

# Market Comment | Markets steady as main central banks met expectations

Global Financial Markets Unit  
15 Dec 2017

- **No significant market reaction to the central banks' meetings, as no surprises were revealed.** No changes in stocks across the board and mild movement in bonds during the week. After the meetings, the euro depreciated, despite upbeat PMI data for the euro zone ([see](#)). The USD dropped following the FOMC meeting, as the Federal Reserve left its rate-hike projection for 2018 unchanged, due to concerns on sluggish inflation. **A lower than expected inflation figure in the US in November led to a decline in US Treasury yields and in the USD.**
- As expected, **the ECB ([see](#)) remained on hold and maintained its forward guidance ([see BBVA report](#))**. It stressed that there was no discussion about QE recalibration. Nonetheless, the ECB upgraded its economic growth forecasts significantly to 2.4% in 2017 and 2.3% in 2018. The inflation rate was also revised upwards, but in a lower proportion: to 1.4% for 2018 and 1.5% for 2019.
- **The FOMC meeting was also without surprises ([see](#))**. As we expected, the FOMC increased the Fed funds rate to 1.25%-1.50% ([see BBVA report](#)). In the statement, the FOMC highlighted that “economic activity has been rising at a solid rate” and “job gains have been solid”. In addition, despite inflation continuing below the FOMC target, the Fed echoed that inflation will converge with the 2% target ([see](#)).
- **Italian sovereign bond yields rose significantly after the announcement of Italian general elections next year, on 4 March ([see](#))**, which increased political uncertainty in the country. Meanwhile **Portugal's yield** inched down ahead of today's important sovereign rating update.
- **Even though oil prices ended up broadly flat, they were very volatile during the week** and rose above US\$65 per barrel after the shutdown of a North Sea pipeline, raising concerns about supply shortages ([see](#)). **OPEC increased its forecasts for non-OPEC oil production.**
- **Nonetheless, EM currencies depreciated slightly**, amid higher US rates, lower than expected economic data in China's economy ([see](#)) and ongoing financial tightening implemented by the government ([see](#)). The TRY was the worst performer, as **Turkey's Central Bank** increased rates by less than expected ([see](#)). Meanwhile, the **Banxico** rate-hike ([see](#)) had a muted impact on the MXN this week.

BBVA Research suggests the following reading list:

- Financial Investors' Wish List for 2018 ([see](#))
- The safe asset shortage, the rise of mark-ups, and the decline in the labour share ([see](#))
- Are Equity Prices Overvalued? ([see](#))
- Optimal quantitative easing ([see](#))

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.84	2.5	4.1	15	62
US	2.36	1.4	-1.2	4	-6
GER (2-yr)	-0.72	-1.5	1.7	-1	5
Germany	0.30	-1.9	-1.0	-8	2
France	0.63	-1.5	-0.2	-10	-18
Spain	1.46	1.4	6.0	-9	3
Italy	1.81	1.9	16.2	2	-6
Portugal	1.80	-2.9	-1.0	-20	-210
Greece	3.99	-13.0	-52.8	-111	-289
Japan (2-yr)	-0.15	0.7	-0.1	4	4
Japan	0.05	-0.7	0.0	-2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.31	-3.4	12.3	-17	-110
Chile	-4.70	-0.9	5.2	25	38
Colombia	6.49	-2.0	2.5	-27	-60
Mexico	7.44	4.9	15.4	9	-20
Peru	4.93	0.5	-2.6	-16	-154
Poland	3.23	-1.3	-2.8	-21	-49
Russia	7.61	-5.4	-3.6	-11	-83
Turkey	12.09	11.0	41.0	6	109
India	7.13	0.3	4.4	12	75
Indonesia	6.49	-2.1	-6.8	-17	-135
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	33	0.4	0.8	-2	-35
Italy	152	3.8	17.2	6	-11
Portugal	150	-1.0	0.0	-12	-204
Spain	116	3.3	7.0	-1	1
2-yr sovereign spread vs Germany					
France	15	2.1	1.1	3	5
Italy	40	-0.7	3.3	-1	-22
Portugal	47	3.6	2.2	-5	-100
Spain	36	0.2	-1.8	0	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	168	3.1	1	-14	-104
Chile	55	1.2	-3	0	-27
Colombia	111	0.8	0	-13	-52
Mexico	105	3.0	1	-7	-51
Peru	72	2.3	0	-3	-36
Poland	50	0.2	0	-2	-25
Russia	127	0.2	-4	-12	-49
Turkey	180	5.2	-7	-34	-93
China	53	-0.3	-3	-9	-63
India	71	-0.1	-1	-3	-56
Indonesia	92	0.7	-3	-9	-64
Risk indicators (%)					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	10	-7.1	2	-26	-2
VST OXX	12	-0.4	-5	-22	-4
EM ETT volatility index	15	-3.5	-14	-20	-27
Dolar/euro volatility	5	-3.6	-15	-30	-51
EM FX volatility index	8	0.3	-4	-5	-31
Credit spread (BAA) (bps)	183	-1.4	-5	-12	-44
US bonds volatility index	45	-0.4	-6	-7	-41
Banking 5y CDS (bps) *					
US	45	0.0	-1	-9	-27
EZ	40	0.3	0	-6	-67
UK	43	0.1	1	-5	-48
Large Spanish	39	0.6	0	-7	-78
Medium Spanish	78	0.5	1	-4	-74
Corporate 5y CDS (bps) *					
US Non-financial	146	0.0	-1	-9	-27
EZ Non-financial	64	0.3	0	-6	-67
UK Non-financial	95	-0.3	0	-6	-30
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	-0.19	0.00	0.0	0.0	-0.1
Libor 3m	1.59	0.00	0.1	0.2	0.6
Libor 12m	2.04	0.00	0.0	0.1	0.3
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	YTD
S&P500	2,864	0.4	0.5	4	17
Dow Jones	24,630	0.5	1.2	6	24
Nikkei	22,553	-0.6	-1.1	2	15
FTSE 100	7,467	0.2	1.0	1	4
EuroStoxx 50	3,554	-0.1	-1.0	0	7
IBEX	10,161	-0.2	-1.5	1	7
DAX	13,068	0.0	-0.7	1	13
CAC	5,243	-0.3	-1.0	1	9
MIIB	22,050	-0.6	-3.2	0	12
ASE Athens	769	0.2	3.8	7	17
MSCI Latam *	82,071	-0.6	1.0	1	12
Ibovespa (Brazil)	72,594	0.2	-0.2	2	18
Mexbol	48,291	0.1	1.5	1	4
MSCI EM Europe *	5,376	1.3	2.8	1	6
Poland	2,416	-0.8	0.3	0	21
Micex (Russia)	2,137	-0.7	1.5	0	-6
Ise 100 (Turkey)	109,650	0.0	1.6	2	44
MSCI EM Asia *	907	0.2	1.9	1	30
Shanghai Com (China)	3,266	-0.8	-0.7	-4	3
Jakarta (Indonesia)	6,119	1.1	1.9	2	16
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	141.9	0.5	0.0	7	18
JPM	105.4	0.7	-0.5	7	21
Cit	74.4	0.6	-1.8	4	21
BoA	28.9	0.5	-0.7	8	26
MS	53.1	0.8	0.3	10	22
GS	255.8	0.1	2.2	8	5
EZ banks	110.5	-1.0	-3.1	0	5
BNP	62.8	-1.1	-3.5	-2	0
Credit Agricole	14.2	-1.3	-3.5	0	15
Deutsche Bank	16.6	1.1	0.4	5	2
Intesa	15.5	-0.3	-1.2	1	11
Inhesa	2.8	-1.5	-4.0	-1	9
SG	43.1	-2.2	-2.0	-1	-11
Unicredit	16.2	-1.6	-8.8	-3	15
UK banks	90.8	-0.6	0.7	3	3
HBS	752.5	-0.5	2.6	2	12
RBS	275.5	-0.8	-1.9	0	18
Barclays	200.1	-1.3	1.9	10	-15
Lloyds	66.3	0.0	-0.7	0	2
Large Spanish banks	66.3	0.1	-0.5	0	11
Santander	5.6	0.2	-0.1	2	11
BBVA	7.1	0.1	-0.9	-1	10
Medium Spanish banks	75.8	-0.3	-2.6	0	4
Casabank	3.9	-0.3	-3.1	-2	19
Sabadell	1.7	0.4	-3.0	0	20
Bankinter	7.9	-0.4	-1.6	1	4
Bankia	4.0	-1.1	-3.5	2	-2
Currencies (% ref for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.18	0.0	0.0	-0.1	12
GBPUSD	1.33	-0.8	-0.5	1.2	8
USDJPY	112.34	0.0	-1.0	-0.5	-4
DX1Y	93.72	0.2	-0.2	0.1	9
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	17.58	-0.8	-1.7	0.4	-9
USD BRL (Brazil)	3.32	0.5	-0.8	-0.4	-3
USDCLP (Chile)	638.32	0.0	0.6	-0.8	5
USDCOP (Colombia)	2994	0.1	0.6	1.1	-1
USD MXN (Mexico)	19.16	-0.1	-1.2	0.5	11
USD PEN (Peru)	3.25	-0.3	-0.5	0.1	4
LACI	63.33	-0.1	-0.5	0.2	3
USD PLN (Poland)	3.58	0.2	-0.4	0.4	14
USD RUB (Russia)	58.85	0.0	0.5	2.3	3
USDTRY (Turkey)	3.87	0.4	-1.8	0.2	-8
USD CNV (China)	6.61	0.0	0.2	0.2	5
USD INR (India)	64.05	0.5	0.6	1.8	6
USD IDR (Indonesia)	13,570	0.0	-0.1	-0.3	-1
ADNY	108.7	0.1	0.2	0.7	5
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	63.5	0.3	0.1	3	12
WTI	57	0.5	0.0	4	6
Copper	306	0.2	3.4	0	20
Gold	1258	0.4	0.8	-2	8
S&P Spot commodity *	419	0.7	-0.4	0	6
S&P Brent Spot *	533	1.4	-0.9	1	11
S&P Metals Spot *	366	1.1	2.8	-1	20
S&P Agricultural *	276	-0.1	-0.8	-2	-8

Source: Bloomberg, Datastream and Haver

\* With one day delay

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October, 2017  
Table 1