

# Market Comment | Oil producers agree cuts while uncertainty on US tax reform remains

Global Financial Markets Unit  
01 Dec 2017

- **US assets showed a positive mood during the week.** The new ballistic missile test by North Korea ([see](#)), which had a muted effect on financial markets and the continuing uncertainty about the US tax reform bill ([see](#)) were not enough to curb recent gains in US equities (Dow Jones at its historical highest) or to stop the rally in the short term of US yields. The abundant economic data and the improvement in German coalition talks were the main drivers in the EZ. Oil prices, amid producers' negotiations, also played a significant role this week.
- **Sovereign bond yields increased in the US.** Positive economic data (US GDP Q3 was higher than expected ([see](#))) offset recent doubts about the approval of tax reform in the US. Regarding monetary policy, Jerome Powell, the incoming Fed Chair, said that he expected interest rates to increase and the Fed's balance sheet to decline to \$2.5-3 tn. In this regard, Trump nominated Marvin Goodfriend to the Fed board, who was critical of some aspects of Fed's quantitative easing ([see](#)). In the EZ, yields went down this week, led by peripheral countries amid mixed economic data and with no news on monetary policy.
- **Equity markets showed a positive performance** in developed markets, mostly in the US although the technological sector dragged down some indices during the week. In the EZ the week started in clearly positive mood, as talks to form a new German government seemed to be going well, but as the week went by this effect was diluted. IBEX outperformed its peers (narrowing the recent gap with other European indices), due among other things to the positive performance of the financial sector. The volatility in China's equity market did not spread to other assets.
- **The USDEUR cross remained almost unchanged this week** while the GBP appreciated strongly on the back of the agreement between the UK and the EU on the Brexit bill ([see](#)). EM currencies were little changed this week against the USD with some exceptions such as the CLP, which continued to suffer from political uncertainty after the first round of presidential elections.
- **Oil prices reacted positively to the agreement between OPEC and non-OPEC oil producing countries to extend the supply cuts throughout 2018.** Russia, one of the most important players in the oil industry, showed some doubts about signing the agreement, but seems finally to have agreed to extend the oil production cuts into 2018 ([see](#)).
- **Meade resigned as Mexico's finance minister to run for the presidency.** The first poll published since the resignation showed a narrow difference between the new candidate (PRI) and López Obrador. ([see](#)). The appointment of Alejandro Díez de León as the new chairman of Banxico had a muted effect on markets ([see](#)).

Update 17.10 CET 1 December 2017  
Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.80	2.0	5.8	19	59
US	2.40	-0.5	6.3	3	-3
GER (2-yr)	-0.69	-0.8	0.4	6	8
Germany	0.35	-2.1	-1.4	-3	-1
France	0.65	-3.5	-4.8	-12	-32
Spain	1.42	-2.3	-6.3	-5	-5
Italy	1.72	-2.6	-8.9	8	-18
Portugal	1.90	2.6	-4.1	21	228
Greece	5.45	0.2	6.7	18	-143
Japan (2-yr)	-0.15	0.5	2.7	0	4
Japan	0.04	0.6	-2.6	-2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.32	-4.1	14.9	31	-109
Chile	-4.64	0.0	3.0	16	32
Colombia	6.55	0.0	-3.2	-19	-54
Mexico	7.27	0.7	2.5	2	-37
Peru	4.80	-0.1	-4.2	-12	-149
Poland	3.33	-1.7	-0.5	-11	-38
Russia	7.66	-1.1	-4.9	-2	-79
Turkey	11.77	-23.0	-55.0	26	77
India	7.05	0.0	5.6	17	68
Indonesia	6.52	0.0	-3.4	-25	-133
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-1.4	-3.4	-9	-39
Italy	138	-0.5	-7.5	-6	-25
Portugal	158	4.7	-2.7	-18	-199
Spain	108	-0.2	-4.9	-3	-6
2-yr sovereign spread vs Germany					
France	11	-1.4	-2.9	-6	0
Italy	34	-0.6	-1.4	-12	-28
Portugal	49	4.0	3.9	-12	-98
Spain	33	-1.8	-2.3	-6	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	170	1.4	4	0	-102
Chile	55	0.2	3	4	-27
Colombia	113	0.3	2	2	-50
Mexico	102	-1.1	-1	-5	-55
Peru	72	0.0	2	2	-36
Poland	51	2.3	0	1	-24
Russia	127	-0.5	-3	-2	-50
Turkey	188	-6.6	-5	14	-74
China	57	-0.5	-3	-5	-60
India	71	0.6	0	0	-56
Indonesia	93	-0.4	-5	-1	-63
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	11	1.4	18	12	0
VST OXX	14	4.9	10	20	-2
EM ETT volatility index	19	1.7	18	17	-5
Dollar/euro volatility	7	0.2	-5	10	-37
EM FX volatility index	8	0.4	2	-1	-28
Credit spread (BAA) (bps)	189	0.5	-1	-4	-39
US bonds volatility index	47	2.8	1	-6	-39
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	45	-1.8	-4	-4	-26
EZ	41	1.0	0	-6	-67
UK	44	1.1	0	1	-46
Large Spanish	39	2.2	-1	-7	-78
Medium Spanish	76	-2.0	-3	-3	-75
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	146	-1.9	-4	-4	-26
EZ Non-financial	65	1.0	0	-6	-67
UK Non-financial	97	-0.1	0	-2	-28
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.24	0.00	0.1	0.1	0.1
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.19	0.00	0.0	0.0	-0.1
Libor 3m	1.46	0.00	0.0	0.1	0.5
Libor 12m	1.94	0.00	0.0	0.1	0.3
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	YTD
S&P500	2,645	-0.1	1.6	3	16
Dow Jones	24,269	0.0	3.0	4	22
Nikkei	22,819	0.4	1.2	2	16
FTSE 100	7,342	0.2	-0.9	2	2
EuroStoxx 50	3,561	-0.3	-0.6	4	7
IBEX	10,174	-0.4	1.2	-3	8
DAX	12,974	-0.4	-0.7	-4	12
CAC	5,363	0.2	-0.5	3	9
MIB	22,303	-0.3	-0.5	-3	14
ASE Athens	749	1.3	3.6	-2	14
MSCI Latam *	81,155	-1.1	-2.8	-4	11
Ibovespa (Brazil)	72,194	0.3	-2.6	-2	17
Moex	47,195	0.2	-1.6	-2	1
MSCI EM Europe *	5,214	-0.6	-2.1	0	3
Poland	2,390	-0.4	-3.3	5	20
Micex (Russia)	2,105	0.2	-2.6	1	-7
Ise 100 (Turkey)	103,559	-0.4	-0.9	-8	36
MSCI EM Asia *	905	1.7	-3.2	1	30
Shanghai Com (China)	3,318	0.0	1.1	-2	5
Jakarta (Indonesia)	5,952	-1.8	-1.8	1	13
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	138.9	-0.4	4.8	2	16
JPM	104.1	-0.4	5.9	3	20
Cit	75.2	-0.4	4.4	2	22
BoA	28.1	-0.2	5.7	2	22
MS	51.4	-0.5	4.7	3	18
GS	246.4	0.5	4.4	1	1
EZ banks	110.3	-0.1	-0.8	-4	5
BNP	63.5	-0.2	-0.3	-4	1
Credit Agricole	14.1	-0.1	0.1	-5	15
Deutsche Bank	15.8	0.4	-0.8	12	2
ING	15.1	-0.1	-1.0	-5	9
Intesa	2.8	-0.7	-0.6	-3	10
SG	42.3	-0.1	-2.9	-12	-12
Unicredit	17.1	1.3	0.1	4	22
UK banks	88.4	-1.0	-0.3	-1	1
HSC	734.4	0.1	-0.2	0	10
RBS	272.8	1.4	0.7	4	16
Barclays	190.5	-1.6	0.6	3	-19
Lloyds	64.8	-1.8	-1.9	-6	0
Large Spanish banks	86.2	-0.6	0.5	-4	10
Santander	5.6	-0.7	0.8	-4	11
BBVA	7.1	-0.5	0.2	-4	10
Medium Spanish banks	76.9	-0.6	2.0	-1	5
Casabank	3.9	-1.2	0.0	3	20
Sabadell	1.7	-0.4	2.1	-3	22
Bankinter	8.0	-0.9	3.2	1	7
Bankia	4.0	0.2	2.7	0	-1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.19	-0.3	-0.5	2.1	13
GBPUSD	1.35	-0.4	1.0	1.7	9
USDJPY	112.63	-0.1	-1.0	-1.4	-4
DX1Y	93.15	0.1	0.4	1.8	9
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	17.25	0.3	0.6	2.0	-7
USD BRL (Brazil)	3.26	0.2	-0.9	0.1	-1
USDCLP (Chile)	652.00	-0.5	0.8	-2.6	3
USDCOP (Colombia)	3011	0.2	-0.9	1.8	-1
USD MXN (Mexico)	16.70	-0.4	-0.8	1.9	13
USD PEN (Peru)	3.23	0.0	0.2	0.5	4
LACI	64.14	-0.1	-0.9	0.8	4
USD PLN (Poland)	3.54	-0.3	-0.4	2.8	15
USD RUB (Russia)	58.55	-0.2	-0.2	-0.6	3
USDTRY (Turkey)	3.93	-0.3	0.6	-3.1	-10
USD CNV (China)	6.61	-0.1	-0.2	0.2	5
USD INR (India)	64.46	0.0	0.4	0.2	5
USD IDR (Indonesia)	13,523	0.0	-0.1	0.4	-1
ADNY	108.6	0.1	-0.1	0.7	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	63.6	0.1	-0.4	5	13
WTI	56	1.8	-0.9	8	10
Copper	305	0.5	-3.6	-3	20
Gold	1275	0.0	-1.1	0	10
S&P Spot commodity *	424	-0.4	-1.6	2	7
S&P Brent Spot *	533	0.2	-1.3	4	11
S&P Metals Spot *	364	-0.4	-3.6	-4	20
S&P Agricultural *	284	-0.3	-0.4	2	-5

---

Fuente: BBVA Research

Fuente: BBVA Research

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](http://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