

Market Comment | ECB, earnings reports and US GDP drove the markets during the week

Global Financial Markets Unit
27 Oct 2017

- **Financial markets showed a positive performance**, with US indices hovering around record highs, amid positive economic data, corporate earnings reports ([see](#)) and a slightly more dovish than expected ECB ([see BBVA ECB watch](#)).
- The **ECB announced a reduction to €30bn from €60bn in its monthly asset purchases from January onwards**, and an extension to September 2018. According to market reaction, the announcement was considered as slightly dovish, as tapering was at the high of the range that the market was expecting (30-20bn). The **EUR depreciated significantly**, breaching the 1.15 level, after the announcement, and sovereign bond yields also declined right after the release. Moreover, European stocks outperformed, led by the banking sector.
- **Spanish assets suffered from political uncertainty in the final term of the week**. Recent high volatility in Spain, only mitigated partially by the ECB statement on Thursday, increase significantly in the final term of the week as Catalanian parliament declared the independence unilaterally: Ibex drop today around 2% while risk premia increased significantly at the end of the week ([see](#)).
- **US Treasuries breached their highest level since May and the USD also appreciated during the week**, after an important positive budget vote ([see](#)), which may push the long-awaited tax bill as early as November. At the same time, **talks about the next Fed Chair continued** ([see](#)), ahead of the final announcement expected in early November. Economic data also pushed up the USD and US Treasuries, as **US Q3 GDP surged** above expectations ([see](#)).
- As expected, **Abe won the early elections in Japan**. The current Prime Minister was elected by a clear majority and a sizeable part of the markets is pricing in a continuation of “Abenomics”, leading to an increase in the Nikkei and depreciation of the JPY against its main peers ([see](#)).
- **Oil prices rose during the week** as Saudi Arabia continued to support an extension of oil production cuts beyond March 2018 ([see](#)). Against this backdrop, EM currencies depreciated relative to a stronger USD. Nonetheless, the **ARS and MXN were not among the worst performers**, as ARS benefited early in the week from the ruling party's sweeping victory in mid-term elections ([see](#)) and the MXN benefited momentarily from Banxico's statement that it would react to recent MXN volatility ([see](#)).

BBVA Research suggests the following reading list:

- Missing Growth from Creative Destruction ([see](#))
- The (non) disappearing Phillips Curve: why it matters ([see](#))
- The Federal Reserve treads a fine line on monetary tightening ([see](#))

Update 18.00 CET 27 October 2017

Table 1

Debt markets (% 10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.60	-1.9	1.9	12	38
US	2.43	-2.9	4.7	12	-1
GER (2-yr)	-0.75	-1.0	-3.4	-5	2
Germany	0.41	-1.0	-4.7	-6	5
France	0.81	-1.1	-5.0	-10	-15
Spain	1.59	5.2	-7.4	-6	12
Italy	1.95	0.1	-9.2	-23	5
Portugal	2.20	-4.1	-11.1	-27	-198
Greece	5.55	0.2	0.3	-23	-133
Japan (2-yr)	-0.14	0.0	-1.3	3	5
Japan	0.02	-0.2	1.4	1	1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.81	-11.2	18.0	-2	-160
Chile	4.49	0.0	1.5	14	17
Colombia	6.63	-0.5	15.2	6	-46
Mexico	7.26	-0.5	13.2	43	-38
Peru	5.00	-2.8	2.6	12	-147
Poland	3.44	-0.6	6.1	9	-27
Russia	7.69	4.9	8.8	-6	-76
Turkey	11.62	3.0	46.0	86	62
India	6.81	0.6	4.5	14	42
Indonesia	6.83	-2.7	17.4	34	-102
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	41	-0.1	-0.3	-4	-28
Italy	155	1.1	-4.5	-17	-8
Portugal	179	-3.1	-6.4	-20	-125
Spain	118	6.2	-2.7	1	3
2-yr sovereign spread vs Germany					
France	17	-0.9	-2.6	-4	6
Italy	48	0.4	0.8	-2	-13
Portugal	62	-1.4	-4.9	-10	-85
Spain	43	0.6	-1.6	4	-6
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	176	4.2	7	-25	-96
Chile	54	0.1	0	-8	-28
Colombia	115	2.4	3	-13	-48
Mexico	110	2.1	4	-4	-47
Peru	77	1.5	1	-9	-31
Venezuela	6,718	356.9	411	373	2813
Poland	49	-0.2	1	5	23
Russia	129	-0.2	-1	-18	-47
Turkey	189	7.4	17	-1	-84
China	48	-2.8	-7	-15	-69
India	71	-0.2	4	-7	-56
Indonesia	94	0.3	-3	-10	-62
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (%)					
VIX	11	2.1	11	12	-1
VST OXX	13	0.2	6	7	-4
EM EFT volatility index	17	-2.3	18	0	-15
Dollar/euro volatility	6	0.5	-7	-20	-38
EM FX volatility index	8	1.5	1	-1	-26
Credit spread (BAA) (bps)	194	2.9	-1	-15	-33
US bonds volatility index	57	0.0	6	10	-25
Banking By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	50	-0.4	0	-5	-22
EZ	52	-1.3	-3	-3	-55
UK	47	-1.2	-3	0	-43
Large Spanish	49	-3.5	-8	-7	-68
Medium Spanish	85	-0.9	-3	1	-66
Corporate By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	137	-0.4	0	-5	-22
EZ Non-financial	70	-1.3	-3	-3	-55
UK Non-financial	103	0.2	0	-5	-22
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	-0.18	0.00	0.0	0.0	-0.1
Libor 3m	1.37	0.00	0.0	0.0	0.4
Libor 12m	1.84	0.00	0.0	0.1	0.2
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,566	0.2	-0.4	2	13
Dow Jones	23,424	0.1	0.4	5	12
Nikkei	22,008	1.2	2.6	9	12
FTSE 100	7,488	0.0	-0.5	2	4
EuroStoxx 50	3,645	0.2	1.1	3	10
BSE	10,159	-1.8	-0.6	2	7
DAX	13,199	0.5	1.6	4	14
CAC	5,486	0.6	2.1	4	12
MIB	22,603	-0.9	-1.1	0	15
ASE Athens	742	-0.3	-1.0	1	13
MSCI Latam *	85,561	-0.4	-0.8	1	17
Ibovespa (Brazil)	75,990	0.1	-0.5	3	23
Mexcl	48,972	0.2	2.2	3	5
MSCI EM Europe *	5,152	-0.2	-1.2	0	2
Poland	2,491	1.4	1.0	2	25
Milvo (Russia)	2,063	0.0	-0.4	1	9
Ise 100 (Turkey)	107,301	0.0	-1.1	6	41
MSCI EM Asia *	901	-0.5	-0.1	4	29
Shanghai Com (China)	3,417	0.3	1.1	2	8
Jakarta (Indonesia)	5,975	-0.8	-1.1	2	13
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	101.3	-0.5	1.7	6	16
Cit	73.2	-0.9	-0.5	1	19
BoA	27.7	-0.2	1.9	9	21
MS	50.6	-0.4	-0.2	5	16
GS	240.0	0.7	-1.9	2	-1
EZ banks					
BNP	115.8	-0.9	-0.1	-1	10
BNP	68.4	0.1	0.5	1	9
Crédit Agricole	15.2	-1.1	0.0	-1	23
Deutsche Bank	14.2	-1.7	-1.7	1	-13
ING	15.9	-0.8	0.1	2	14
Intesa	2.9	-1.1	0.8	-3	14
SG	48.4	-0.5	-0.4	-1	0
Unicredit	17.0	2.9	-1.3	6	21
UK banks					
HSC	90.5	0.6	-0.3	2	3
HSC	749.2	0.3	0.1	3	12
RBS	286.8	2.1	1.6	6	22
Barclays	183.6	0.6	-6.2	-4	-22
Lloyds	68.9	0.0	2.9	3	6
Large Spanish banks					
Santander	86.6	3.0	-0.8	4	11
Santander	5.7	-2.5	1.3	3	12
BBVA	7.1	-3.4	-2.6	5	10
Medium Spanish banks					
Cajabank	74.0	-3.9	-3.0	8	1
Cajabank	3.7	-5.2	-3.1	-13	14
Sabadell	1.6	-6.2	-3.7	-14	14
Bankinter	7.9	-2.4	-2.6	-2	4
Bankia	4.0	-2.8	-3.1	-3	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.16	-0.4	-1.5	-1.2	11
GBPUSD	1.31	-0.3	-0.5	-2.0	6
USDJPY	113.80	0.2	-0.2	0.9	-3
DKK	95.11	0.5	1.5	1.9	7
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.70	-0.2	-1.6	-0.8	-10
USD BRL (Brazil)	3.27	0.7	-2.5	-2.5	-2
USDCUP (Cuba)	635.98	-0.5	-1.1	0.2	5
USDCOP (Colombia)	3015	0.0	-2.6	-2.6	-2
USDMXN (Mexico)	19.14	0.4	-0.7	-5.1	11
USDPEN (Peru)	3.25	-0.1	-0.2	0.8	4
LKR	63.61	0.3	-1.5	-2.7	3
USDPLN (Poland)	3.66	-0.2	-1.8	0.6	12
USD RUB (Russia)	58.26	-0.7	-1.3	-0.1	4
USDTRY (Turkey)	3.81	0.3	-3.8	-6.5	-7
USDCNY (China)	6.65	-0.2	-0.5	0.2	4
USDINR (India)	65.05	-0.4	0.0	1.0	4
USDIDR (Indonesia)	13,609	-0.2	-0.7	-1.2	-1
ADNY	107.3	0.0	-0.2	0.0	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	59.6	0.5	3.2	3	6
WTI	53	0.9	3.2	2	0
Copper	307	-3.0	-2.5	6	21
Gold	1271	0.3	-0.7	-1	9
S&P Spot commodity *	409	0.5	1.5	2	3
S&P Brent Spot *	502	1.4	2.5	3	5
S&P Metals Spot *	380	0.0	1.6	6	25
S&P Agricultural *	278	-0.5	0.9	-2	-7

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.60	-1.9	1.9	12	38
US	2.43	-2.9	4.2	12	-1
GER (2-yr)	0.75	-1.0	-3.4	-5	2
Germany	0.41	-1.0	-4.7	-6	5
France	0.81	-1.1	-5.0	-10	15
Spain	1.59	5.2	-7.4	-6	12
Italy	1.95	0.1	-9.2	-23	5
Portugal	2.28	-1.1	-11.1	-27	-198
Greece	5.55	0.2	0.3	-23	-133
Japan (2-yr)	0.14	0.0	-1.3	-3	5
Japan	0.07	-0.2	1.4	1	1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.81	-11.2	18.0	-2	-160
Chile	4.89	0.0	1.5	14	17
Colombia	6.63	-0.5	15.2	6	-46
Mexico	7.26	-0.5	13.2	43	-38
Peru	5.00	-2.8	2.6	12	-147
Poland	3.44	-0.6	6.1	9	-27
Russia	7.69	-4.9	8.8	-6	-76
Turkey	11.62	3.0	48.0	86	62
India	6.81	0.6	4.5	14	42
Indonesia	6.83	-2.7	17.4	34	-102
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	41	-0.1	-0.3	-4	-28
Italy	155	1.1	-4.5	-17	-8
Portugal	179	-3.1	-6.4	-20	-175
Spain	118	6.2	-2.7	1	3
2-yr sovereign spread vs Germany					
France	17	-0.9	-2.8	-4	6
Italy	48	-0.4	0.8	-2	-13
Portugal	62	-1.4	-4.9	-10	-85
Spain	43	0.6	-1.6	4	6
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	176	4.2	7	-25	96
Chile	54	0.1	0	-8	-28
Colombia	115	2.4	3	-13	-48
Mexico	110	2.1	4	-4	-47
Peru	77	1.5	1	-9	-31
Venezuela	6,718	356.9	411	373	2813
Poland	49	-0.2	1	-5	-27
Russia	129	-0.2	-1	-18	-47
Turkey	189	7.4	17	-1	-84
China	48	-2.8	-7	-15	-69
India	71	-0.2	-4	-7	-56
Indonesia	94	0.3	-3	-10	62
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (%)					
VIX	11	-2.1	11	12	-1
VSTOXX	13	0.2	6	7	-4
EM EFT volatility Index	17	-2.3	18	0	-15
Dollar/euro volatility	6	0.5	-7	-20	-38
EM FX volatility index	8	1.5	1	-1	-26
Credit spread (BAA) (bps)	194	2.9	-1	-15	-33
US bonds volatility index	57	0.0	6	10	-25
Banking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	50	0.4	0	-5	-22
EZ	52	-1.3	-3	-3	-55
UK	47	-1.2	-3	0	-43
Large Spanish	49	-3.5	-8	-7	-68
Medium Spanish	85	-0.9	-3	1	-66
Corporate by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	137	-0.4	0	-5	-22
EZ Non-financial	70	-1.3	-3	-3	-55
UK Non-financial	103	0.2	0	-5	-22
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	0.36	0.00	0.0	0.0	0.0
Eurbor 3m	0.33	0.00	0.0	0.0	0.0
Eurbor 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	0.00	0.0	0.1	0.2
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,566	0.2	0.4	2	13
Dow Jones	23,424	0.1	0.4	5	17
Nikkei	22,008	1.2	2.6	9	12
FTSE 100	7,488	0.0	-0.5	2	4
EuroStoxx 50	3,645	0.2	1.1	3	10
IBEX	10,159	-1.8	0.6	-2	7
DAX	13,199	0.5	1.6	4	14
CAC	5,486	0.6	2.1	4	12
MBI	22,603	-0.9	1.1	0	15
ASE Athens	742	0.3	-1.0	1	13
MSCI Latam *	85,561	-0.4	-0.8	1	17
Ibovespa (Brazil)	75,990	0.1	-0.5	3	23
Mibol	49,972	-0.2	-2.2	-3	5
MSCI EM Europe *	5,152	-0.2	-1.2	0	2
Poland	2,491	1.4	1.0	2	25
Micex (Russia)	2,063	0.8	-0.4	-1	9
Ise 100 (Turkey)	107,301	0.0	-1.1	6	41
MSCI EM Asia *	901	-0.5	-0.1	4	29
Shanghai Com (China)	3,477	0.3	1.1	2	8
Jakarta (Indonesia)	5,975	-0.8	1.3	2	13
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	101.3	-0.5	1.7	6	16
CB	73.2	-0.6	-0.5	1	19
BoA	27.7	-0.2	1.9	9	21
MS	50.6	-0.4	-0.2	5	16
GS	240.0	-0.7	1.9	2	1
EZ banks					
BNP	115.8	-0.9	-0.1	-1	10
Crédit Agricole	68.4	0.1	0.5	1	9
Crédit Agricole	15.2	-1.1	0.0	-1	23
Deutsche Bank	14.2	-1.7	-1.7	1	-13
ING	15.9	-0.8	0.1	2	14
Intesa	2.9	-1.1	0.8	-3	14
SG	48.4	-0.5	-0.4	-1	0
Unicredit	17.0	-2.9	-1.3	6	21
UK banks					
HSBC	90.5	0.6	-0.3	2	3
HSBC	749.2	0.3	0.1	3	12
RBS	286.8	2.1	1.6	6	22
Barclays	183.6	0.6	-0.2	-4	-22
Lloyds	68.9	0.0	2.9	3	6
Large Spanish banks					
Santander	86.6	-3.0	0.8	-4	11
Santander	5.7	-2.5	1.3	-3	12
BBVA	7.1	-3.4	-2.6	-5	10
Medium Spanish banks					
Cajabank	74.0	-3.9	-3.0	-8	1
Cajabank	3.7	-5.2	-3.1	-13	14
Sabadell	1.6	-0.2	-3.7	-14	14
Bankinter	7.9	-2.4	-2.6	-2	4
Bankinter	4.0	-2.8	-3.1	-3	3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.16	-0.4	-1.5	-1.2	11
GBPUSD	1.31	-0.3	-0.5	-2.0	6
USD JPY	113.80	0.2	-0.2	0.9	-3
USD Y	95.11	0.5	1.5	-1.9	7
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USDARS (Brazil)	17.70	-0.2	-1.6	-0.8	-10
USD BRL (Brazil)	3.27	0.7	-2.5	-2.5	-2
USD COP (Chile)	635.98	-0.5	-1.1	0.2	5
USD COP (Colombia)	3015	0.0	-2.6	-2.6	-2
USD MXN (Mexico)	19.14	0.4	-0.7	-5.1	11
USD PEN (Peru)	3.25	-0.1	-0.2	0.8	4
LACI	63.61	0.3	-1.3	-2.7	3
USD PLN (Poland)	3.66	-0.2	-1.8	0.6	12
USD RUB (Russia)	58.26	-0.7	-1.3	-0.1	4
USD TRY (Turkey)	3.81	0.3	-3.8	-6.5	-7
USD CNY (China)	6.65	-0.2	0.5	0.2	4
USD INR (India)	65.05	-0.4	0.0	1.0	4
USD IDR (Indonesia)	13,609	-0.2	-0.7	-1.2	-1
ADXY	102.3	0.0	-0.2	0.0	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	99.6	0.5	3.2	-3	6
WTI	93	0.9	3.2	2	0
Copper	307	-3.0	-2.5	6	21
Gold	1271	0.3	-0.7	-1	9
S&P Spot commodity *	409	0.5	1.5	2	3
S&P Brent Spot *	502	1.4	2.5	3	5
S&P Metals Spot *	380	0.0	1.6	6	25
S&P Agricultural *	278	-0.5	0.9	-2	-7

Source: Bloomberg, Datastream and Haver

* With one day delay

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of

Spain with number 0182.

October, 2017
Table 1