

Market Comment | Central banks have their say this week

Global Financial Markets Unit
11 Dec 2017

- **Markets were broadly steady at the start of the week**, ahead of major central banks' monetary policy meetings (Fed, ECB, BoE, SNB) (see preview). Several central banks in South America, as well as those of Mexico and Turkey, also have their monetary policy meetings this week.
- **Markets have already priced in a 100% probability of a Fed rate hike this week** on the back of robust employment reports and increasing expectations of an agreement on tax reform by the end of the year. Nonetheless, high-rated long-term sovereign bond yields edged down this morning, partly on news of an explosion in midtown Manhattan. Supply and demand factors might also have weighed on bond markets. Peripheral yields remained broadly stable, with the exception of the Portuguese yield, which declined on expectations of a rating upgrade.
- Equity markets were also steady across the board, with the exception of Asian markets (+1% on average), on the back of strong export figures in China. Turkish equities gained, while the Turkish lira appreciated slightly as strong 3Q17 GDP growth (+11% YoY) increased expectations of a rate hike ([see](#)). Nonetheless FX markets have also showed minor changes today.

Central Banks' meeting preview

- **The FOMC is poised to raise its benchmark rate at its December meeting** for the third time this year to 1.5%, as we have been predicting for several quarters.
- The move to start balance sheet normalization in October and its mild impact on Treasury yields clears the way to refocus on the interest rate normalization strategy and the effort to lift rates away from the zero lower bound. In addition, we expect the FOMC to improve its assessment on current economic conditions, reinforce its expectations of inflation converging with the 2% target and trim its forecast for the longer-run unemployment rate.
- With economic conditions strong and inflation moving towards its two-percent target, the committee needs to take advantage of this opportunity and address the risks reflected in an inverting yield curve, easing financial conditions amid rising short-term rates, and the impact that expansionary (deficit-laden) fiscal policy could have on their outlook.
- The year-end meeting will also be an opportunity to begin the transition between Chair Yellen and incoming Chair Governor Powell. Yellen's lame duck press conference could be an opportunity for her to reinforce her legacy as the first female Federal Reserve Chair and outline her vision for monetary policy going forward.
- **The ECB is expected to leave monetary policy unchanged** at its December meeting, after the announcement of the QE recalibration last October, i.e. the reduction of monthly purchases to €30 bn

from January 2018 until September 2018, or beyond if needed.

- On macroeconomic projections, which will be extended until 2020, we expect a slight improvement in growth (around a couple of tenths) after recent good performance and some upward bias also on headline inflation, given the increase in oil prices. Nonetheless, the Governing Council (GC) will maintain a cautious mood as underlying inflation remains subdued.
- Regarding the forward guidance, i.e. guidance about the future course of monetary policy, no changes are expected in the statement. However, considering the lively debate on the decision to keep the APP programme open-ended within the GC showed by the minutes of the October meeting, probably there will be questions about this issue at the press conference. Certainly, the ECB is not in a hurry to signal the end of QE, but sooner or later the central bank should be ready to adjust its policy stance. As Peter Praet recently said "the residual monetary support needed to assist the economy in its transition to a new normal will increasingly come from forward guidance on our policy rates."

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.81	1.2	0.0	1.7	59
US	2.37	-1.1	-0.7	2	-7
GER (2-yr)	-0.73	0.5	-3.0	2	4
Germany	0.29	-1.5	-5.2	8	2
France	0.62	-1.4	-3.3	-13	-19
Spain	1.41	0.9	-0.4	-12	-2
Italy	1.65	0.1	-6.4	-16	-22
Portugal	1.79	-1.2	-10.7	25	210
Greece	4.51	-0.5	-87.1	-65	-237
Japan (2-yr)	-0.15	-0.4	-0.5	5	4
Japan	0.05	0.9	2.0	-2	-2
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.17	-1.8	-6.8	11	-124
Chile	-4.68	2.4	3.1	21	35
Colombia	6.52	0.6	4.3	-18	-57
Mexico	7.31	2.9	4.9	9	-32
Peru	4.91	-4.8	-7.7	-15	-156
Poland	3.21	-4.0	-11.0	-20	-50
Russia	7.70	5.1	3.7	0	-75
Turkey	11.66	-2.0	-8.0	-24	66
India	7.14	4.6	9.3	21	75
Indonesia	6.53	-3.3	-0.7	-11	-131
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
level	Daily	Weekly	Monthly	YTD	
France	33	0.1	1.9	-5	-36
Italy	136	1.6	-1.2	8	-26
Portugal	150	0.3	-5.5	-17	-204
Spain	112	2.4	4.8	-4	-4
2-yr sovereign spread vs Germany					
France	14	-0.4	1.5	-2	3
Italy	36	0.1	-0.2	-10	-25
Portugal	44	-0.7	-2.0	-14	-103
Spain	37	-0.6	1.6	-7	-11
Emerging Markets					
5-yr sovereign CDS *					
level	Daily	Weekly	Monthly	YTD	
Brazil	166	-0.7	-4	-10	-106
Chile	57	-1.0	1	3	-26
Colombia	110	-1.1	-3	-10	-53
Mexico	103	-0.7	1	5	-53
Peru	71	-0.7	-1	-2	-37
Poland	49	-0.9	-1	-4	-26
Russia	130	-1.4	-2	-8	-47
Turkey	184	-2.4	-16	-23	-88
China	56	-0.4	0	-3	-60
India	72	0.0	0	-2	-55
Indonesia	95	-0.3	1	-6	-61
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	YTD	
VIX	10	1.9	-16	-7	-2
VST OXX	13	0.6	-6	-7	-4
EM ETT volatility index	17	-2.9	-13	-4	-18
Dollar/euro volatility	6	-2.0	-11	4	-43
EM FX volatility index	8	-0.4	2	0	-27
Credit spread (BAA) (bps)	183	1.1	-3	-9	-44
US bonds volatility index	47	-3.5	-3	6	-38
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	46	-0.3	-2	-6	-26
EZ	39	-1.0	-2	-8	-68
UK	42	-2.1	-4	-4	-48
Large Spanish	36	-2.3	-4	-10	-81
Medium Spanish	76	-1.0	-2	-6	-76
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	149	-0.3	-2	-6	-26
EZ Non-financial	64	-1.0	-2	-8	-68
UK Non-financial	94	0.0	-3	-5	-30
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.33	0.00	0.0	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	1.55	0.01	0.1	0.1	0.6
Libor 12m	2.01	0.01	0.1	0.1	0.3
Stock markets (%)					
Main Indices					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,855	0.1	0.6	3	17
Dow Jones	24,347	0.1	0.2	4	22
Nikkei	22,939	0.6	1.0	0	17
FTSE 100	7,446	0.7	1.5	1	4
EuroStoxx 50	3,583	-0.2	0.2	-1	8
IBEX	10,310	-0.1	1.0	2	9
DAX	13,120	-0.3	0.5	0	13
CAC	5,388	-0.2	0.8	0	10
MIB	22,707	-0.3	1.5	0	16
ASE Athens	738	-0.3	-0.5	0	12
MSCI Latam *	81,694	0.5	0.3	-3	12
Ibovespa (Brazil)	72,893	0.2	-0.3	0	18
Moex	47,698	0.3	1.1	-2	2
MSCI EM Europe *	5,253	0.5	0.9	-2	4
Poland	2,387	-0.9	-0.7	4	19
Micex (Russia)	2,149	2.1	1.4	-2	-5
Ise 100 (Turkey)	109,156	1.1	3.7	-1	43
MSCI EM Asia *	900	1.1	-0.1	-3	29
Shanghai Com (China)	3,222	1.0	0.4	-3	5
Jakarta (Indonesia)	6,027	0.3	1.3	0	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	141.8	-0.1	-0.5	7	18
JPM	105.4	-0.5	-1.4	8	21
Cit	75.8	0.1	-1.7	5	23
BoA	29.0	-0.2	-0.2	9	26
MS	52.6	-0.5	-0.1	8	21
GS	250.5	0.1	-0.1	4	3
EZ banks	113.6	-0.4	2.2	2	8
BNP	64.5	-0.8	0.7	0	3
Credit Agricole	14.6	-0.3	2.7	3	19
Deutsche Bank	16.4	-0.8	1.4	9	0
ING	15.7	0.0	2.9	0	13
Intesa	2.9	-0.1	2.1	1	13
SG	43.9	-0.1	2.2	0	9
Unicredit	17.6	-1.8	4.1	6	26
UK banks	90.9	0.8	2.1	3	3
HBS	749.6	2.2	2.3	1	12
RBS	280.0	-0.4	2.1	7	19
Barclays	198.3	1.0	2.1	11	-16
Lloyds	66.6	-0.3	1.9	0	3
Large Spanish banks	87.0	0.2	1.0	1	11
Santander	5.6	0.3	1.2	2	12
BBVA	7.2	0.1	0.8	1	11
Medium Spanish banks	77.9	0.1	1.6	4	7
Cajabank	4.1	0.3	3.9	4	24
Sabadell	1.7	-0.5	1.2	2	23
Bankinter	8.0	-0.3	-0.8	4	6
Bankia	4.2	0.0	3.2	7	2
Currencies (% red for currency depreciation)					
Developed					
level	Daily	Weekly	Monthly	Year	
EURUSD	1.18	0.2	-0.6	1.3	12
GBPUSD	1.34	-0.2	-0.9	1.6	8
USDJPY	113.35	0.1	-0.8	-0.1	-3
DX1Y	93.75	-0.1	0.6	0.7	9
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.26	0.1	0.5	1.5	-7
USD BRL (Brazil)	3.29	0.0	-1.4	-1.3	-2
USDCLP (Chile)	655.76	0.0	1.1	-4.0	2
USDCOP (Colombia)	301.2	0.0	-0.7	0.0	-1
USDMXN (Mexico)	18.97	-0.2	-1.9	0.4	12
USD PEN (Peru)	3.24	0.0	-0.1	0.2	4
LACI	63.60	0.0	-1.2	-0.6	3
USD PLN (Poland)	3.57	0.0	-0.6	1.9	14
USD RUB (Russia)	58.97	0.3	-0.3	0.5	2
USDTRY (Turkey)	3.82	0.5	1.5	1.3	-7
USDCNY (China)	6.62	0.0	0.0	0.3	5
USD INR (India)	64.37	0.1	0.0	0.9	5
USD IDR (Indonesia)	13,552	0.0	-0.2	-0.3	-1
ADNY	108.6	0.1	0.0	0.5	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	64.5	1.8	-3.3	1	14
WTI	58	0.7	0.5	1	6
Copper	299	1.1	-2.4	-3	17
Gold	1246	-0.2	-2.3	-3	7
S&P Spot commodity *	420	0.9	-0.8	-2	6
S&P Brent Spot *	538	1.8	1.3	-1	12
S&P Metals Spot *	356	0.1	-3.2	-4	17
S&P Agricultural *	279	-0.3	-2.0	-1	-7

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Mexico	7.31	2.9	4.9	9	-32
Peru	4.91	-4.8	-7.7	-15	-156
Poland	3.21	4.0	-11.0	-20	-50
Russia	7.70	5.1	3.7	0	-75
Turkey	11.66	-2.0	-8.0	-24	66
India	7.14	4.6	5.3	21	75
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Turkey	184	2.4	-16	-23	-88
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Eurobor 12m	0.19	0.00	0.0	0.0	-0.1
Libor 3m	1.55	0.01	0.1	0.1	0.6
Libor 12m	2.01	0.01	0.1	0.1	0.3
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,555	0.1	0.6	3	17
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Shanghai Com (China)	3,322	1.0	0.4	-3	5
Jakarta (Indonesia)	6,027	0.3	1.3	0	14
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	141.8	-0.1	0.5	7	18
JPM	105.4	0.5	-1.4	8	21
Citi	75.8	0.1	-1.7	5	23
BoA	29.0	-0.2	-0.2	9	26
MS	52.6	-0.5	-0.1	8	21
GS	290.5	0.1	0.1	4	3
EZ banks	113.6	-0.4	2.2	2	8
BNP	64.5	-0.8	0.7	0	3
Credit Agricole	14.6	-0.3	2.7	3	19
Deutsche Bank	16.4	-0.8	1.4	9	0
ING	15.7	0.0	2.9	0	13
Intesa	2.9	-0.1	2.1	1	13
SG	43.9	-0.1	2.2	0	9
Unicredit	17.6	-1.8	4.1	6	26
UK banks	90.9	0.8	2.1	3	3
HSBC	749.6	2.2	2.3	1	12
RBS	280.0	0.4	2.1	2	19
Barclays	198.3	1.0	2.1	11	-16
Lloyds	66.6	-0.3	1.9	0	3
Large Spanish banks	87.0	0.2	1.0	1	11
Santander	5.6	0.3	1.2	2	12
BBVA	7.2	0.1	0.8	1	11
Medium Spanish banks	77.9	0.1	1.6	4	7
Cajabank	4.1	0.3	3.9	4	24
Sabadell	1.7	-0.5	1.2	2	23
Bankinter	8.0	-0.3	-0.8	4	6
Bankia	4.2	0.9	3.2	7	2
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.18	0.2	-0.6	1.3	12
GBPUSD	1.34	-0.2	0.9	1.6	8
USDJPY	113.35	0.1	-0.8	-0.1	-3
DOY	93.76	0.1	0.5	-0.7	9
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	17.26	0.1	0.5	1.5	-7
USD BRL (Brazil)	3.28	0.0	-1.4	-1.3	-2
USD CNY (China)	655.76	0.0	-1.1	-4.0	2
USD COP (Colombia)	3012	0.0	-0.7	0.0	-1
USD MXN (Mexico)	18.97	-0.2	-1.9	0.4	12
USD PEN (Peru)	3.24	0.0	-0.1	0.2	4
LACI	63.60	0.0	-1.2	-0.6	3
USD PLN (Poland)	3.57	0.0	0.6	1.9	14
USD RUB (Russia)	58.97	0.3	-0.3	0.5	2
USD TRY (Turkey)	3.82	0.5	1.5	1.3	-7
USD CNY (China)	6.62	0.0	0.0	0.3	5
USD INR (India)	64.37	0.1	0.0	0.9	5
USD IDR (Indonesia)	13,552	0.0	-0.2	-0.3	-1
ADXY	109.6	0.1	0.0	0.9	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	64.5	1.8	3.3	1	14
WTI	58	0.7	0.5	1	8
Copper	299	1.1	-2.4	-3	17
Gold	1246	-0.2	-2.3	-3	7
S&P Spot commodity *	420	0.9	-0.8	-2	6
S&P Brent Spot *	538	1.8	1.3	1	12
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S&P Agricultural *	279	-0.3	-2.0	-1	-7

Fuente: BBVA Research

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Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1