

Market Comment | US faces another partial government shutdown

Global Financial Markets Unit
07 Dec 2017

- US yields drifted lower as the US faces a partial government shutdown if Congress cannot agree on a spending bill by 8 December. Moreover, the release of November's payroll data in the US on Friday, coupled with increasing geopolitical tensions (North Korea and Israel-Palestine) have also contributed to lower yields this week. However, the 10-2Y slope spread continued to reach new lows (53 bps), with market-implied probabilities of a December rate hike remaining at 98%, and with markets pricing in a 63% probability of two additional hikes by the end of 2018.
- European yields decreased during the week, but remained broadly steady today. Mixed data in the euro zone, especially weak industrial production in Germany, prevented German yields from rising (see below), although the speech by Yves Mersch suggests that the ECB should end the asset purchase programme in September ([see](#)). Peripheral yields declined, with risk premiums narrowing, especially in Portugal on the back of increasing expectations of a rating upgrade by Fitch next week. Greek bond yields showed a strong decrease in the week. The ESM announced the implementation of short-term debt relief measures for Greece ([see](#)).
- Equity indices remained steady across the board after declining during the week due to a short-lived sell-off in the technological sector. However, concerns about the effects of deleveraging in Chinese financial markets dragged Chinese stocks down.
- In the FX markets, the US dollar strengthened against other main currencies during the week (DXY +1%), while today it has remained broadly steady. The euro depreciated during the week (-0.9%) on expectations of an agreement on US Tax reform before the year end. The GBP continued to trade lower on the back of disappointing Brexit talks. EM FX depreciated slightly across the board, weighed down by oil prices, which have remained steady today but had declined 3% in the week, in line with other cyclical commodities.
- Mixed data in the euro zone. Euro zone GDP grew by 0.6% QoQ (2Q +0.7% QoQ, upwardly revised by 0.1 pp). Domestic demand was the main contributor to GDP growth, especially investment, although private consumption also performed positively. Exports kept growing at the same pace as in the previous month, while imports slowed ([see](#)). German industrial production declined in October (-1.4% MoM) for the second month in a row (September: -0.9% MoM; revised +0.7), contrary to expectations (consensus: +0.5% MoM), and in contrast to the higher growth in industrial orders. On the other hand France's exports increased against expectations.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.79	-1.2	1.2	1.7	58
US	2.32	-1.4	-0.5	1	-111
GER (2-yr)	-0.76	-1.1	-7.4	0	2
Germany	0.29	-0.1	-7.3	-3	2
France	0.61	-0.2	-7.3	-8	-20
Spain	1.40	-3.1	-4.3	0	-3
Italy	1.67	-5.5	-7.6	3	-20
Portugal	1.82	-6.1	-5.3	-11	208
Greece	4.78	-2.7	-66.4	-30	-210
Japan (2-yr)	-0.14	-0.4	1.6	4	5
Japan	0.06	1.8	2.5	-1	-3
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.29	15.4	-7.5	21	-112
Chile	-4.65	0.0	0.7	19	33
Colombia	6.47	2.2	-7.7	-25	-62
Mexico	7.29	-2.4	2.5	7	-35
Peru	4.97	0.5	-0.8	-5	-150
Poland	3.25	0.4	-10.0	-16	-47
Russia	7.65	-2.7	-1.5	-2	-79
Turkey	11.67	0.0	-33.0	-22	67
India	7.06	2.4	-0.4	13	67
Indonesia	6.56	2.7	3.8	-9	-129
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany	level	Daily	Weekly	Monthly	YTD
France	32	-0.1	0.0	-5	-37
Italy	138	-5.4	-0.3	0	-25
Portugal	153	-6.0	2.8	-8	-202
Spain	111	-3.0	3.0	3	-5
2-yr sovereign spread vs Germany					
France	14	-0.7	1.5	-2	3
Italy	39	0.9	4.9	-5	-22
Portugal	49	3.6	4.3	-9	-98
Spain	40	1.3	5.1	1	-8
Emerging Markets					
5-yr sovereign CDS *	level	Daily	Weekly	Monthly	YTD
Brazil	162	2.1	-7	-7	-110
Chile	59	2.1	4	8	-23
Colombia	110	3.0	-2	-5	-53
Mexico	103	4.6	0	-3	-54
Peru	72	2.6	0	0	-36
Poland	50	-0.1	1	-1	-25
Russia	131	1.3	3	-4	-46
Turkey	186	1.1	-19	-11	-87
China	56	-0.1	-1	0	-61
India	72	-0.1	1	0	-55
Indonesia	95	0.6	2	-2	-61
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	10	-7.4	-10	3	-2
VST OXX	13	-3.3	0	11	-3
EM ETT volatility index	19	0.4	1	13	-6
Dollar/euro volatility	6	-2.8	-4	13	-40
EM FX volatility index	8	1.0	1	-1	-27
Credit spread (BAA) (bps)	188	1.4	-1	-4	-40
US bonds volatility index	49	0.2	5	12	-35
Banking S y CDS (bps) *					
US	46	0.2	-1	-3	-26
EZ	41	0.8	1	-6	-67
UK	44	0.5	1	1	-46
Large Spanish	39	1.7	2	-7	-78
Medium Spanish	76	-0.6	-2	-4	-75
Corporate S y CDS (bps) *					
US Non-financial	152	0.2	-1	-3	-26
EZ Non-financial	65	0.8	1	-6	-67
UK Non-financial	97	-0.3	0	-1	-28
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.33	0.00	-0.1	0.0	0.0
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	1.52	0.01	0.0	0.1	0.5
Libor 12m	1.99	0.00	0.0	0.1	0.3
Stock markets (%)					
Main Indices					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,638	0.3	-0.4	2	16
Dow Jones	24,222	0.3	-0.2	3	21
Nikkei	22,498	1.4	-1.0	-2	15
FTSE 100	7,320	-0.4	-0.1	3	2
EuroStoxx 50	3,574	0.3	0.1	-2	6
IBEX	10,270	0.8	0.6	0	9
DAX	13,047	0.4	0.2	-2	13
CAC	5,385	0.2	0.2	-2	10
MIB	22,450	0.6	0.4	-2	14
ASE Athens	729	0.2	-1.5	-3	11
MSCI Latam *	81,689	0.2	-0.4	-3	12
Bovespa (Brazil)	72,699	-0.8	1.0	0	18
Mexbol	47,085	0.2	0.0	-4	1
MSCI EM Europe *	5,246	0.0	0.0	-1	4
Poland	2,393	-0.1	-0.6	6	20
Micex (Russia)	2,103	-1.0	0.1	-2	-7
Ise 100 (Turkey)	106,448	1.1	2.4	-5	40
MSCI EM Asia *	887	-1.4	-3.7	-4	27
Shanghai Com (China)	3,272	-0.7	-1.4	-4	4
Jakarta (Indonesia)	6,007	0.1	-0.9	-1	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	140.8	0.6	1.0	5	17
JPM	105.0	0.1	0.4	6	21
Cit	75.1	-0.5	-0.5	3	22
BoA	28.7	0.3	2.0	6	25
MS	52.5	1.6	1.8	6	20
GS	248.8	1.2	0.5	4	2
EZ banks	110.8	1.4	0.4	-1	5
BNP	63.3	0.6	-0.5	-2	1
Credit Agricole	14.1	2.0	-0.1	-4	15
Deutsche Bank	15.8	1.5	0.5	10	2
Intesa	15.3	1.9	1.0	-3	10
Inhesa	2.8	1.4	-0.4	-1	11
SG	42.9	1.2	1.4	-3	-11
Unicredit	17.2	1.7	1.8	6	23
UK banks	88.2	0.0	-1.3	0	0
HBS	725.2	0.0	-1.2	-1	8
RBS	274.9	0.1	-0.6	-1	17
Barclays	191.8	0.4	-0.9	6	-18
Lloyds	64.5	-0.5	-2.3	-4	0
Large Spanish banks	85.9	1.1	-0.9	-1	10
Santander	5.5	0.9	-1.7	-1	10
BBVA	7.2	1.2	-0.3	-1	10
Medium Spanish banks	76.2	1.7	-1.5	1	4
Casabank	3.9	2.2	-1.4	-1	20
Sabadell	1.7	1.9	-2.1	0	20
Bankinter	7.9	0.9	-2.5	3	5
Bankia	4.0	2.3	-0.1	2	-1
Currencies (% red for currency depreciation)					
Developed					
level	Daily	Weekly	Monthly	Year	
EURUSD	1.18	0.0	-0.9	1.8	12
GBPUSD	1.34	0.3	-0.7	2.0	9
USD/JPY	112.66	-0.3	-0.1	-1.2	-4
DX1Y	93.62	0.0	0.6	1.4	9
Emerging					
USDARS (Argentina)	17.33	-0.4	-0.1	1.9	-8
USD BRL (Brazil)	3.29	-1.7	-0.7	-0.5	-2
USD CLP (Chile)	655.75	-0.2	-1.1	-3.4	2
USD COP (Colombia)	3011	0.0	0.2	0.9	-1
USD MXN (Mexico)	18.93	-0.3	-1.6	1.2	12
USD PEN (Peru)	3.24	0.0	-0.1	0.2	4
LACI	63.64	-0.7	-0.9	0.2	3
USD PLN (Poland)	3.57	0.1	-1.1	2.6	14
USD RUB (Russia)	59.13	0.1	-1.2	0.4	2
USD TRY (Turkey)	3.86	-0.2	1.6	0.7	-8
USD CNV (China)	6.62	-0.1	-0.2	0.3	5
USD INR (India)	64.57	-0.1	-0.2	0.7	5
USD IDR (Indonesia)	13,554	-0.1	-0.2	-0.3	-1
ADNY	108.5	0.0	-0.1	0.8	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	61.9	1.1	-2.6	-3	10
WTI	56	0.9	-1.7	-1	6
Copper	295	0.3	-3.0	-4	16
Gold	125.4	-0.8	-1.7	-2	8
S&P Spot commodity *	415	-1.9	-2.3	-3	5
S&P Brent Spot *	521	-2.6	-2.3	-4	8
S&P Metals Spot *	356	-0.6	-2.2	-5	17
S&P Agricultural *	281	-1.0	-1.1	0	-6

Fuente: BBVA Research

Debt markets (10Y, %, changes in bps)					
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Mexico	7.29	-2.4	2.5	7	-35
Peru	4.37	0.5	-0.8	-5	-150
Poland	3.25	0.5	-10.0	-16	-47
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Risk indicators					
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UK	44	0.5	1	1	-46
Large Spanish	39	1.7	2	-7	-78
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Interbank markets (% changes in bps)					
level	Daily	Weekly	Monthly	YTD	
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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	1.52	0.01	0.0	0.1	0.5
Libor 12m	1.99	0.00	0.0	0.1	0.3
Stock markets (%)					
Main indices					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,538	0.3	-0.4	2	16
Dow Jones	24,222	0.3	-0.2	3	21
Nikkei	22,498	1.4	-1.0	-2	15
FTSE 100	7,320	-0.4	-0.1	-3	2
EuroStoxx 50	3,574	0.3	0.1	-2	8
IBEX	10,270	0.8	0.6	0	9
DAX	13,047	0.4	0.2	-2	13
CAC	5,385	0.2	0.2	-2	10
MI8	22,450	0.6	0.4	-2	14
ASE Athens	729	0.2	-1.5	-3	11
MSCI Latam *	61,689	0.2	-0.4	-3	12
Ibovexpi (Brazil)	72,699	-0.8	1.0	0	18
Mexbol	47,085	0.2	0.0	-4	1
MSCI EM Europe *	5,246	0.0	0.0	-1	4
Poland	2,393	-0.1	-0.6	-6	20
Mosk (Russia)	2,103	-1.0	0.1	-2	-7
Ise 100 (Turkey)	106,448	1.1	2.4	-5	40
MSCI EM Asia *	887	-1.4	-3.7	-4	27
Shanghai Com (China)	3,272	-0.7	-1.4	-4	4
Jakarta (Indonesia)	6,007	0.1	-0.9	-1	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	140.8	0.6	1.0	5	17
JPM	105.0	0.1	0.4	6	21
Citi	75.1	-0.5	-0.5	3	22
BoA	28.7	0.3	2.0	6	25
MS	52.5	1.6	1.8	6	20
GS	248.8	1.2	0.5	4	2
EZ banks	110.8	1.4	0.4	-1	5
BNP	63.3	0.6	-0.5	-2	1
Credit Agricole	14.1	2.0	0.1	-4	15
Deutsche Bank	19.9	1.5	0.5	10	2
ING	15.3	1.9	1.0	-3	10
Intesa	2.8	1.4	0.4	-1	11
SG	42.9	1.2	1.4	-3	11
Unicredit	17.2	1.7	1.8	6	23
UK banks	88.2	0.0	-1.3	0	0
HSBC	725.2	0.0	1.2	-1	8
RBS	274.9	0.1	-0.6	-1	17
Barclays	191.8	0.4	-0.9	6	-18
Lloyds	64.5	-0.5	-2.3	-4	0
Large Spanish banks	85.9	1.1	-0.9	-1	10
Santander	5.5	0.9	-1.7	-1	10
BBVA	7.2	1.2	-0.3	-1	10
Medium Spanish banks	76.2	1.7	-1.5	1	4
Cajabank	3.9	2.2	-1.4	-1	20
Sabadell	1.7	1.9	-2.1	0	20
Bankinter	7.9	0.9	-2.5	3	5
Bankia	4.0	2.3	0.1	2	-1
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	61.9	1.1	-2.6	-3	10
WTX	56	0.9	-1.7	-1	6
Copper	295	0.3	-3.0	-4	16
Gold	1254	-0.8	-1.7	-2	8
S&P Spot commodity *	415	-1.9	-2.3	-3	5
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Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.18	0.0	-0.9	1.8	12
GBPUSD	1.34	0.3	0.7	2.0	9
USDJPY	112.66	-0.3	-0.1	-1.2	4
USDY	93.62	0.0	0.5	1.4	9
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.33	-0.4	-0.1	1.9	8
USD BRL (Brazil)	3.29	-1.7	-0.7	-0.5	-2
USD CNY (China)	655.75	-0.2	-1.1	-3.4	2
USDCOP (Colombia)	3011	0.0	0.2	0.9	-1
USDMXN (Mexico)	18.93	-0.3	-1.6	1.2	12
USD PEN (Peru)	3.24	0.0	-0.1	0.2	4
LACI	63.64	-0.7	-0.9	0.2	3
USD PLN (Poland)	3.57	0.1	-1.1	2.6	14
USD RUB (Russia)	59.13	0.1	-1.2	0.4	2
USD TRY (Turkey)	3.86	-0.2	1.5	-0.7	8
USDCNY (China)	6.62	-0.1	-0.2	0.3	5
USD INR (India)	64.57	-0.1	-0.2	0.7	5
USD IDR (Indonesia)	13,554	-0.1	-0.2	-0.3	-1
ADXY	109.5	0.0	0.1	0.8	5

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Peru	72	2.6	0	0	-36
Poland	50	-0.1	1	-1	-25
Russia	131	1.3	3	-1	-46
Turkey	186	1.1	-19	-11	-87
China	56	-0.1	-1	0	-61
India	72	-0.1	1	0	-55
Indonesia	95	0.6	2	-2	-61
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	10	-7.4	-10	3	-2
VSTOXX	13	-2.3	0	11	-3
EM EFT volatility Index	19	0.4	1	13	-6
Dollar/euro volatility	6	-2.8	-4	13	-40
EM FX volatility index	8	1.0	1	-1	-27
Credit spread (BAA) (bps)	188	1.4	-1	-4	-40
US bonds volatility Index	49	0.2	5	12	-35
Ranking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	46	0.2	-1	-3	-26
EZ	41	0.8	1	-6	67
UK	44	0.5	1	1	-46
Large Spanish	39	1.7	2	-7	-78
Medium Spanish	76	0.6	-2	-4	-75
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	152	0.2	-1	-3	-26
EZ Non-financial	65	0.8	1	-6	67
UK Non-financial	97	0.3	0	-1	-28
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.33	0.00	-0.1	0.0	0.0
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	1.52	0.01	0.0	0.1	0.5
Libor 12m	1.99	0.00	0.0	0.1	0.3
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,638	0.3	-0.4	2	16
Dow Jones	24,222	0.3	-0.2	3	21
Nikkei	22,498	1.4	-1.0	-2	2
FTSE 100	7,320	-0.4	-0.1	-3	2
EuroStoxx 50	3,574	0.3	0.1	-2	8
IBEX	10,270	0.8	0.5	0	9
DAX	13,047	0.4	0.2	-2	13
CAC	5,385	0.2	0.2	-2	10
MI6	22,450	0.6	0.4	-2	14
ASE Athens	729	0.2	-1.5	-3	11
MSCI Latam *	81,689	0.2	-0.4	-3	12
Ibovespa (Brazil)	72,699	-0.8	1.0	0	18
Mexcel	47,085	0.2	0.0	-4	1
SEAX (Mexico)	5,246	0.0	0.0	1	4
Poland	2,393	-0.1	-0.6	-6	20
Mosx (Russia)	2,103	-1.0	0.1	-2	-7
Isr 100 (Turkey)	106,448	1.1	2.4	-5	40
MSCI EM Asia *	887	-1.4	-3.7	-4	27
Shanghai Com (China)	3,272	-0.7	-1.4	-4	4
Jakarta (Indonesia)	6,007	-0.1	-0.9	-1	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	140.8	0.6	1.0	5	17
Citi	105.0	0.1	0.4	6	21
Chf	75.1	-0.5	-0.5	3	22
BofA	28.7	0.5	2.0	6	25
MS	52.5	1.6	1.8	6	20
GS	248.8	1.2	0.5	4	2
110.0	1.4	0.4	-1	5	
EZ banks					
BNP	63.3	0.6	-0.5	-2	1
Crédit Agricole	14.1	2.0	-0.1	-4	15
Deutsche Bank	15.9	1.5	0.5	10	-2
ING	15.3	1.9	1.0	-3	10
Intesa	2.8	1.4	0.4	-1	11
SG	42.9	1.2	1.4	-3	-11
Unicredit	17.2	1.7	1.8	6	23
UK banks					
HSBC	88.2	0.0	-1.3	0	0
HSBC	725.2	0.0	-1.2	-1	8
RBS	274.9	0.1	-0.6	-1	17
Barclays	191.8	0.4	-0.9	6	-18
Lloyds	64.5	0.5	-2.3	-4	0
Large Spanish banks					
Santander	85.9	1.1	-0.9	-1	10
BBVA	5.5	0.9	-1.7	-1	10
CaixaBank	7.2	1.2	-0.3	-1	10
Medium Spanish banks					
Sabadell	76.2	1.7	-1.5	1	4
CajaBank	3.9	2.2	-1.4	-1	20
Banque	1.7	1.9	-2.1	0	20
Banque	7.9	0.9	-2.5	3	5
Banque	4.0	2.3	0.1	2	-1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
GBPUSD	1.34	0.3	-0.7	2.0	9
USDJPY	112.66	-0.3	0.1	-1.2	4
DXY	93.62	0.0	0.6	1.4	9
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USD BRL (Brazil)	17.33	-0.4	-0.1	1.9	-8
USD CUP (Cuba)	3.29	-1.7	-0.7	-0.5	-2
USD COP (Colombia)	655.75	-0.2	-1.1	-3.4	2
USD CUP (Cuba)	391.1	0.0	0.2	0.9	-1
USD MXN (Mexico)	18.93	-0.3	-1.6	1.2	12
USD PEN (Peru)	3.24	0.0	0.1	0.2	4
LACI	63.64	-0.7	-0.9	0.2	3
USD PLN (Poland)	3.57	0.1	-1.1	2.6	14
USD RUB (Russia)	59.13	0.1	-1.2	0.4	2
USD TRY (Turkey)	3.86	-0.2	1.6	0.7	-8
USD CNY (China)	6.82	-0.1	-0.2	0.3	5
USD INR (India)	64.57	-0.1	-0.2	0.7	5
USD IDR (Indonesia)	13.554	-0.1	-0.2	-0.3	-1
ADXY	100.5	0.0	-0.1	0.8	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
WTX	61.9	1.1	-2.6	-3	10
Copper	36	0.0	-1.7	-1	6
Gold	295	0.3	-3.0	-4	16
S&P Spot commodity *	1254	-0.8	-1.7	-2	8
S&P Brent Spot *	415	-1.9	-2.3	-3	5
S&P Metals Spot *	521	-2.6	-2.3	-4	8
S&P Agricultural *	356	-0.6	-2.2	-5	17
S&P Agricultural *	281	-1.0	-1.3	0	6

Fuente: BBVA Research

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1