

Market Comment | EUR remained strong ahead of next week's ECB meeting

Global Financial Markets Unit
19 Jan 2018

- **European core bond yields remained close to their recent highest levels**, although they inched down slightly after talks said that the **ECB is unlikely to change its stance at the next meeting**, decreasing the odds of an early change in forward guidance ([see](#)). Risk premiums in European peripheral countries declined, especially in Spain, whose yields declined ahead of a **Fitch rating review later today** ([see](#)).
- Nonetheless, the **EUR remained stable at its 3-year highest levels**, capitalizing on the tighter monetary policy from the ECB since the beginning of the year coupled with the chance of a pro-EU German government, as coalition talks are progressing ([see](#)). Meanwhile, equity indices inched up across Europe with a slight underperformance of the banking sector.
- US financial markets showed a positive mood amid earnings reports and positive economic outlook despite a **slight increase in volatility** (VIX) from very subdued levels. On the other hand, the funding bill to avoid the US government shutdown on Friday remained in the spotlight ([see](#)), adding downward pressure on the USD and marginally increasing US Treasuries yields.
- **Oil prices inched down amid mixed newsflow**. On the one hand, OPEC members gave renewed assurances on oil production cuts. On the other hand, higher US rig activity added to concerns of the oil market ([see](#)). Prices of commodities other than oil rose after China released better-than-expected growth figures for 4Q ([see BBVA Research report](#)).
- **EM currencies were mixed and little changed**, with the exception of the MXN which appreciated today ahead of NAFTA talks. The TRY suffered from higher idiosyncratic uncertainty.

BBVA Research suggest the following reading list:

- Presentation Spain Economic Outlook. First quarter 2018 ([see](#))
- Low inflation for longer ([see](#))
- Reconsidering the 'China shock' in trade ([see](#))
- Transcript of FT interview with Bill Dudley ([see](#))

Update 18 CET 19 January 2018
Table 1

Debt markets (10Y % changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	Year	
US (2-yr)	2.65	0.9	3.5	20	84	
US	2.64	1.3	0.3	14	20	
GER (2-yr)	0.60	-1.7	-3.4	7	17	
Germany	0.57	-0.2	1.0	10	23	
France	0.85	-0.1	0.4	11	4	
Spain	1.45	-4.4	-5.2	-3	2	
Italy	1.57	-1.7	-1.1	3	10	
Portugal	1.59	-2.9	-3.6	-3	-214	
Greece	3.85	5.1	-4.9	-29	-303	
Japan (2-yr)	0.13	-0.4	0.4	1	6	
Japan	0.09	0.7	2.5	2	2	
Emerging Markets	level	Daily	Weekly	Monthly	Year	
Brazil	9.88	5.0	4.0	60	-153	
Chile	4.54	0.0	-3.3	-8	22	
Colombia	6.46	2.0	8.6	6	63	
Mexico	7.57	0.7	0.3	-2	-6	
Peru	4.41	-0.9	-0.7	-56	-206	
Poland	3.33	-2.2	0.5	-3	-39	
Russia	7.47	-4.6	5.5	-15	-68	
Turkey	11.82	7.0	39.0	3	82	
India	7.30	3.3	1.3	8	91	
Indonesia	6.20	3.4	1.4	27	104	
Country Risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	Year	
1-yr sovereign spread vs Germany						
France	28	0.1	0.6	2	-19	
Italy	140	-1.5	-0.1	-6	-12	
Portugal	142	-2.7	-2.6	10	-213	
Spain	88	-4.2	-4.2	-12	-21	
2-yr sovereign spread vs Germany						
France	16	-0.4	1.1	-1	5	
Italy	29	1.2	1.6	-11	-32	
Portugal	54	0.5	7.4	-10	-46	
Spain	22	0.6	1.6	-7	-26	
Emerging Markets	level	Daily	Weekly	Monthly	Year	
5-yr sovereign CDS *						
Brazil	146	1.4	1	-16	-125	
Chile	43	-0.2	-2	-8	-40	
Colombia	91	0.3	-3	-16	-72	
Mexico	96	1.5	4	-9	-60	
Peru	67	-0.1	0	-7	-41	
Poland	46	-0.4	0	-1	-27	
Russia	112	0.1	1	-7	-65	
Turkey	163	-0.3	3	-7	-109	
China	49	1.0	3	-2	67	
India	67	0.1	-1	-3	-60	
Indonesia	80	0.2	2	-9	-76	
Risk Indicators						
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year	
VIX	12	-3.5	16	21	0	
VSTOXX	12	-0.2	10	-4	-5	
EM EFT volatility Index	17	0.3	11	20	-16	
Dollar/Euro volatility	8	3.5	8	35	-27	
EM FX volatility Index	8	-0.5	5	2	-29	
Credit spread (BAA)(bps)	159	-1.3	9	-21	-68	
US bonds volatility Index	40	5.8	2	-3	-36	
Expectations indicators (%)	level	Daily	Weekly	Monthly	Year	
US Inflation expectations (5YV)	2.42	1.9	14	12	-12	
EZ Inflation expectations (5YV)	1.77	0.0	3	6	-3	
Emerging 5Y CDS (bps) *	level	Daily	Weekly	Monthly	Year	
US	43	0.3	0	0	-29	
EZ	37	-0.4	0	-4	-71	
UK	41	-0.3	0	-1	-50	
Large Spanish	34	-0.5	1	-3	-63	
Medium Spanish	69	1.2	-2	-8	-83	
Corporate 5Y CDS (bps) *	level	Daily	Weekly	Monthly	Year	
US Non-financial	141	0.3	0	0	-29	
EZ Non-financial	60	-0.4	0	-4	-71	
UK Non-financial	96	0.2	6	2	-29	
Interbank markets (% changes in bp)						
level	Daily	Weekly	Monthly	Year		
CONA Index	0.37	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	1.74	0.00	0.0	0.1	0.7	
Libor 12m	2.21	0.00	0.1	0.1	0.5	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	Year	
S&P500	2,805	0.2	0.7	5	24	
Dow Jones	26,006	0.0	0.8	5	30	
Nikkei	23,008	0.2	0.7	4	22	
FTSE 100	7,731	0.4	-0.6	3	6	
EuroStoxx 50	3,649	0.8	1.0	3	10	
IBEX	10,474	0.4	0.1	3	11	
DAX	13,431	-1.1	1.4	3	16	
CAC	5,526	0.6	0.2	3	13	
MI8	23,773	0.6	1.5	8	21	
ASE Athens	848	-1.2	0.4	7	29	
MSCI Latam *	89,829	0.1	2.3	8	23	
Ibovexa (Brazil)	80,963	0.0	2.0	10	31	
Mobtel	49,073	-0.1	1.5	3	7	
MSCI EM Europe *	5,745	0.4	2.3	8	14	
Poland	2,600	0.3	2.4	6	30	
Mosc (Russia)	2,288	-0.5	1.1	9	1	
He 100 (Turkey)	115,147	-1.5	0.4	4	51	
MSCI EM Asia *	971	0.3	2.0	7	40	
Shanghai Com (China)	3,488	0.4	1.7	6	10	
Jakarta (Indonesia)	6,491	0.7	1.6	5	23	
Banking sector	level	Daily	Weekly	Monthly	Year	
US banks						
JPM	149.4	0.9	1.1	5	25	
WFC	114.3	0.7	1.2	7	31	
CIT	77.9	0.7	1.4	4	27	
BoA	31.6	0.3	1.3	7	38	
MS	56.9	1.8	3.2	8	30	
GS	252.6	0.7	1.7	-1	-4	
EZ banks						
BNP	66.8	0.2	-1.0	6	6	
Citib Agriofide	15.3	-0.1	0.3	8	24	
Deutsche Bank	15.3	0.5	-0.2	-8	-6	
ING	16.5	0.1	0.8	6	19	
Intesa	3.1	-0.1	2.1	11	22	
SG	45.4	0.7	-2.2	5	-6	
Unicredit	17.5	0.1	0.3	9	25	
UK banks						
HSBC	95.4	0.4	0.6	4	9	
RBS	789.2	0.1	0.3	4	18	
RBS	297.8	0.2	-1.5	8	27	
Barclays	200.2	0.4	2.9	-2	-15	
Lloyds	71.6	0.9	1.5	8	10	
Large Spanish banks						
Santander	90.1	0.3	-0.3	3	16	
BBVA	5.9	0.6	0.4	5	18	
Caixa	7.4	0.0	-0.9	1	14	
Medium Spanish banks						
Sabadell	82.5	0.5	0.4	7	13	
Cakabank	4.3	0.8	0.3	7	31	
Santitas	1.9	0.9	-0.5	8	35	
Banque	0.6	1.0	2.1	8	15	
Banisa	4.2	-1.1	-4.2	3	1	
Currencies (% ind for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	Year	
EURUSD						
EURUSD	1.22	0.0	0.3	3.1	17	
GBPUSD	1.39	-0.2	1.0	3.7	13	
USDJPY	110.65	0.4	0.4	2.4	6	
DKK	90.51	0.0	0.5	-3.0	-12	
Emerging	level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)						
USDARS (Brazil)	18.97	-0.5	-1.5	-6.8	-18	
USD BRL (Chile)	3.21	0.1	0.0	2.7	0	
USD CLP (Colombia)	607.52	-0.4	-0.7	2.1	10	
USD COP (Costa Rica)	2852	-0.3	0.3	3.6	4	
USD MXN (Mexico)	18.57	0.2	2.4	3.4	13	
USD PEN (Peru)	3.22	-0.1	0.1	1.6	5	
LACI	64.85	0.0	0.6	2.0	5	
USD PLN (Poland)	3.41	-0.3	0.2	3.7	18	
USD RUB (Russia)	56.67	-0.3	-0.1	3.5	6	
USD TRY (Turkey)	3.69	-0.9	1.4	0.5	-6	
USD CNY (China)	6.40	0.2	1.0	2.7	8	
USD INR (India)	63.85	0.0	-0.3	0.4	6	
USD IDR (Indonesia)	13,316	0.2	0.3	1.9	1	
ADXY	111.0	0.3	0.5	1.8	8	
Commodities (%)						
level	Daily	Weekly	Monthly	Year		
Brent						
WTI	63	-1.0	-1.6	9	19	
Copper	318	0.0	0.7	0	25	
Gold	1324	0.5	-0.3	5	15	
S&P Spot commodity *	453	0.1	0.0	6	14	
S&P Brent Spot *	587	-0.1	-0.7	8	22	
S&P Metals Spot *	390	1.2	0.3	3	28	
S&P Agricultural *	279	-0.1	0.2	0	-7	

Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	2.05	0.9	5.5	20	84
US	2.64	-1.3	0.3	14	20
GER (2-yr)	-0.60	-1.7	-3.4	7	17
Germany	0.57	-0.2	-1.0	10	23
France	0.85	-0.1	-0.4	11	4
Spain	1.45	-4.4	-5.2	-3	2
Italy	1.97	-1.7	-1.1	3	10
Portugal	1.89	-2.9	-3.6	-3	-214
Greece	3.85	5.1	-4.9	-29	-303
Japan (2-yr)	-0.13	-0.4	0.4	1	6
Japan	0.09	0.7	2.5	2	2
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
Brazil	9.88	5.0	4.0	-60	-153
Chile	4.54	0.0	3.3	8	22
Colombia	6.46	2.0	8.6	6	-63
Mexico	2.57	0.7	0.3	-2	-6
Peru	4.41	-0.9	-8.7	-56	-206
Poland	3.33	-2.2	0.5	-3	-39
Russia	7.47	-4.6	-5.5	-15	-98
Turkey	11.82	7.0	38.0	3	82
India	7.30	3.3	1.3	8	91
Indonesia	6.20	1.4	-1.4	-27	-164
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	28	0.1	0.6	2	-19
Italy	140	-1.5	-0.1	-6	-12
Portugal	142	-2.7	-2.6	10	-213
Spain	88	-4.2	-4.2	-12	-21
2-yr sovereign spread vs Germany					
France	16	-0.4	1.1	-1	5
Italy	29	1.2	1.6	-11	-32
Portugal	54	0.5	7.4	-10	-46
Spain	22	0.6	1.6	-7	-26
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
5-yr sovereign CDS *					
Brazil	146	1.4	1	-16	-125
Chile	43	0.2	2	-8	-40
Colombia	91	0.3	-3	-16	-72
Mexico	96	1.5	-4	-9	-60
Peru	87	-0.1	0	-7	-41
Poland	48	-0.4	0	-1	-27
Russia	112	0.1	1	-7	-65
Turkey	163	-0.3	3	-7	-109
China	49	1.0	3	-2	-67
India	67	0.1	-1	-3	-60
Indonesia	80	0.2	2	-9	-76
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	Year	
VIX	12	-3.5	16	21	0
VSTOXX	12	-0.2	10	-4	-5
EM EFT volatility index	17	0.3	11	20	-16
Dobsonoro volatility	8	1.5	8	35	27
EM FX volatility index	8	-0.5	5	2	-29
Credit spread (BAA) (bps)	159	-1.3	9	-21	-68
US bonds volatility index	48	5.8	2	-3	-38
Inflation expectations (%)					
level	Daily	Weekly	Monthly	Year	
US Inflation expectations (5YSY)	2.42	1.9	14	12	-12
EZ Inflation expectations (5YSY)	1.77	0.0	3	6	3
Banking 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US	43	0.3	0	0	-29
EZ	37	-0.4	0	-4	-71
UK	41	-0.3	0	-1	-50
Large Spanish	34	-0.5	1	-3	-83
Medium Spanish	69	1.2	-2	-8	-83
Corporate 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US Non-financial	141	0.3	0	0	-29
EZ Non-financial	60	-0.4	0	-4	-71
UK Non-financial	96	0.2	6	2	-29
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
EURIBOR Index	-0.37	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	1.74	0.00	0.0	0.1	0.7
Libor 12m	2.21	0.00	0.1	0.1	0.5
Stock markets (%)					
Market indices					
level	Daily	Weekly	Monthly	Year	
S&P500	2,805	0.2	0.7	5	24
Dow Jones	26,006	0.0	0.8	5	30
Nikkei	23,808	0.2	0.7	4	22
FTSE 100	7,231	0.4	-0.6	3	8
EuroStoxx 50	3,649	0.8	1.0	3	10
IBEX	10,474	0.4	0.1	3	11
DAX	13,431	1.1	1.4	3	16
CAC	5,926	0.6	0.2	3	13
MIB	23,773	0.6	1.5	8	21
ASE Athens	848	1.2	-0.4	7	29
MSCI Latam *	69,829	0.1	2.3	8	23
Ibovespa (Brazil)	80,963	0.0	2.0	10	31
Mexol	49,873	-0.1	1.5	3	7
MSCI EM Europe *	5,745	0.4	2.3	8	14
Poland	2,600	0.3	2.4	6	30
Moor (Russia)	2,286	-0.5	1.1	9	1
Ise 100 (Turkey)	115,147	-1.5	0.4	4	51
MSCI EM Asia *	971	0.3	2.0	7	40
Shanghai Com (China)	3,488	0.4	1.7	6	10
Jakarta (Indonesia)	6,491	0.7	1.6	5	23
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
JPM	114.1	0.7	1.2	7	31
Citi	77.9	0.7	1.4	4	27
BoA	31.6	0.3	1.3	7	38
MS	56.9	1.8	3.2	8	30
GS	252.6	0.7	-1.7	-1	4
EZ banks					
BNP	117.3	0.2	-0.3	6	11
Credit Agricole	66.8	0.2	-1.0	6	6
Deutsche Bank	15.3	-0.1	0.3	8	24
ING	16.5	0.1	-0.8	6	19
Intesa	3.1	-0.1	2.1	11	22
SG	45.4	0.7	-2.2	5	6
Unicredit	17.5	0.1	0.3	9	25
UK banks					
HSBC	95.4	0.4	0.6	4	9
RBS	789.2	0.1	-0.3	4	18
RBS	297.8	0.2	-1.5	8	27
Barclays	200.2	0.4	2.9	-2	-15
Lloyds	71.6	0.9	1.5	8	10
Large Spanish banks					
Santander	90.1	0.3	-0.3	3	16
BBVA	5.9	0.6	0.4	5	18
Caixa	7.4	0.0	0.9	1	14
Medium Spanish banks					
Cakobank	82.5	0.5	-0.3	7	13
Sabadell	4.3	0.8	0.3	7	31
Banque	1.9	0.9	-0.5	8	35
Banque	0.6	1.0	2.1	8	15
Banque	4.2	-1.1	-4.2	3	1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.22	0.0	0.3	3.1	17
GBPUSD	1.39	-0.2	1.0	3.7	13
USDJPY	110.65	0.4	0.4	2.4	6
DXY	90.51	0.0	0.5	-3.0	-12
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	18.97	-0.5	-1.5	-6.8	-18
USD BRL (Brazil)	3.21	0.1	0.0	2.7	0
USD CUP (Cuba)	607.52	-0.4	-0.7	2.1	10
USD COP (Colombia)	2862	0.3	0.3	3.6	4
USD MXN (Mexico)	18.57	0.2	2.4	3.4	13
USD PEN (Peru)	3.22	-0.1	0.1	1.6	5
LACI	64.85	0.0	0.6	2.0	5
USD PLN (Poland)	3.41	-0.3	0.2	3.7	18
USD RUB (Russia)	56.67	-0.3	-0.1	3.5	6
USD TRY (Turkey)	3.80	-0.9	-1.4	0.5	-8
USD CNY (China)	6.40	0.2	1.0	2.7	8
USD INR (India)	63.85	0.0	-0.3	0.4	6
USD IDR (Indonesia)	13,316	0.2	0.3	1.9	1
ADXY	111.0	0.3	0.5	1.8	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	68.7	-0.9	-1.7	6	22
WTX	63	-0.9	-1.6	9	19
Copper	318	0.0	-0.7	0	25
Gold	1334	0.5	0.3	5	15
S&P Spot commodity *	453	0.1	0.0	6	14
S&P Brent Spot *	587	-0.1	-0.2	8	22
S&P Metals Spot *	390	1.2	0.3	3	28
S&P Agricultural *	279	-0.1	0.2	0	-7

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 / 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.