

Market Comment | Higher yields amid talks on next Fed Chair and Tax reform prospects

Global Financial Markets Unit
20 Oct 2017

- **Sovereign bond yields increased across the board**, led by US Treasury yields ahead of Trump's announcement of the next Fed Chair expected next week, with the market now betting between John Taylor, who is seen as a policy hawk, and Jerome Powell, seen as most likely to continue the present course ([see](#)). In addition, yields also rose as Trump's tax reform received a boost after the US Senate adopted a fiscal 2018 budget resolution ([see](#)) that may pave the way for tax reform and cuts. German sovereign bond yields also rose ahead of next week ECB meeting, at which the announcement of the recalibration of ECB EQ is expected. Disappointing German talks, which may delay the formation of a German government until 2018 ([see](#)), might also have played a role in higher yields.
- **Equity volatility reached 11 levels during the week although it declined at the end of the week**, as stock prices swung between gains and losses, amid political risk in Spain and the release of third-quarter earnings reports. The Spanish equity Index was the worst performer, dragged down by tensions around Catalonia, ahead of the triggering of Article 155 of the Spanish Constitution after the Catalanian regional government missed Mr Rajoy's deadline.
- **Chinese stocks also underperformed**, as the PBOC governor expressed concern that debt was rising quickly ([see](#)), amid the celebration of the 19th Communist Party Congress. Iron ore also declined significantly. Investors are also waiting for more clarity from the Congress. On the other hand, China's GDP Q3 was 6.8%, in line with expectations ([see](#)).
- **The US dollar inched up during the week amid talks on the next Fed Chair and Janet Yellen's speech, in which she said the lack of inflation in the US was transitory**([see](#)). The US dollar also strengthened after the Senate passed the budget blueprint making tax cuts more likely. Consequently, financial markets continue to price in a rate hike within this year (implied probabilities of a December rate hike at 80%). Moreover, US industrial production bounced back in September.
- **Oil prices remained at recent highs** on the back of lower US crude oil inventories ([see](#)), and due to hopes of further oil production cuts. Meanwhile, EM currencies remained stable across the board. The MXN appreciated slightly during the week, following the announcement of the extension of NAFTA talks until 2018 ([see](#)).

BBVA Research suggests the following reading list:
Bolder rethinking needed on macroeconomic policy ([see](#))

Update 16.30 CET 20 October 2017
Table 1

Debt markets (10Y, % changes in bp)					
	level	Daily	Weekly	Monthly	YTD
Developed Markets					
US (2-yr)	1.57	3.8	7.5	13	35
US	2.38	6.3	10.8	11	-6
GER (2-yr)	0.72	1.4	0.8	-3	6
Germany	0.45	5.0	4.2	0	9
France	0.86	4.5	3.9	-3	-11
Spain	1.65	1.4	3.8	7	18
Italy	2.04	1.1	-4.4	-6	14
Portugal	2.29	-1.8	-4.2	-9	-188
Greece	5.57	0.6	2.7	-1	-132
Japan (2-yr)	0.13	1.4	1.1	-1	6
Japan	0.08	1.1	4.6	1	1
Emerging Markets					
Brazil	9.64	2.0	-13.3	-5	-177
Chile	4.53	-1.2	-3.9	19	20
Colombia	6.46	2.7	10.4	-3	-63
Mexico	7.11	6.4	-8.2	28	-52
Peru	4.92	-1.1	1.9	4	-155
Poland	3.39	9.4	8.1	7	-33
Russia	7.61	0.7	2.6	-3	-84
Turkey	11.14	4.0	19.0	57	14
India	6.76	0.0	2.6	18	38
Indonesia	6.65	2.6	8.9	21	-119
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	41	-0.5	-0.3	-3	-28
Italy	160	-3.9	-0.6	-6	-3
Portugal	185	-6.8	-8.4	-9	-170
Spain	120	-3.6	-0.4	7	5
2-yr sovereign spread vs Germany					
France	20	-0.4	-0.4	-2	9
Italy	47	-1.9	-4.0	-1	-14
Portugal	66	-6.2	-5.5	-2	-81
Spain	44	-1.1	-2.0	7	-4
Risk indicators					
Volatility indicators (%)					
VIX	10	-4.1	0	-1	-2
VSTOXX	12	-1.6	3	4	-4
EM EFT volatility Index	15	-3.4	1	-3	-26
Dollar/euro volatility	7	1.0	-2	-8	-33
EM FX volatility Index	8	-0.5	-1	4	-28
Credit spread (BAA) (bps)	191	-6.3	-7	-10	-36
US bonds volatility Index	51	2.4	1	5	-33
Banking 5y CDS (bps) *					
US	50	-0.1	-1	0	-22
EZ	56	1.5	2	9	-52
UK	50	0.4	3	4	-40
Large Spanish	57	1.8	4	11	-60
Interbank markets (% changes in bp)					
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	-0.18	0.00	0.0	0.0	-0.1
Libor 3m	1.36	0.00	0.0	0.0	0.4
Libor 12m	1.83	0.00	0.0	0.1	0.1
Stock markets (%)					
Main indices					
S&P500	2,571	0.3	0.7	2	13
Dow Jones	23,235	0.3	1.6	4	17
Nikkei	21,458	0.0	1.4	6	10
FTSE 100	7,537	0.2	0.0	4	5
Eurostoxx 50	3,608	0.2	0.1	2	9
IBEX	10,240	0.4	-0.2	-1	8
DAX	12,999	0.1	0.1	3	12
CAC	5,378	0.2	0.5	3	10
MIB	22,311	0.8	-0.5	0	14
ASE Athens	749	0.3	-1.6	-1	14
MSCI Latam *	86,225	-0.3	-0.2	1	18
Ibovespa (Brazil)	76,694	0.5	-0.4	1	25
Mercol	50,522	1.0	1.1	0	8
MSCI EM Europe *	5,215	-0.6	-0.7	1	3
Poland	2,473	0.2	-2.2	-1	24
Micex (Russia)	2,071	-0.1	-1.3	1	-9
Ise 100 (Turkey)	108,077	-0.3	1.7	3	42
MSCI EM Asia *	901	-1.1	-0.5	1	29
Shanghai Com (China)	3,379	0.3	-0.4	0	7
Jakarta (Indonesia)	5,930	0.0	0.1	0	12
Banking sector					
US banks					
JPM	135.5	1.2	3.2	5	13
Citi	99.2	1.1	3.5	5	14
Chf	73.5	0.8	1.9	3	20
BoA	27.1	2.1	5.1	8	18
MS	50.4	1.2	4.3	5	15
GS	241.8	0.7	1.3	5	-1
EZ banks					
BNP	116.0	1.3	2.1	2	10
BNP	68.3	1.4	3.3	3	9
Crédit Agricole	15.2	2.0	2.9	2	24
Deutsche Bank	14.4	1.3	2.6	6	-12
ING	15.8	0.6	1.6	4	14
Intesa	2.9	0.6	0.3	-2	13
SG	48.5	1.1	2.5	2	1
Unicredit	17.2	2.6	0.9	-2	22
UK banks					
HSBC	91.0	1.0	2.0	5	4
RBS	750.0	1.0	1.5	4	12
RBS	284.0	1.4	3.2	11	21
Barclays	195.1	1.6	2.0	5	-17
Lloyds	67.2	0.2	1.9	2	4
Large Spanish banks					
Santander	87.6	1.3	0.5	0	12
Santander	5.6	0.6	0.7	0	11
BBVA	7.4	1.9	0.4	0	13
Medium Spanish banks					
Cakabank	76.3	0.2	-0.8	-1	4
Cakabank	3.9	-0.4	-4.2	-7	18
Sabadell	1.6	-0.8	-3.1	-6	18
Bankinter	8.1	0.5	1.9	4	7
Bankia	4.1	1.3	1.3	3	0
Currencies (% red for currency depreciation)					
Developed					
EURUSD	1.18	-0.6	0.3	-0.9	12
GBPUSD	1.32	0.2	-0.8	-2.3	7
USDJPY	113.43	-0.8	-1.4	1.1	-3
DXY	93.66	0.4	0.6	-1.2	9
Emerging					
USDARS (Argentina)	17.48	-0.2	-0.8	-1.7	-9
USD BRL (Brazil)	3.19	0.6	-1.4	-1.8	1
USD CLP (Chile)	629.70	-0.7	-1.0	-1.5	6
USDCOP (Colombia)	2938	-0.7	-0.1	-1.6	1
USDMXN (Mexico)	19.05	-1.3	-0.7	-7.2	11
USD PEN (Peru)	3.24	0.2	0.3	0.3	4
LACL	64.52	-0.7	-1.0	-2.9	5
USDRPLN (Poland)	3.59	0.6	0.0	0.1	14
USDRUB (Russia)	57.50	-0.4	-0.3	1.2	5
USDTRY (Turkey)	3.68	-0.9	-1.2	-5.0	-3
USD CNY (China)	6.62	0.1	-0.6	-0.7	5
USD INR (India)	65.04	0.0	-0.2	-1.2	4
USDIDR (Indonesia)	13,519	0.0	-0.2	-1.8	-1
ADXY	107.5	-0.2	0.6	-0.5	4
Commodities (%)					
Brent					
WTX	57.3	0.1	0.2	2	1
WTX	51	-0.1	-0.4	2	-4
Copper	318	0.9	1.9	8	25
Gold	1282	0.6	-1.7	-1	10
S&P Spot commodity *	401	-0.6	-0.4	1	1
S&P Brent Spot *	485	-1.4	0.1	2	1
S&P Metals Spot *	376	0.2	0.2	3	23
S&P Agricultural *	279	0.4	-1.3	-1	-7

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USD ARS (Argentina)	17.48	-0.2	-0.8	-1.7	-9
USD BRL (Brazil)	3.19	-0.6	-1.4	-1.8	1
USD CLP (Chile)	629.70	-0.7	-1.0	-1.5	6
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Source: Bloomberg, Datastream and Haver

* With one day delay

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