

Market Comment | The week left markets with higher yields and lower stocks

Global Financial Markets Unit
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- **Sovereign bond yields increased significantly during this week, especially in core countries, such as US and Germany, amid the FOMC meeting and upbeat US employment data.** As expected, the Fed left its monetary policy stance unchanged ([see](#)), but interest rates and risks continue tilting to the upside; more hawkish appointments and rotations at the Fed reinforce this bias ([see BBVA report](#)). On the other hand, peripheral yields in the euro zone remained on their downward trend, narrowing risk premiums. **Inflation expectations in the US also rose.**
- **Stock prices started the week on the back foot across the board,** 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 spiked during the week (VIX close to 14 levels).** Europe was the region that registered the largest drops in stock prices.
- Trump's speech ([see](#)) in which he called on the US Congress to stimulate infrastructure spending had a muted impact on financial markets, while the **USD remained unchanged,** despite the upbeat US employment data ([see](#)) and higher wages.
- **The EUR inched up amid positive euro zone GDP 4Q17 ([see](#)),** ECB tapering talk ([see](#)) and a slightly higher than expected January inflation flash.
- Oil prices inched down amid increasing signals of higher US oil production ([see](#)). Nonetheless, EM currencies were mixed. **The MXN was flat as the result of the 6th round of NAFTA negotiations did not surprise negatively ([see](#)).**

BBVA Research suggest the following reading list:

- Political risks bedevil Mexico's battle against inflation ([see](#))
- The extent of contingent liabilities and non-performing loans in the EU Member States ([see](#))
- Rebasing 'Maddison': The shape of long-run economic development ([see](#))

Table 1

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Debt markets (10Y, % changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	Year	
US (2-yr)	2.17	1.1	0.5	24	96	
US	2.63	4.4	17.4	39	39	
GER (2-yr)	0.54	0.6	0.9	8	24	
Germany	0.75	3.0	12.2	31	41	
France	1.00	2.5	8.9	21	19	
Spain	1.45	3.8	3.8	-15	1	
Italy	2.02	5.0	0.8	5	15	
Portugal	2.00	5.2	5.4	-22	-213	
Greece	3.67	-4.0	1.1	-35	-322	
Japan (2-yr)	0.13	-0.5	0.2	0	6	
Japan	0.09	0.8	3.8	2	2	
Emerging Markets						
level	Daily	Weekly	Monthly	Year		
Brazil	9.18	10.1	7.6	-40	-163	
Chile	4.56	0.0	6.8	6	23	
Colombia	6.37	2.1	-0.2	2	-72	
Mexico	7.59	2.4	5.1	8	5	
Peru	4.37	0.7	-6.2	-43	-210	
Poland	3.55	3.3	1.0	25	-17	
Russia	7.29	0.1	-18.4	-35	-116	
Turkey	11.39	5.0	-16.0	-3	39	
India	7.56	-4.3	25.5	24	118	
Indonesia	6.28	5.5	3.6	2	-154	
Country Risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	Year	
1-yr sovereign spread vs Germany						
France	25	-0.5	-3.3	-10	-21	
Italy	126	2.0	-11.4	-36	-26	
Portugal	125	2.2	6.8	-30	-230	
Spain	70	0.8	-0.4	-46	-39	
2-yr sovereign spread vs Germany						
France	14	-0.3	-0.7	-2	3	
Italy	21	-0.5	-4.6	-12	-40	
Portugal	46	1.3	-17.0	-22	-54	
Spain	17	-0.6	0.3	-8	-31	
Emerging Markets						
level	Daily	Weekly	Monthly	Year		
5-yr sovereign CDS *						
Brazil	145	1.7	1	-11	-127	
Chile	42	0.1	0	-6	-40	
Colombia	89	-0.6	-1	-13	-74	
Mexico	96	-0.3	-1	-7	-60	
Peru	66	-0.4	-1	-5	-42	
Poland	46	-0.2	0	0	-28	
Russia	104	-2.4	-7	-14	-72	
Turkey	162	-2.0	-1	-1	-110	
China	55	0.5	3	4	62	
India	67	-0.6	0	4	-60	
Indonesia	81	-0.7	1	-5	-75	
Risk Indicators						
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year	
VIX	14	0.5	30	57	3	
VSTOXX	16	1.0	31	34	0	
EM EFT volatility Index	20	0.0	5	26	-1	
Dollar/Euro volatility	7	-3.0	-4	16	-29	
EM FX volatility Index	8	1.3	1	5	-25	
Credit spread (BAA)(bps)	145	-4.4	-15	-27	-82	
US bonds volatility Index	56	1.1	4	21	-24	
Inflation expectations (%)						
level	Daily	Weekly	Monthly	Year		
US Inflation expectations (5YV)	2.46	4.7	6	10	-8	
EZ Inflation expectations (5YV)	1.75	1.2	2	1	-5	
Emerging 5Y CDS (bps) *						
level	Daily	Weekly	Monthly	Year		
US	42	-0.2	0	-1	-30	
EZ	37	0.0	2	-2	-71	
UK	39	-0.6	-1	-3	-52	
Large Spanish	32	-1.8	1	-5	-85	
Medium Spanish	62	-1.1	1	-13	-89	
Corporate 5Y CDS (bps) *						
level	Daily	Weekly	Monthly	Year		
US Non-financial	141	-0.2	0	-1	-30	
EZ Non-financial	56	0.0	2	-2	-71	
UK Non-financial	95	-0.5	0	3	-30	
Interbank markets (% changes in bp)						
level	Daily	Weekly	Monthly	Year		
CONA Index	-0.26	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	1.78	0.00	0.0	0.1	0.8	
Libor 12m	2.27	0.00	0.0	0.2	0.6	
Stock markets (%)						
Main Indices	level	Daily	Weekly	Monthly	Year	
S&P500	2,822	0.0	-1.8	4	24	
Dow Jones	26,187	0.0	-1.6	5	31	
Nikkei	23,275	-0.9	-1.5	2	19	
FTSE 100	7,480	-0.1	-2.4	-2	4	
EuroStoxx 50	3,546	-0.9	-2.8	1	7	
IBEX	10,273	-1.2	-3.0	2	9	
DAX	12,869	-1.0	-3.5	-1	11	
CAC	5,400	-1.0	-2.3	1	10	
MIIB	23,230	-0.9	-2.2	7	19	
ASE Athens	975	-1.3	-0.4	7	33	
MSCI Latam *	93,263	0.5	1.1	7	27	
Ibovespa (Brazil)	84,340	-1.4	-1.4	8	37	
Mibexl	50,591	0.7	0.1	2	9	
MSCI EM Europe *	5,795	0.2	-0.4	7	15	
Poland	2,519	-0.6	-3.1	2	26	
Mosc (Russia)	2,290	-0.6	-0.2	6	1	
He 100 (Turkey)	117,992	-0.9	-2.2	2	55	
MSCI EM Asia *	984	-0.6	0.6	5	41	
Shanghai Com (China)	3,462	0.4	-2.7	3	10	
Jakarta (Indonesia)	6,629	0.4	0.2	5	26	
Banking sector						
level	Daily	Weekly	Monthly	Year		
US banks						
JPM	154.1	0.0	0.3	8	29	
WFC	116.9	0.0	0.5	8	34	
CIT	79.2	0.0	-1.1	6	29	
BoA	32.5	0.0	0.9	9	42	
MS	57.5	0.0	-0.3	10	32	
GS	272.2	0.0	1.5	7	13	
EZ banks						
BNP	66.5	-0.2	-2.6	6	6	
Credit Agricole	15.1	-0.5	-1.8	8	23	
Deutsche Bank	14.2	-4.0	-9.4	-11	-13	
ING	15.8	0.6	-2.9	2	13	
Intesa	3.1	-0.6	-1.2	13	23	
SG	46.2	-1.0	-1.1	7	-4	
Unicredit	17.6	-1.2	-2.2	11	25	
UK banks						
RBS	92.2	0.1	-3.8	0	5	
MSCI						
RBS	288.1	0.4	-4.5	5	23	
Barclays	197.2	-0.1	-6.1	-3	-16	
Lloyds	69.2	-0.1	-2.9	3	7	
Large Spanish banks						
Santander	90.0	-0.7	-2.9	6	15	
BBVA	5.9	-0.5	-2.4	8	17	
Caixa	7.4	-1.0	-3.2	4	14	
Medium Spanish banks						
Cajabank	83.3	-2.0	-3.6	8	14	
Sabadell	4.3	-2.5	-3.5	7	30	
Bankinter	1.8	-3.6	-5.0	8	33	
Banqueparibas	9.2	-1.3	-0.1	16	22	
Banque	4.0	-0.7	-8.2	-1	-2	
Currencies (% ind for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	Year	
EURUSD						
EURUSD	1.25	-0.5	0.2	3.6	19	
GBPUSD	1.42	-0.7	0.0	4.8	15	
USDJPY	110.32	-0.8	-1.6	1.9	6	
DKK	89.18	0.6	0.1	-3.2	-13	
Emerging						
level	Daily	Weekly	Monthly	Year		
USDARS (Argentina)						
USDARS (Brazil)	19.50	-0.7	0.4	-5.7	-21	
USD BRL (Brazil)	3.21	-1.1	-1.9	1.0	0	
USD CLP (Chile)	601.32	-0.7	0.1	0.9	10	
USD COP (Colombia)	2822	-1.0	0.3	2.8	5	
USD MXN (Mexico)	18.49	-0.8	0.0	4.4	14	
USD PEN (Peru)	3.22	-0.2	0.0	0.0	5	
LACI	64.90	-0.9	0.5	1.6	5	
USD PLN (Poland)	3.34	-0.6	-0.6	3.2	20	
USD RUB (Russia)	56.35	-0.7	-0.2	1.4	7	
USD TRY (Turkey)	3.76	0.8	0.3	0.5	6	
USD CNY (China)	6.30	-0.1	0.5	3.1	9	
USD INR (India)	64.06	-0.1	-0.8	-0.8	6	
USD IDR (Indonesia)	13,452	-0.2	-1.1	0.2	0	
ADXY	111.6	-0.3	0.3	1.4	8	
Commodities (%)						
level	Daily	Weekly	Monthly	Year		
Brent						
WTI	66	-0.4	-0.9	6	23	
Copper	321	0.3	0.7	-1	26	
Gold	1326	-1.0	-1.0	2	15	
S&P Spot commodity *	460	0.8	-0.7	3	16	
S&P Brent Spoz *	593	1.1	-0.7	3	23	
S&P Metals Spot *	396	0.5	0.3	2	30	
S&P Agricultural *	286	0.0	0.8	0	8	

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1