-4.6	-7	0
MS	44.1	0.0	-4.6	-8	1
GS	215.8	0.0	-4.8	-7	-11
EZ banks					
BNP	110.3	1.0	-1.6	-5	5
BNP	63.2	1.1	-1.8	-6	1
Crédit Agricole	14.7	1.3	-1.3	-4	19
Deutsche Bank	13.4	0.8	-1.3	-10	-18
ING	14.7	0.8	-1.4	-5	6
Intesa	2.8	0.3	-1.0	-2	11
SG	46.5	1.3	-1.9	-4	-4
Unicredit	16.7	1.0	-0.4	-7	19
UK banks					
HSC	85.5	0.9	-2.4	-6	-3
HSC	726.5	0.4	-3.1	-5	8
RBS	241.9	0.3	-4.3	-7	3
Barclays	188.1	2.2	-2.1	-10	-20
Lloyds	63.7	1.0	0.0	-5	-2
Large Spanish banks					
Santander	84.8	0.7	-2.7	-7	9
BBVA	5.4	1.5	-2.2	-7	6
Caixa	7.2	0.1	-3.1	-7	11
Medium Spanish banks					
Celabank	76.4	0.4	-5.1	-8	5
Sabadell	4.2	1.5	-4.7	-6	27
Bankinter	1.7	0.1	-0.0	-10	24
Bankia	7.7	0.1	-3.4	-8	2
Bankia	3.9	0.0	-4.2	-9	-5
Commodities (% red for currency depreciation)					
level	Daily	Weekly	Monthly	Year	
Developed					
EURUSD	1.20	0.2	1.6	2.4	15
GBPUSD	1.32	0.8	1.9	1.5	7
USDJPY	107.69	0.7	2.3	-2.2	-8
DKX	91.22	-0.5	-1.7	2.5	11
Emerging					
USDARS (Argentina)	17.19	0.1	0.2	2.9	-7
USDBRL (Brazil)	3.09	0.5	1.7	2.2	4
USDCUP (Cuba)	616.73	-0.4	1.2	4.8	8
USDCOP (Colombia)	2911	-0.2	0.7	3.0	2
USDMXN (Mexico)	17.68	0.0	0.7	1.5	18
USDPEN (Peru)	3.23	0.0	0.1	0.4	4
LKO	67.19	0.1	1.0	2.4	9
USDPLN (Poland)	3.53	0.2	1.6	2.8	15
USD RUB (Russia)	57.06	-0.3	0.7	5.0	5
USDTRY (Turkey)	3.42	-0.3	0.4	3.5	4
USDCNY (China)	6.47	0.3	1.3	3.1	7
USDINR (India)	63.79	0.4	0.4	0.1	6
USDIDR (Indonesia)	13,185	0.9	1.0	1.1	2
ADNY	100.9	-0.1	0.6	1.7	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	54.7	0.3	3.7	4	-3
WTI	49	0.2	3.6	-1	-8
Copper	306	-2.0	-1.2	4	20
Gold	1349	0.0	1.8	6	16
S&P Spot commodity *	392	0.0	1.5	1	-1
S&P Brent Spot *	464	0.5	3.3	3	-3
S&P Metals Spot *	370	0.1	-0.5	6	22
S&P Agricultural *	282	-1.1	0.9	4	-6

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Euribor 12m	-0.17	0.00	0.0	0.0	-0.1
Libor 3m	1.32	0.00	0.0	0.0	0.3
Libor 12m	1.71	0.00	0.0	0.0	0.0
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,465	0.0	-0.5	0	9
Dow Jones	21,985	0.0	-0.9	-1	9
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FTSE 100	7,368	-0.4	-0.9	-2	2
EuroStoxx 50	3,448	0.0	0.1	-1	4
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Ise 100 (Turkey)	108,333	-1.3	-1.5	0	42
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Jakarta (Indonesia)	5,857	0.6	-0.1	2	11
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	88.5	0.0	-3.5	-5	2
CB	66.1	0.0	3.7	-3	8
BoA	23.0	0.0	-4.6	-7	0
MS	44.1	0.0	-4.6	-8	1
GS	215.8	0.0	-4.4	-7	-11
EZ banks					
BNP	63.2	1.1	-1.8	-6	1
Credit Agricole	14.7	1.3	-1.3	-4	19
Deutsche Bank	13.4	0.0	-1.3	-10	-18
ING	14.7	0.8	-1.4	-5	6
Intesa	2.8	0.3	-1.0	-2	11
SG	46.5	1.3	-1.9	-4	-4
Unicredit	16.7	1.0	3.4	-7	19
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HSBC	726.5	0.4	-3.1	-5	8
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Barclays	188.1	2.2	-2.1	-10	-20
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Large Spanish banks					
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Santander	5.4	1.5	2.2	-7	6
BBVA					
BBVA	7.2	0.1	-3.1	-7	11
Medium Spanish banks					
Cajabank	76.4	0.4	-5.1	-8	5
Cajabank	4.2	1.5	4.7	-6	27
Sabadell	1.7	-0.1	9.0	-10	24
Bankinter	7.7	0.1	-3.4	-8	2
Bankinter	3.9	0.0	4.2	-9	5
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.20	0.2	1.6	2.4	15
GBPUSD	1.32	0.8	1.9	1.5	7
USDJPY	107.69	0.7	2.3	-2.2	-8
USDY	91.22	-0.5	-1.7	2.5	11
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.19	0.1	0.2	2.9	-7
USD BRL (Brazil)	3.09	0.5	1.7	2.2	4
USD CUP (Cuba)	616.73	-0.4	1.2	4.8	8
USDCOP (Colombia)	2911	-0.2	0.7	3.0	2
USDMXN (Mexico)	17.68	0.0	0.7	1.5	18
USD PEN (Peru)	3.23	0.0	0.1	0.4	4
LACI	67.19	0.1	1.0	2.4	9
USD PLN (Poland)	3.53	0.2	1.6	2.8	15
USD RUB (Russia)	57.06	-0.3	0.7	5.0	5
USD TRY (Turkey)	3.42	-0.2	0.4	3.5	4
USDCNY (China)	6.47	0.3	1.3	3.1	7
USD INR (India)	63.79	0.4	0.4	0.1	6
USD IDR (Indonesia)	13,185	0.9	1.0	1.1	2
ADXY	108.9	-0.1	0.6	1.7	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	54.7	-0.3	3.7	4	-3
WTI	49	-0.2	3.6	-1	-8
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Source: Bloomberg, Datastream and Haver

* With one day delay

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