

# Market Comment | Dovish ECB tapering pushed up markets amid Catalanian brinkmanship

Global Financial Markets Unit  
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- As expected, the **ECB announced a reduction to €30bn from €60bn in its monthly asset purchases** from January onwards, and an extension to September 2018. The decision was not unanimous, but there was a broad consensus on some issues and a large majority on others. Furthermore, the ECB reinforced its forward guidance on reinvestment flows, stating that reinvestment will be rolled over until necessary, and liquidity was also extended until December 2019. In addition, Mr Mario Draghi adopted a more upbeat tone talking about the economic trend. He highlighted the recent positive economic trend in the euro zone, pointing out the improvement in salaries.
- According to market reaction, **the announcement was considered as slightly dovish**, probably because the tapering was towards the high end of the range that the market was expecting (30-20bn). The **EUR depreciated after the announcement, sovereign bond yields also declined** right after the release. Moreover, European stocks outperformed, led by the banking sector.
- The ECB offset the political uncertainty in the performance of Spanish assets. **Spanish assets were highly volatile, influenced by the recent political developments in Catalonia** ([see](#)). Ahead of Mr Puigdemont's speech, the IBEX was rising strongly, on expectations of a solution in Catalonia. Nonetheless, after Mr Puigdemont ruled out elections in Catalonia, the IBEX moderated its recent gains, but remained hovering around 2%.
- The **USD also appreciated ahead of an important budget vote later today** ([see](#)), which may push the long-awaited tax bill as early as November ([see](#)). At the same time, talks about the next Fed Chair continued, with Gary Cohn no longer among the candidates ([see](#)) and Trump continued to praise Janet Yellen ([see](#)).
- Oil prices rose slightly as Saudi Arabia continued to support an extension in oil production cuts beyond March 2018 ([see](#)). Against this backdrop, EM currencies depreciated against a strong USD, especially the **TRY which underperformed along with the Turkish sovereign bond yields**.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.60	0.8	7.3	17	39
US	2.43	0.0	11.4	20	-1
GER (2-yr)	0.74	-3.7	-1.0	-2	3
Germany	0.42	-6.7	2.0	1	6
France	0.82	-6.0	1.2	-4	-14
Spain	1.54	-10.9	-9.8	-8	6
Italy	1.95	-8.8	-7.9	-20	5
Portugal	2.24	-6.6	-7.1	-18	-194
Greece	5.55	-1.6	-1.1	-10	-133
Japan (2-yr)	0.14	-0.8	0.1	-2	5
Japan	0.07	-0.3	3.6	1	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.82	17.6	20.0	9	-159
Chile	4.50	3.4	-3.7	20	18
Colombia	6.59	2.0	15.6	6	-51
Mexico	7.25	-0.8	20.4	47	-38
Peru	5.00	-0.6	7.0	14	-147
Poland	3.45	2.0	15.5	14	-27
Russia	7.64	1.7	4.1	-3	-80
Turkey	11.59	21.0	49.0	90	59
India	6.80	-1.2	3.9	13	42
Indonesia	6.35	-2.7	22.7	50	-99
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	41	0.7	-0.8	-4	-28
Italy	154	-2.1	-9.9	-21	9
Portugal	182	0.1	-9.1	-19	-172
Spain	112	-4.2	-11.8	-8	-4
<b>2-yr sovereign spread vs Germany</b>					
France	17	-0.5	-2.8	-3	7
Italy	48	1.8	0.7	-3	-13
Portugal	63	-2.7	6.9	-5	-94
Spain	42	-0.2	-3.2	-1	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	172	1.9	-1	-31	-100
Chile	54	0.8	0	-9	-28
Colombia	113	0.7	0	-17	-51
Mexico	108	1.6	1	-8	-49
Peru	75	0.1	-1	-11	-33
Venezuela	6.361	-581.2	177	12	2456
Poland	49	0.5	0	-6	-26
Russia	129	0.2	0	-20	47
Turkey	181	2.0	8	-9	-91
China	50	-1.6	-5	-13	-66
India	71	-3.4	-4	-6	-56
Indonesia	93	0.8	-4	-11	-63
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
<b>VIX</b>	11	-2.5	9	8	-1
VSTOXX	13	-11.1	4	3	-4
EM EFT volatility Index	17	-2.4	10	-4	-16
Dollar/reserve volatility	6	-6.5	-8	-23	-39
EM FX volatility Index	8	-0.5	2	1	-26
Credit spread (BAA) (bps)	194	0.0	-1	-11	-33
US bonds volatility index	57	2.5	11	13	-25
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	50	1.9	0	-5	-21
EZ	54	0.2	-1	-1	-54
UK	48	0.3	-1	1	-42
Large Spanish	53	1.4	-2	-4	-64
Medium Spanish	86	-0.3	-1	1	-65
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	139	1.9	0	-5	-21
EZ Non-financial	69	0.2	-1	-1	-54
UK Non-financial	103	0.2	0	-5	-22
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EDNA Index	-0.36	0.00	0.0	0.0	0.0
Earlibor 3m	-0.33	0.00	0.0	0.0	0.0
Earlibor 12m	-0.18	0.00	0.0	0.0	-0.1
Libor 3m	1.37	0.00	0.0	0.0	0.4
Libor 12m	1.84	0.01	0.0	0.1	0.2
Stock markets (%)					
Indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,565	0.3	0.1	3	13
Dow Jones	23,403	0.3	1.0	5	17
Nikkei	21,740	0.1	1.4	7	11
FTSE 100	7,487	0.5	-0.5	3	4
<b>EuroStoxx 50</b>	3,537	1.3	1.0	3	10
IBEX	10,348	1.9	1.5	2	9
DAX	13,133	1.4	1.1	4	13
CAC	5,495	1.5	1.6	4	11
MIB	22,807	1.6	3.0	2	16
ASE Athens	740	0.3	0.9	0	13
<b>MSCI Latam *</b>	65,939	-0.6	-0.6	1	17
Ibovespa (Brazil)	76,657	0.0	0.5	3	24
Mexbol	49,284	0.8	-1.4	-2	6
<b>MSCI EM Europe *</b>	5,163	-0.1	-1.6	0	2
Pabest	2,456	0.3	-0.5	1	23
Micex (Russia)	2,047	-0.1	-1.3	-1	-10
Ise TOI (Turkey)	107,335	-0.9	-1.0	3	41
<b>MSCI EM Asia *</b>	905	0.2	-0.7	4	30
Shanghai Com (China)	3,408	0.3	1.1	2	8
Jakarta (Indonesia)	5,996	0.7	1.1	2	14
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	137.1	0.6	2.5	7	14
JPM	101.9	0.9	3.9	9	17
CB	74.0	0.6	1.6	4	21
BaK	27.9	0.8	4.8	12	21
MS	50.9	0.7	2.1	7	17
GS	242.2	0.2	0.9	5	0
<b>EZ banks</b>	116.9	0.5	2.1	2	11
BNP	68.3	1.2	1.5	3	9
Crédit Agricole	15.3	0.4	2.7	2	25
Deutsche Bank	14.4	-0.9	1.6	6	-12
ING	16.0	0.1	1.6	5	15
Intesa	2.9	1.0	2.6	-2	15
SG	48.7	0.7	1.4	1	1
Unicredit	17.5	-0.2	4.5	0	25
<b>UK banks</b>	89.9	-1.0	0.1	4	2
HSBC	746.9	0.7	0.5	4	11
RBS	281.0	0.3	0.3	7	20
Barclays	182.4	-7.4	-5.0	-3	-22
Lloyds	68.9	1.5	2.9	6	6
<b>Large Spanish banks</b>	89.3	2.5	3.2	1	14
Santander	5.8	3.2	4.3	3	15
BBVA	7.4	1.8	2.3	1	14
<b>Medium Spanish banks</b>	77.0	1.8	1.1	0	5
Cabobank	3.9	1.8	1.5	-4	20
Sabotél	1.7	3.2	1.6	-2	21
Bankinter	8.1	1.3	0.3	4	7
Banque	4.1	1.2	1.3	3	0
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>	1.17	-1.1	-1.4	-0.9	11
GBPUSD	1.32	-0.7	0.1	-2.1	7
USD JPY	113.76	0.0	-1.1	1.4	-3
DOY	94.42	0.6	1.2	-1.6	8
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	17.54	-0.3	0.5	0.2	9
USD BRL (Brazil)	3.27	-1.2	-3.3	-3.4	-2
USD CLP (Chile)	632.98	-0.5	-1.2	0.4	6
USD COP (Colombia)	3013	-0.5	-3.2	-3.0	-1
USD MXN (Mexico)	19.13	-0.5	-1.6	-6.6	11
USD PEN (Peru)	3.24	-0.2	0.2	0.8	4
LACI	63.69	-0.7	-2.0	-3.3	3
USD PLN (Poland)	3.64	-1.5	-1.9	-0.1	13
USD RUB (Russia)	57.79	-0.1	-0.9	0.1	4
USD TRY (Turkey)	3.83	-1.7	5.1	8.2	7
USD CNY (China)	6.64	-0.1	-0.4	0.0	4
USD INR (India)	64.82	0.1	0.3	1.0	5
USD IDR (Indonesia)	13,587	-0.1	0.5	-1.6	1
ADXY	107.4	-0.1	-0.3	-0.1	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>	58.7	0.4	2.5	0	4
WTI	52	0.4	2.2	1	-2
Copper	316	-0.2	0.4	9	24
Gold	1269	-0.6	-1.6	-2	9
S&P Spot commodity *	406	-0.1	1.4	1	3
S&P Brent Spot *	496	0.1	2.2	1	3
S&P Metals Spot *	381	0.4	1.2	6	25
S&P Agricultural *	280	0.3	0.2	1	-7

Source: Bloomberg, Datastream and Haver

\* With one day delay

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Table 1