

# Market Comment | Stocks rose amid US government shutdown

Global Financial Markets Unit  
22 Jan 2018

- **Stock prices rose across the board**, even in the US despite the fact that the **US government shutdown** entered its third day, being the first shutdown since 2013. In Europe, stocks rose across the board, especially in the banking sector ahead of the ECB monetary policy meeting on Thursday (see preview below).
- Sovereign bond yields were little changed across the board. Nonetheless, **the Spanish risk premium slightly declined after the Fitch rating agency revised upwards its sovereign rating to A- from BBB+ (see)**, citing a broad-based economic recovery. The IBEX Index also slightly outperformed its peers.
- The EUR appreciate slightly amid **positive news on German coalition talks**, as the SPD voted “yes” for a start to formal coalition talks (see). On the other hand, the USD weakened amid the US government shutdown.
- **Oil prices and commodities inched up after OPEC and Russia maintained their line on production cuts (see)**. Against this backdrop, EM currencies were mixed, although the MXN showed higher volatility ahead of the start of the 6th round of NAFTA negotiations.

## ECB preview

- The ECB is expected to leave monetary policy unchanged at its January meeting, after the announcement of the QE recalibration last October
- The central bank remains on track in its exit strategy as economic conditions continue improving and it is increasingly confident regarding the inflation outlook. In this context, the minutes of the December meeting revealed that there is wide consensus that communication needs to evolve, signalling that such changes would take place early in the year. We expect such communication to be gradual, in order to adjust its forward guidance to prepare the markets for the next steps and without any change in the sequence: firstly, they remove the guidance on QE, and later on they drop the guidance on interest rates. In particular, we expect changes in the forward guidance would be possible by March (coinciding with the staff forecast revision) but it is more likely by April, once the ECB has confirmed that inflation has already bottomed out.

- Recent data suggest that GDP growth in the euro zone could have remained at robust and relatively steady rates of around 0.6%/0.7% QoQ in 4Q17. Confidence indicators improved again in the last quarter of 2017 to very high levels, pointing even to some growth acceleration, supported by increasing demand and export orders. This was widespread across sectors and countries and anticipates a good activity performance in early 2018. However, real indicators show a more cautious picture, as both retail sales and industrial production grew at a slightly more moderate pace up to November, despite the good readings that month. All in all, the recovery of the industrial sector continues, together with the increase in exports, while private consumption remained resilient, underpinned by an improved labour market and low inflation.
- Despite strong growth and some signs of rising output prices from surveys, core inflation remained weak and stable at 1.1% YoY in December, while headline inflation declined by 0.1 pp to 1.4% YoY driven by the base effect of energy prices and moderate food price growth. Looking ahead, this base effect will continue to weigh on inflation, which could decelerate again to somewhat above 1% YoY in January and February, while core inflation should remain broadly unchanged. From 2Q18 onwards, we see a very gradual recovery in core inflation driven by strong domestic demand, a healthier labour market and the reduction of spare capacity, although the recent strength of the euro could take its toll on core prices. Overall, recent data support the ongoing normalization of the ECB's monetary policy.
- Other topics that could come up during the Q&A include the recent rally in EURUSD appreciation and the uptick in euro zone yields. Regarding the euro, Mr Draghi will emphasize that it is not a policy target, although he will no doubt show caution as a strong euro complicates the ECB's efforts to bring inflation back to target, as some ECB members warned recently.
- All in all, recent comments from ECB officials and December meeting minutes suggest that the probability of QE ending in September has increased, but it does not alter our view on rates. The ECB is not in a hurry to signal the end of QE when bond purchases will fall to zero. That decision will probably not be taken until 2H18, but the central bank will adjust its policy stance to the QE exit guidance during 1H18.

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Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	2.05	0.9	5.5	20	84
UK	2.64	1.3	9.3	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	1.99	-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	0.2	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	-98
Turkey	13.82	7.0	39.0	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
<b>10-yr sovereign spread vs Germany</b>					
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
<b>2-yr sovereign spread vs Germany</b>					
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
<b>5-yr sovereign CDS *</b>					
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	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
Dollar Euro volatility	8	1.5	6	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	49	5.8	2	-3	-36
Inflation expectations (%)	level	Daily	Weekly	Monthly	Year
US Inflation expectations (5Y5Y)	2.42	1.9	14	12	-12
EZ Inflation expectations (5Y5Y)	1.77	0.0	-5	6	-3
Outgoing 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	
OMIA Index	-0.37	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
<b>Euribor 12m</b>	-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 (%)					
Index	level	Daily	Weekly	Monthly	Year
<b>US Indices</b>					
S&P500	2,205	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
<b>EuroStoxx 50</b>	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	5,326	0.6	0.2	3	13
MI8	23,773	0.6	1.5	8	21
ASE Athens	848	1.2	-0.4	7	29
<b>MSCI Latam *</b>	89,829	0.1	2.3	8	23
Ibovespa (Brazil)	80,963	0.0	2.0	10	31
Mercol	49,873	-0.1	1.5	3	7
<b>MSCI EM Europe *</b>	5,745	0.4	2.3	8	14
Poland	2,600	0.3	2.4	6	30
Micex (Russia)	2,286	-0.5	1.1	9	1
ISE 100 (Turkey)	115,147	-1.5	0.4	4	51
<b>MSCI EM Asia *</b>	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
<b>US banks</b>					
Wells Fargo	143.4	0.5	1.1	5	25
JPM	114.1	0.7	1.2	7	31
Citi	77.9	0.7	1.4	4	27
BofA	31.6	0.3	1.3	7	38
HS	59.9	1.8	3.2	8	30
GS	252.6	0.7	-1.7	-1	4
<b>EZ banks</b>	117.3	0.2	-0.3	6	11
BNP	66.8	0.2	-1.0	6	6
Crédit Agricole	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
<b>UK banks</b>	95.4	0.4	0.6	4	9
HSSC	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
<b>Large Spanish banks</b>	90.1	0.3	-0.3	3	16
Santander	5.9	0.6	0.4	5	18
BBVA	-7.4	0.0	-0.9	1	14
<b>Medium Spanish banks</b>	82.5	0.5	-0.3	7	13
Cajabank	4.3	0.8	0.3	7	31
Sabadell	1.9	0.9	-0.5	8	35
Banqueparibas	0.6	1.0	2.1	8	15
Bankia	4.2	-1.1	-4.2	3	1
Commodities (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
<b>EURUSD</b>					
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
USDY	90.51	0.0	-0.5	-3.0	-12
Emerging	level	Daily	Weekly	Monthly	Year
<b>USDARS (Argentina)</b>					
USDARS	18.97	-0.5	-1.5	-6.8	-18
<b>USD BRL (Brazil)</b>					
USD BRL	3.21	0.1	0.0	2.7	0
<b>USD CLP (Chile)</b>					
USD CLP	607.52	-0.4	-0.7	2.1	10
<b>USD COP (Colombia)</b>					
USD COP	2852	-0.3	0.3	3.6	4
<b>USD MXN (Mexico)</b>					
USD MXN	18.57	0.2	2.4	3.4	13
<b>USD PEN (Peru)</b>					
USD PEN	3.22	-0.1	0.1	1.6	5
<b>USD PLN (Poland)</b>					
USD PLN	64.85	0.0	0.6	2.0	5
<b>USD RUB (Russia)</b>					
USD RUB	3.41	-0.3	0.2	3.7	18
<b>USD TRY (Turkey)</b>					
USD TRY	56.67	-0.3	-0.1	3.5	6
<b>USD CNX (China)</b>					
USD CNX	3.80	-0.9	-1.4	0.5	-6
<b>USD INR (India)</b>					
USD INR	6.40	0.2	1.0	2.7	8
<b>USD IDR (Indonesia)</b>					
USD IDR	63.85	0.0	-0.3	0.4	6
ADXY	13,316	0.2	0.3	1.9	1
ADXY	131.0	0.3	0.5	1.8	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
<b>Brent</b>					
Brent	68.7	-0.9	-1.7	6	22
WTI	63	-1.0	-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 *	597	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

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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
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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) *					
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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	
<b>US banks</b>					
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
<b>EZ banks</b>					
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
<b>UK banks</b>					
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
<b>Large Spanish banks</b>					
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
<b>Medium Spanish banks</b>					
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
DX	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	1111.0	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

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Fuente: BBVA Research

Source: Bloomberg, Datastream and Haver

\* With one day delay

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