

Market Comment | Bond yields jumped at the start of a busy week

Global Financial Markets Unit
29 Jan 2018

- **Sovereign bond yields increased significantly at the start of an eventful week.** German bond yields increased most (10Y passed the 0.70% threshold and 5Y returned to positive yields after 2 years) and were followed also by US yields.
- **This move was amid a slew of news relating to central banks:** in the US, reports suggested a potential tilt to more hawkish language in the next FOMC meeting ([see](#)) (see BBVA preview below) while in the EZ there were some voices within the ECB calling for an end to QE ([see](#)).
- **Stock prices started the week on the back foot,** declining both in Europe and in the US, dragged down by higher yields and amid corporate earnings releases ([see](#)). Emerging stocks also dropped, dragged down by higher yields and a higher USD. Volatility also increased significantly during the week.
- **The USD halted its recent downward trend and gained some ground ahead of the next FOMC meeting.** The US December inflation reading did not have a significant market impact as it was in line with market expectations ([see](#)).
- **Oil prices declined significantly,** dragged down by an increase in US output ([see](#)). EM currencies suffered from lower oil prices and a higher USD.

FOMC preview

- After regaining its footing in 2017, lifting rates by 25bps three times (in line with the committee's expectation heading into the year), communicating and executing its Balance Sheet Normalization plan, and solidifying its future leadership with the confirmation of Governor Powell, the committee will leave rates unchanged at its January 30-31 meeting. If economic conditions continue to improve in line with our baseline scenario of stronger growth and higher inflation, the committee will resume raising rates in March. How the committee views the impacts from the tax reform and what effect the new leadership and board members have on the voting bias could tilt the interest rate bias to the upside. However, we maintain our baseline forecast for three additional 25 bp rate increases in 2018, with no change to the Balance Sheet Normalization strategy.

Table 1
Update 18 CET 29 January 2018

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	2.12	0.8	6.3	22	91
US	2.70	4.3	5.3	27	26
GER (2-yr)	-0.53	1.9	8.0	7	25
Germany	0.69	6.5	12.7	27	39
France	0.97	5.7	12.7	20	16
Spain	1.42	1.0	2.6	-10	-1
Italy	2.03	1.9	10.3	7	16
Portugal	1.94	0.3	0.9	-70	218
Greece	3.66	0.1	-18.3	-47	-323
Japan (2-yr)	-0.12	0.4	1.0	1	7
Japan	0.09	1.0	3.1	2	2
Emerging Markets	level	Daily	Weekly	Monthly	Year
Brazil	9.76	6.0	-14.4	-49	-165
Chile	4.52	2.7	-4.0	4	19
Colombia	6.38	1.3	-6.9	-9	-71
Mexico	7.57	3.2	-1.6	-14	-7
Peru	4.44	0.4	-1.5	45	-204
Poland	3.59	4.9	25.5	28	-13
Russia	7.48	1.0	-2.6	-21	-96
Turkey	13.64	9.0	-16.0	24	64
India	7.44	13.6	17.9	5	106
Indonesia	6.31	9.7	13.8	-2	-153
Country risk bp (changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	-28	-0.8	0.0	-7	-19
Italy	133	-4.6	-2.4	-20	-19
Portugal	125	-6.8	-11.8	-24	-230
Spain	73	-5.5	-10.1	-37	-36
2-yr sovereign spread vs Germany					
France	13	-1.0	-2.4	-2	3
Italy	24	-2.3	-5.9	-10	-38
Portugal	45	-0.2	-23.7	-23	-55
Spain	17	-0.2	-4.5	-7	-31
Emerging Markets	level	Daily	Weekly	Monthly	Year
5-yr sovereign CDS *					
Brazil	142	-1.9	-7	-20	-130
Chile	42	0.6	-1	7	40
Colombia	90	-0.2	-1	-15	-73
Mexico	96	-1.5	-3	-10	-60
Peru	66	-0.7	-1	-6	-42
Poland	48	-0.2	-1	2	-28
Russia	112	0.6	-1	-6	-65
Turkey	164	0.4	-4	-5	-109
China	51	-1.0	1	0	-66
India	66	0.8	-1	-4	-61
Indonesia	79	-1.3	-2	8	-77
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year
VIX	13	17.5	18	28	1
VSTOXX	13	6.5	11	-2	-3
EM EFT volatility index	20	7.0	20	30	0
Dollar Euro volatility	8	1.7	6	32	25
EM FX volatility index	8	0.2	4	5	-26
Credit spread (BAA) (bps)	156	-4.3	-9	-16	-71
US bonds volatility index	56	4.2	6	30	-27
Inflation expectations (%)	level	Daily	Weekly	Monthly	Year
US Inflation expectations (5Y5Y)	2.42	3.1	1	12	-11
EZ Inflation expectations (5Y5Y)	1.73	0.1	-1	1	-6
Emerging 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US	42	-0.1	-	-	-30
EZ	35	-0.3	-2	-5	-73
UK	39	-1.0	-3	-4	-51
Large Spanish	30	0.2	-3	-6	-87
Medium Spanish	60	-2.2	-7	-15	-92
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US Non-financial	137	-0.1	-1	-1	-30
EZ Non-financial	58	-0.8	-2	-5	-73
UK Non-financial	95	0.3	0	4	-29
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
OMIA 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	1.77	0.01	0.0	0.1	0.8
Libor 12m	2.25	0.01	0.0	0.1	0.6
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	Year
US Indices					
S&P500	2,858	-0.5	0.9	6	26
Dow Jones	26,518	-0.4	1.2	7	33
Nikkei	23,629	0.0	-0.8	4	21
FTSE 100	7,672	0.1	-0.6	1	7
EuroStoxx 50	3,643	-0.1	-0.6	3	10
IBEX	10,556	-0.4	-0.3	5	12
DAX	13,324	-0.1	-1.0	3	15
CAC	5,522	-0.1	-0.4	3	13
MIB	23,802	-0.2	-0.4	8	21
ASE Athens	887	1.0	3.3	11	35
MSCI Latam *	93,673	1.6	4.1	10	28
Ibovespa (Brazil)	84,516	-1.2	3.5	11	37
Mexbol	50,788	-0.5	1.6	4	9
MSCI EM Europe *	5,808	-0.1	1.5	8	15
Poland	2,593	-0.3	-1.0	5	30
Micex (Russia)	2,284	-0.5	-1.1	9	1
ISE 100 (Turkey)	120,845	0.1	3.1	6	59
MSCI EM Asia *	1,001	1.1	2.5	10	44
Shanghai Com (China)	3,523	-1.0	0.6	7	12
Jakarta Indonesia)	6,681	1.0	2.9	6	27
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
JPM	116.8	0.4	2.1	8	34
Citi	80.5	0.5	2.4	7	31
BofA	32.3	0.2	1.1	8	41
HS	57.4	0.3	0.1	9	32
GS	272.0	1.5	4.0	6	12
EZ banks	119.3	0.3	0.3	9	13
BNP	66.4	0.1	1.2	9	9
Crédit Agricole	15.4	-0.1	-0.2	11	25
Deutsche Bank	15.5	-1.0	-1.9	-3	-5
ING	16.3	0.5	-2.1	6	17
Intesa	3.2	0.8	1.9	14	29
SG	47.2	1.1	2.6	10	-2
Unicredit	17.9	-0.4	0.4	13	27
UK banks					
Lloyds	71.6	0.4	-0.6	6	10
Santander	6.0	0.2	0.2	10	20
BBVA	7.6	0.1	2.0	7	18
Large Spanish banks					
Santander	92.6	0.0	1.1	8	19
BBVA	6.0	0.2	0.2	10	20
Cajabank	4.4	-0.7	-0.9	12	34
Sabadell	1.9	0.3	1.2	17	41
Medium Spanish banks					
Banque	9.3	0.5	6.0	17	23
Bankia	4.2	-4.3	0.1	5	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Developed					
EURUSD	1.24	0.6	0.7	-3.4	18
GBPUSD	1.40	0.8	0.4	4.5	14
USDJPY	109.17	-0.5	1.6	3.3	7
DX	89.56	0.6	-0.9	-3.3	-13
Emerging					
USDARS (Argentina)	19.60	-0.2	-2.4	-2.2	-22
USDBRL (Brazil)	3.17	-0.6	1.2	4.4	2
USDCNY (China)	603.79	-0.4	0.4	1.8	10
USDCOP (Colombia)	2947	-1.2	0.2	6.6	4
USDMXN (Mexico)	18.60	-0.6	0.5	5.7	13
USDPEN (Peru)	3.22	-0.1	-0.1	0.7	5
LACI	64.94	-0.2	0.4	3.9	5
USDPOLN (Poland)	3.36	-0.9	1.3	4.1	19
USDRUB (Russia)	56.36	-0.2	0.2	2.0	7
USDTRY (Turkey)	3.80	-1.2	-0.6	-0.6	-6
USDCW (Central)	6.34	-0.2	1.0	3.0	9
USDINR (India)	63.59	-0.1	0.4	0.8	7
USDIDR (Indonesia)	13,366	0.5	-0.1	1.4	1
ADXY	111.6	-0.3	0.5	1.9	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Energy					
Brent	69.4	-1.6	0.5	4	23
NFA	65	-1.1	3.0	9	23
Copper	318	0.0	0.2	-3	25
Gold	1339	0.8	0.4	3	15
S&P Spot commodity *	463	0.6	2.5	5	17
S&P Brent Spot *	597	0.3	2.2	6	24
S&P Metals Spot *	395	-0.1	0.8	0	30
S&P Agricultural *	284	0.3	1.1	1	5

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.

January 2018
Table 1