

Market Comment | Markets started a busy week in a positive tone

Global Financial Markets Unit
18 Sep 2017

- **Financial markets started the week in a positive mood ahead of a busy week**, with important events -including an FOMC meeting, speeches by top ECB officials, a BoJ meeting and a speech by Theresa May, among others- (see below). This mood was reflected in a positive relative performance of risk asset prices, while safe-haven prices declined slightly. In addition, **geopolitical concerns declined as US officials vowed to find a peaceful solution with North Korea** ([see](#)).
- **Equity prices in the US reached new record highs ahead of the Fed meeting**, while the implied volatility in the S&500 hovered around recent low levels. In Europe, share prices also gained some ground, with basic materials among the stand-out sectors.
- The EUR inched up, and German sovereign bond yields were broadly stable after the publication of **EZ August inflation** ([see](#)), which remained at the same level, as expected. Moreover **ECB's Hansson** said that ECB should discuss a broader range of measures, rather than only the QE program ([see](#)).
- **US Treasuries also showed only minor changes**. Peripheral risk premiums narrowed, led by **Portugal after S&P upgraded its credit rating to investment grade (BBB- from BB+) with a neutral outlook** ([see](#)), on the back of a positive economic outlook and an improvement in the public deficit and external financing. Markets expect that other rating agencies will now take the same decision.
- **Oil prices moderated their recent high levels, but they still quote above 55\$ per barrel** ([see](#)), amid drops in shale drilling, following the restarting process after recent hurricanes forced a number of refineries to shut down. EM currencies suffered from the combination of lower oil prices and a slightly higher USD.

FOMC preview

- Projection materials and communications from the upcoming FOMC meeting (19-20 September) will set the tone for U.S. monetary policy in the remainder of 2017, as fears of financial instability and strengthening economic headwinds have abated. First, the Fed is set to announce the beginning of balance sheet normalization in 4Q17; the consensus and communications from Fed members suggest that they are eager to begin the process soon. Second, the summary of economic projections will confirm whether committee members' fears of persistently low trend inflation are growing or if the committee's

dovish interest rate bias has grown. Given where we are in the calendar year, any major shift in the median projected path of the Fed Funds rate would significantly alter the probability of changes to the Fed funds rate. Notwithstanding any major shift in the committee's bias, we expect one additional 25bp increase in December. Third, Vice Chairman Fisher's unexpected resignation has created a situation in which the FOMC has only two governors and could be without its chair and vice chair by the end January 2018 ([see](#)).

Update 18.0 CET 18 September, 2017

Table 1

Debt markets (% 10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.39	1.2	7.4	10	18
US	2.23	2.3	8.5	4	-21
GER (2-yr)	-0.69	1.0	6.1	1	8
Germany	0.46	2.3	12.0	3	10
France	0.73	1.9	9.6	1	-8
Spain	1.59	-2.1	2.2	5	2
Italy	2.07	-0.4	10.6	4	21
Portugal	2.44	36.4	-37.9	34	-174
Greece	5.48	4.1	1.5	-15	-141
Japan (2-yr)	-0.13	0.0	1.1	-3	6
Japan	0.03	1.9	-2.5	-4	-4
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.78	-2.6	-1.5	-41	-163
Chile	4.33	0.0	1.2	5	0
Colombia	6.50	1.9	-8.6	-23	-59
Mexico	6.81	1.3	7.4	-3	-83
Peru	4.87	-14.1	-29.0	-39	-161
Poland	3.27	3.2	10.0	-10	-45
Russia	7.70	12.7	10.0	-10	-75
Turkey	10.48	4.0	15.0	-1	52
India	6.61	1.3	4.8	8	23
Indonesia	6.48	-4.5	8.0	43	-136
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	27	-0.4	-2.4	-2	-19
Italy	162	-2.7	-1.4	1	10
Portugal	198	-38.7	-49.9	-37	-156
Spain	113	-4.4	-9.8	0	-15
2-yr sovereign spread vs Germany					
France	22	0.0	0.7	-2	11
Italy	50	2.4	-4.2	0	-11
Portugal	70	-3.1	-3.9	-5	-77
Spain	39	-3.0	-5.7	4	-9
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	176	-3.0	-4	-22	-96
Chile	52	-3.2	-4	-11	-31
Colombia	110	-2.9	-5	-20	-53
Mexico	97	-1.1	-2	-9	-59
Peru	69	-0.8	-1	-7	-38
Venezuela	6,084	43.6	-122	136	2179
Poland	55	0.1	0	2	20
Russia	131	-2.7	-8	-17	-45
Turkey	161	-0.8	-1	-12	-111
China	55	-0.9	-6	-9	-62
India	79	-0.1	-2	-8	-48
Indonesia	94	-1.6	-6	-15	-62
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	10	-1.6	1.7	3.6	-2
VSTOXX	12	-2.1	-1.4	-2.2	-5
EM EFT volatility index	15	5.2	-4	-32	-28
Dollar/euro volatility	8	1.7	-1	0	-26
EM FX volatility index	8	-0.3	-1	3	-31
Credit spread (BAA) (bps)	207	-2.3	-8	-2	-20
US bonds volatility index	51	-0.2	-2	4	-34
Banking By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	52	0.4	1.7	2	20
EZ	51	0.5	-3	5	-57
UK	48	-0.3	0	2	42
Large Spanish	49	-0.3	-1	-4	-68
Medium Spanish	84	-0.2	-1	-8	-68
Corporate By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	140	-0.4	-7	-2	-20
EZ Non-financial	70	-0.5	-3	-5	-57
UK Non-financial	103	-0.8	-2	-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	1.73	0.01	0.0	0.0	0.0
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,507	0.3	0.7	3	10
Dow Jones	22,347	0.4	1.3	3	12
Nikkei	19,910	0.0	1.9	1	2
FTSE 100	7,253	0.5	-2.2	-2	1
EuroStoxx 50	3,527	0.3	0.9	2	6
BSE	10,338	0.2	0.2	-1	9
DAX	12,559	0.3	0.7	3	8
CAC	5,229	0.3	1.0	2	7
MIB	22,365	0.5	1.0	3	14
ASE Athens	761	-2.0	-5.6	-9	16
MSCI Latam *	85,447	0.9	2.3	5	17
Ibovespa (Brazil)	75,896	0.2	2.1	12	23
Bovespa	50,146	0.4	0.4	2	8
MSCI EM Europe *	5,180	-0.4	0.1	3	3
Poland	2,502	0.1	-0.5	6	25
Moscú (Russia)	2,059	0.3	0.7	6	9
Ise 100 (Turkey)	106,535	-1.1	-2.7	0	40
MSCI EM Asia *	881	0.2	1.6	3	27
Shanghai Com (China)	3,363	0.3	-0.4	3	6
Jakarta (Indonesia)	5,885	0.5	-0.5	0	12
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	127.0	1.6	4.5	5	6
Cit	92.7	1.2	3.2	2	7
Ch	70.5	2.0	4.0	6	15
BoA	24.7	1.4	5.8	5	8
MS	47.4	1.7	5.0	5	9
GS	227.6	1.0	2.9	3	6
EZ banks					
BNP	114.0	0.2	-2.1	0	9
BNP	66.2	0.3	3.0	0	5
Crédit Agricole	15.0	-1.2	0.1	-1	-22
Deutsche Bank	13.9	0.3	1.1	-2	-15
ING	15.2	0.3	1.9	-1	9
Intesa	2.9	0.6	2.7	1	15
SG	48.5	0.5	2.5	1	1
UniCredit	17.8	1.0	3.7	1	27
UK banks					
HBS	86.3	0.7	0.6	-2	-2
HSC	718.7	1.5	-2.3	-3	7
RBS	252.9	0.5	3.7	-2	8
Barclays	187.5	0.4	0.4	-5	-20
Lloyds	65.3	0.0	2.6	1	1
Large Spanish banks					
Santander	88.1	0.6	1.2	0	13
BBVA	5.6	0.7	1.9	2	11
Caixa	7.4	0.5	0.6	-1	-14
Medium Spanish banks					
Celabank	78.7	0.0	1.1	-3	8
Sabadell	4.3	-1.2	0.5	3	30
Bankinter	1.8	1.0	3.8	5	30
Bankia	7.9	0.2	0.3	-3	-4
Bankia	4.0	0.3	0.1	4	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.19	-0.1	-0.1	1.8	14
GBPUSD	1.35	-0.8	2.4	4.8	9
USDJPY	111.51	-0.6	-1.9	1.8	-5
DKK	91.99	0.1	0.1	1.7	10
Emerging					
USDARS (Argentina)	17.09	-0.7	0.5	1.5	-6
USDBRL (Brazil)	3.13	-0.6	-0.9	1.4	3
USDCUP (Cuba)	625.45	0.0	0.4	3.2	7
USDCOP (Colombia)	2913	-0.6	0.3	2.6	2
USDMXN (Mexico)	17.76	-0.6	-0.5	0.5	17
USDPEN (Peru)	3.25	0.1	-0.4	-0.2	4
LKR	65.67	-0.2	-0.5	1.3	8
USDPOLN (Poland)	3.59	-0.4	-1.1	1.4	14
USD RUB (Russia)	57.98	-0.8	-1.3	2.1	4
USDTRY (Turkey)	3.49	-1.5	-2.4	1.1	2
USDCNY (China)	6.58	-0.3	-0.7	1.5	5
USDINR (India)	64.14	-0.1	-0.3	0.0	6
USDIDR (Indonesia)	13,255	-0.1	-0.8	0.8	1
ADNY	108.2	-0.1	-0.3	1.1	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	55.1	-1.0	2.3	8	-2
WTI	49	-0.9	2.8	5	-7
Copper	295	0.6	-3.3	0	16
Gold	1308	-1.0	-1.5	2	12
S&P Spot commodity *	396	0.4	2.0	6	0
S&P Brent Spot *	472	0.4	3.0	9	2
S&P Metals Spot *	357	0.1	-2.3	0	17
S&P Agricultural *	286	0.6	1.3	3	-5

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Eurbor 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	1.73	0.01	0.0	0.0	0.0
Stock markets (%)					
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Main indices					
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FTSE 100	7,253	0.5	2.2	-2	1
EuroStoxx 50	3,527	0.3	0.9	2	6
IBEX	10,338	0.2	0.2	-1	9
DAX	12,559	0.3	0.7	3	8
CAC	5,229	0.3	1.0	2	7
MBI	22,365	0.6	1.0	3	14
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Micex (Russia)	2,059	0.3	0.7	6	9
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MSCI Asia *	881	0.2	1.6	3	27
Shanghai Com (China)	3,363	0.3	0.4	3	6
Jakarta (Indonesia)	5,805	0.6	0.5	0	12
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	127.0	1.6	4.5	5	6
Citi	92.7	1.2	3.2	2	7
Chf	70.5	2.0	4.0	6	15
BoA	24.7	1.4	5.8	5	8
MS	47.4	1.7	5.0	5	9
GS	227.6	1.0	2.9	3	6
EZ banks	114.6	0.2	2.1	0	9
BNP	66.2	0.3	3.0	0	5
Credit Agricole	15.0	-1.2	0.1	-1	22
Deutsche Bank	13.9	0.3	1.1	-2	-15
ING	15.2	0.3	1.9	-1	9
Intesa	2.9	0.6	2.7	1	15
SG	48.5	0.5	2.5	1	1
Unicredit	17.8	1.0	3.7	1	27
UK banks	86.3	0.7	0.6	-2	-2
HSBC	718.7	1.5	2.3	-3	7
RBS	252.9	0.5	3.7	-2	8
Barclays	187.5	0.4	0.4	-5	-20
Lloyds	65.3	0.0	2.6	1	1
Large Spanish banks					
Santander	88.1	0.6	1.2	0	13
Banco Sabadell	5.6	0.7	1.9	2	11
BBVA	7.4	0.5	0.6	-1	14
Medium Spanish banks					
Cajabank	78.7	0.0	1.1	-3	8
Caja de Pensiones	4.3	-1.2	0.5	-3	30
Sabadell	1.8	1.0	3.8	-5	30
Bankinter	7.9	0.2	0.3	-3	4
Bankia	4.0	0.3	0.1	-4	3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.19	-0.1	-0.1	1.8	14
GBPUSD	1.35	-0.8	2.4	4.8	9
USDJPY	111.51	-0.6	-1.9	1.8	-5
USDY	93.99	0.1	0.3	1.7	10
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.09	-0.7	0.5	1.5	-6
USD BRL (Brazil)	3.13	-0.6	-0.9	1.4	3
USDCLP (Chile)	625.45	0.0	-0.4	3.2	7
USDCOP (Colombia)	2913	-0.6	0.3	2.6	2
USDMXN (Mexico)	17.76	-0.6	-0.5	0.5	17
USDPEN (Peru)	3.25	0.1	0.4	0.2	4
LACI	66.67	-0.2	-0.5	1.3	8
USDPLN (Poland)	3.59	-0.4	-1.1	1.4	14
USD RUB (Russia)	57.98	-0.8	-1.3	2.1	4
USDTRY (Turkey)	3.49	-1.5	-2.4	1.1	-2
USDCNY (China)	6.58	-0.3	0.7	1.5	5
USDINR (India)	64.14	-0.1	-0.3	0.0	6
USDIDR (Indonesia)	13,255	-0.1	-0.8	0.8	1
ADXY	100.3	-0.1	-0.3	1.1	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	55.1	-1.0	2.3	8	-2
WTI	49	-0.9	2.6	5	-7
Copper	295	0.6	-3.3	0	16
Gold	1308	-1.0	-1.5	2	12
S&P Spot commodity *	396	0.4	2.0	6	0
S&P Brent Spot *	472	0.4	3.0	9	-2
S&P Metals Spot *	357	0.1	-2.3	0	17
S&P Agricultural *	286	0.6	1.3	3	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.