

# Market Comment | A recovery in interest rate hike expectations led to higher bond yields

Global Financial Markets Unit  
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- **Positive mood in financial markets during this week**, as recent sources of risk moderated slightly: potential negative effect of hurricanes on the US economy ([see](#)) seems to be less than expected, easing geopolitical tensions and the debt-ceiling agreement in the US, which postpones the new revision to December.
- **Sovereign bond yields increased across the board**, led by US Treasuries amid a recovery in interest rate hike expectations (which almost reached 50%). Positive August inflation figures ([see](#)), among others, on the back of surging gasoline prices due to the effects of hurricanes ([see](#)) was one of the key events.
- **Global equity prices continued their upward trend**, hovering around their historical highest levels in the US, despite higher yields. Fading negative factors such as geopolitical tensions ([see](#)) and the weakening of Hurricane Irma supported this movement, especially in the insurance sector ([see](#)).
- The **USD also appreciated during the week** following the above-mentioned factors and as a consequence the EUR moderated its recent high levels, which also played a role in the positive evolution of European shares.
- The **ECB's Coeuré also gave a speech on the recent EUR appreciation** and its transmission to core inflation ([see](#)), showing little concern about the consequences for inflation of the recent high EUR, arguing that the pass-through effect of exchange rates is limited.
- The **GBP appreciated significantly** after the last BoE monetary policy meeting ([see](#)) which, although it did not change the monetary policy stance, **paved the way for upcoming interest rate hikes**, saying that a normalization of monetary policy would be appropriate, unless there was a negative economic shock ([see](#)). UK sovereign bond yields also rose significantly.
- **Oil prices increased significantly this week** and reached their highest level since April, after bullish reports on oil demand and inventories data. The IEA released its [report](#) ([see](#)) pointing to lower inventories due to higher demand, while **OPEC raised its forecast oil demand for 2017 and 2018** ([see](#)).

- EM currencies ended up little changed during the week, after a higher USD and US yields offset higher oil prices. The **CNY depreciated** against the USD after the Chinese government unveiled new measures to ease the tight capital controls in the country ([see](#)). The TRY also ended up the week lower, despite the fact that Turkish **GDP Q2 grew substantially** ([see](#)), and the fact that the Turkish Central Bank left its monetary policy unchanged ([see](#)).

BBVA Research suggest the following reading list:

- The transmission of the ECB's monetary policy in standard and non-standard times ([see](#))
- A shallow pool of safe assets ([see](#))
- Toward artificial intelligence technologies as an integral part of service business operations ([see](#))

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Table 1

Debt markets (%10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.38	1.5	11.4	5	16
US	2.20	1.9	15.3	2	-24
GER (2-yr)	-0.69	2.3	6.7	2	8
Germany	0.44	2.5	12.6	1	9
France	0.72	1.7	9.9	3	-10
Spain	1.61	0.4	6.2	4	3
Italy	2.07	1.3	11.3	2	26
Portugal	2.80	1.5	0.0	3	138
Greece	5.42	0.8	-3.3	-18	-146
Japan (2-yr)	-0.13	0.9	1.5	2	6
Japan	0.03	2.5	-3.3	4	-4
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.80	1.6	9.0	-28	-161
Chile	4.23	0.0	1.1	5	0
Colombia	6.45	-9.2	-17.1	-28	-64
Mexico	6.81	0.8	6.7	-4	-83
Peru	5.06	0.4	-8.3	23	-141
Poland	3.23	-0.1	6.7	-17	-49
Russia	7.62	-0.4	4.0	-19	-83
Turkey	10.44	-1.0	7.0	-10	56
India	6.60	0.8	5.5	6	22
Indonesia	6.52	-1.4	6.4	38	-132
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	28	-0.8	-2.7	-2	-18
Italy	163	-1.2	-1.3	3	12
Portugal	236	-4.0	-12.6	-3	-118
Spain	117	-2.1	-6.4	3	-11
<b>2-yr sovereign spread vs Germany</b>					
France	21	-0.5	0.5	-2	11
Italy	51	-3.0	-3.2	1	-11
Portugal	71	-0.5	-5.2	-6	-76
Spain	40	-2.8	-4.1	3	-9
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
<b>5-yr sovereign CDS *</b>					
Brazil	179	-0.6	-2	-20	-93
Chile	55	1.5	-1	-8	-28
Colombia	113	0.1	-1	-15	-50
Mexico	98	0.3	1	-7	-58
Peru	70	0.7	0	-6	-38
Venezuela	6,147	40.5	-255	95	2242
Poland	55	0.1	1	2	20
Russia	134	-3.2	-5	-15	-43
Turkey	162	0.4	0	-11	-111
China	56	-0.9	-4	-10	-61
India	79	-0.2	-2	-7	-48
Indonesia	96	0.4	-5	-14	-60
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
<b>Volatility indicators (%)</b>					
VIX	10	0.3	-14	11	-1
VSTOXX	13	2.2	-17	-12	-4
EM EFT volatility index	14	0.8	-20	-11	-30
Dollar/euro volatility	8	-0.7	-6	-2	-26
EM FX volatility index	8	0.4	5	2	30
Credit spread (BAA) (bps)	213	-1.9	-5	5	-15
US bonds volatility index	51	-1.2	8	5	-34
<b>Banking by CDS (bps) *</b>					
level	Daily	Weekly	Monthly	YTD	
US	53	-0.6	6	2	19
EZ	52	-0.1	-1	-5	-56
UK	48	0.5	1	3	42
Large Spanish	49	0.6	1	-5	-68
Medium Spanish	84	-0.3	0	-8	-67
<b>Corporate by CDS (bps) *</b>					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	139	-0.6	-6	-2	-19
EZ Non-financial	70	-0.1	-1	-5	-56
UK Non-financial	104	0.0	-1	4	-21
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	
<b>Main indices</b>					
S&P500	2,492	-0.1	1.3	1	10
Dow Jones	22,229	0.1	2.0	1	11
Nikkei	19,910	0.5	3.3	1	2
FTSE 100	7,214	-1.1	-2.2	-3	0
EuroStoxx 50	3,511	-0.4	1.8	1	6
BSE	10,294	0.7	1.6	2	9
DAX	12,509	-0.3	1.7	2	8
CAC	5,205	0.4	1.8	1	6
MIB	22,232	-0.2	2.1	1	13
ASE Athens	780	-1.4	-2.9	-7	19
MSCI Latam *	84,690	-0.1	1.0	5	16
Ibovespa (Brazil)	75,104	0.6	2.8	9	22
Bovespa	50,053	0.1	-0.1	2	7
MSCI EM Europe *	5,202	-0.1	0.5	4	3
Poland	2,498	-0.4	0.6	5	25
Moscú (Russia)	2,059	0.3	1.3	6	9
Ise 100 (Turkey)	108,050	-0.2	-0.4	1	42
MSCI EM Asia *	879	0.2	1.6	4	26
Shanghai Com (China)	3,354	-0.5	-0.3	3	6
Jakarta (Indonesia)	5,872	0.5	0.7	1	11
<b>Banking sector</b>					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
JPM	91.2	0.3	3.1	-1	5
Cit	69.1	-0.2	4.4	2	12
BoA	24.3	0.1	6.0	0	6
MS	46.2	-0.4	5.0	0	6
GS	224.8	-0.9	3.5	0	8
<b>EZ banks</b>					
BNP	114.1	-1.2	3.6	-2	8
BNP	65.7	-1.3	4.3	-2	5
Crédit Agricole	15.1	-1.2	3.1	-2	23
Deutsche Bank	13.8	-1.5	3.7	-5	-15
ING	15.1	-1.7	2.5	3	8
Intesa	2.9	-0.3	3.8	0	15
SG	48.1	-1.4	3.8	-2	0
Unicredit	17.6	0.8	5.1	2	25
<b>UK banks</b>					
HSC	85.8	-1.5	0.0	4	-2
HSC	708.3	-1.7	2.9	5	6
RBS	250.3	-1.2	2.4	-5	7
Barclays	187.0	-1.5	-0.3	-7	-20
Lloyds	65.5	-1.3	2.7	0	1
<b>Large Spanish banks</b>					
Santander	87.1	-1.5	3.1	3	12
Santander	5.6	-1.8	4.0	2	10
BBVA	7.3	-1.3	2.4	4	13
<b>Medium Spanish banks</b>					
Cajabank	78.4	-0.5	2.4	-5	7
Cajabank	4.3	0.9	2.8	-4	31
Sabadell	15.1	-0.1	3.3	0	29
Bankinter	7.8	-0.8	1.7	5	4
Bankia	4.0	-0.1	2.1	6	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>					
EURUSD	1.20	0.4	-0.6	1.7	14
GBPUSD	1.36	1.4	2.9	5.4	10
USDJPY	110.91	-0.6	-2.8	0.7	-5
DKK	91.73	-0.4	0.4	1.9	11
<b>Emerging</b>					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	16.98	0.1	1.3	1.3	-6
USD BRL (Brazil)	3.13	-0.2	-1.3	0.8	3
USDCUP (Cuba)	626.00	-0.3	-0.9	3.0	7
USDCOP (Colombia)	2896	0.1	0.4	2.4	2
USDMXN (Mexico)	17.68	-0.1	0.2	-0.1	18
USD PEN (Peru)	3.25	-0.2	-0.4	-0.1	4
LKR	65.86	-0.4	-0.4	1.7	9
USD PLN (Poland)	3.57	0.4	-1.3	1.5	14
USD RUB (Russia)	57.77	-0.5	-0.7	2.7	4
USDTRY (Turkey)	3.44	-0.1	-0.8	2.2	4
USDCNY (China)	6.55	0.1	-0.8	2.1	6
USD INR (India)	64.08	0.1	-0.5	0.1	6
USD IDR (Indonesia)	13,240	0.1	-0.4	1.0	1
ADNY	108.4	0.0	-0.4	1.2	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>					
Brent	55.7	0.4	3.6	11	-1
WTI	50	0.1	5.0	7	6
Copper	293	-0.4	-3.2	-1	-15
Gold	1322	-0.6	-1.8	3	14
S&P Spot commodity *	394	0.5	1.8	5	0
S&P Brent Spot *	470	0.5	2.8	10	2
S&P Metals Spot *	357	-0.6	-1.3	-1	-17
S&P Agricultural *	284	0.6	0.5	2	5

Source: Bloomberg, Datastream and Haver

\* With one day delay

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- After yesterday's widespread positive mood after easing concerns over North Korea, **today financial markets were broadly steady**, with little variation among stock and bond prices.
- The **USD continued in its recent upward trend while the EUR continued eroding its recent high level**, as factors recently weighing on USD strength started to blur: geopolitical tensions, political uncertainty and hurricane effects, among others.
- **US Treasury yields inched up after the release of PPI inflation**, which rose on the back of **surging gasoline prices due to the effects of hurricanes** ([see](#)). Financial markets will be closely watching the developments of US inflation (tomorrow), a key variable for the Fed to design the path of US interest rate hikes onwards.
- Stock prices inched up in Europe, led by industrials and the finance sector. Meanwhile, US indices remained hovering around their highest levels despite the disappointment about the release date of the new Apple product, which affected suppliers ([see](#))
- **Oil prices increased after the IEA released its report** ([see](#)) pointing to lower inventories due to higher demand. Moreover, today's release of gasoline inventories, which dropped significantly more than expected, supported the increase in oil prices. EM currencies also benefited from the higher oil prices.