

Market Comment | Italian politics hits European assets

Global Financial Markets Unit
16 May 2018

- **Increasing uncertainty in Italy hit European assets. The leak of a draft written by the Five Star Movement and the League brought political concerns to the forefront** ([see](#)). In the draft, the coalition ask the ECB to forgive 250 billion euros of Italian debt. In this context, Italian assets suffered the most, but the negative mood spread throughout the euro area, fuelling appetite for safe-haven bonds and EUR depreciation (below 1.18 against the USD). The confirmation of the slowdown in inflation in April for the Eurozone ([see](#)) also weighed, but to a lesser extent.
- Consequently, **Italian risk premia increased all along the curve** (also the short term) **with some contagion to other peripherals** (Spain and Portugal), whose spreads widened meaningfully, but mainly due to the decrease in German yields. European stock markets also suffered from the political uncertainty in Italy and dropped across the board with a clear underperformance of the banking sector in a context of decreasing yields.
- **Emerging markets continued under pressure due to adverse global financial conditions.** The US 10Y Bond yield consolidated the 3% threshold after yesterday's spike due to the release of some positive macroeconomic data (US retail sales, [see](#)). It also contributed to yesterday's USD appreciation against its main peers. The return of geopolitical concerns (the North Korea and US meeting is now in question [see](#)) had a muted impact on yields.
- **EM currencies, which suffered another sharp fall yesterday**, showed a mixed performance today. Some of them recovered some ground benefiting from today's stability of the USD and some EM central banks' readiness to act if necessary to prevent further deterioration (Central Bank of Turkey, [see](#)).

Table1

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Debt markets (10Y % change in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (Q-yr)	237	-0.2	4.3	20	65
US	3.06	0.7	7.5	25	62
GER (Q-yr)	-0.57	-2.5	0.5	0	4
Germany	0.61	-3.9	4.7	8	14
France	0.84	-2.0	4.7	9	2
Spain	1.41	5.3	10.8	17	20
Italy	2.12	16.3	23.5	32	2
Portugal	1.81	6.6	9.4	16	-20
Greece	4.37	24.4	17.4	32	77
Japan (Q-yr)	-0.13	-0.2	-0.3	1	0
Japan	0.06	0.3	1.0	1	1
Emerging Markets					
Developed Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.22	4.2	-0.6	38	-4
China	4.50	4.0	5.1	12	-1
Colombia	6.59	4.7	0.8	22	15
Mexico	7.78	0.8	7.8	40	20
Peru	5.06	-0.4	3.1	35	19
Poland	3.27	-2.0	0.0	18	-4
Russia	7.47	-1.6	4.3	6	-17
Turkey	14.13	-3.0	84.0	136	277
India	7.91	0.2	19.8	42	52
Indonesia	7.22	15.5	-17.2	61	92
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	24	1.9	0.0	1	-5
Italy	151	20.2	18.8	23	-12
Portugal	120	10.5	4.7	8	-34
Spain	81	9.2	6.1	9	-34
2-yr sovereign spread vs Germany					
France	11	2.1	1.9	1	-6
Italy	66	17.8	36.9	38	29
Portugal	45	7.1	6.6	-11	-22
Spain	28	3.9	3.4	3	-1
Emerging Markets					
5-yr sovereign CDS *					
Brazil	191	6.6	-9	22	30
Chile	57	2.8	-1	9	8
Colombia	112	3.6	-5	13	7
Argentina	300	-36.6	-6	118	142
Mexico	122	5.4	-6	18	15
Peru	81	2.9	-2	12	13
Venezuela	16,590	0.0	0	0	0
Poland	55	-0.3	5	6	6
Russia	134	5.3	9	8	16
Turkey	259	23.7	13	59	94
China	60	1.4	-3	0	9
India	83	4.0	6	9	14
Indonesia	120	7.7	-9	23	35
Risk indicators					
Volatility indicators (change in pp)					
level	Daily	Weekly	Monthly	YTD	
VIX	14	0.5	0	3	4
VSTOXX	14	0.9	0	-1	0
EM EFT volatility Index	19	-0.5	0	-2	2
Dobolizuro volatility	8	0.6	1	2	1
EM FX volatility Index	9	0.3	0	1	1
Credit spread (BAA) (change in bps)	181	-0.7	-5	4	3
US 10-yr volatility index	53	4.3	3	3	3
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.46	-	4	3	14
EU Inflation expectations (5Y5Y)	1.72	-	3	5	-1
Bonding 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	52	2.1	-1	-2	10
CZ	55	1.1	-2	1	16
UK	42	0.4	-3	-5	2
Large Spanish	50	2.0	2	4	14
Medium Spanish	71	0.8	1	0	-4
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	148	2.1	-1	-2	10
EU Non-financial	68	1.1	-2	1	16
UK Non-financial	104	0.4	0	1	11
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
EDMA Index	-0.36	0	0	1	1
Euro 3m	-0.33	0	0	0	0
Barclay 12m	-0.19	0	0	0	0
Libor 3m	2.32	-1	-3	-3	63
Libor 12m	2.75	0	-2	2	65
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	YTD
Main indices					
S&P500	2,716	0.2	0.7	1.4	1
Dow Jones	24,734	0.1	0.6	0.7	0
Nikkei	22,717	-0.4	1.4	4.0	0
FTSE 100	7,324	0.1	0.9	7.4	1
EuroStoxx 50	3,563	0.0	-0.2	3.5	2
IBEX	10,111	-0.9	-1.1	3.5	0
DAX	12,996	0.2	0.4	4.9	1
CAC	5,568	0.3	0.6	4.8	5
MB	23,734	-2.3	-2.2	1.7	9
RSE Athens	788	-1.4	3.8	4.0	4
MSCI Latam *	90,615	0.0	1.8	0.5	6
Bovespa (Brazil)	86,324	1.4	2.4	4.2	11
Ibovespa (Mexico)	46,344	0.2	0.1	4.3	7
Merval (Argentina)	31,156	1.6	11.6	0.5	0
MSCI EM Europe *	5,481	-1.6	1.6	2.7	2
Poland	2,276	0.0	0.2	11.1	8
Mosc 10 (Russia)	4,550	0.4	1.3	8.1	10
Wu 100 (Turkey)	102,158	0.6	1.4	7.7	-13
MSCI EM Asia *	937	-0.9	0.9	0.5	2
Shanghai Com (China)	3,170	-0.7	0.3	1.9	-5
Jakarta (Indonesia)	5,241	-1.8	1.2	4.8	8
US banks					
level	Daily	Weekly	Monthly	YTD	
JPM	112.9	-0.1	-0.4	2.5	5
Ch	71.9	-1.0	0.0	2.6	-3
Ba	31.1	-0.5	1.1	3.8	4
MS	54.9	0.0	1.3	2.8	5
GS	240.9	-0.3	0.3	6.6	-6
Wells Fargo	105.1	-1.7	-1.3	1.9	-4
BNP	62.3	-1.5	-0.6	1.2	0
Credit Agricole	13.5	-0.5	0.4	0.7	3
Deutsche Bank	11.0	-2.7	-4.9	5.4	31
ING	13.3	-0.8	1.5	5.5	13
Intesa	3.1	2.5	-1.9	0.8	13
SG	42.0	-1.5	-0.7	5.4	3
Unicredit	17.0	-4.7	3.1	1.6	8
UK banks	91.9	-0.8	1.4	3.8	0
HSBC	738.8	0.0	2.7	10.0	3
RBS	291.5	-0.6	5.6	10.9	5
Barclays	208.5	-1.5	-1.2	2.5	3
Lloyds	65.7	-1.6	-1.3	2.9	-3
Large Spanish banks	60.0	-2.1	2.4	11.1	-5
Santander	5.3	-2.5	-2.0	-1.1	-2
BBVA	6.6	-1.6	-2.7	3.2	-7
Medium Spanish banks	79.2	-2.6	-0.7	2.2	3
Caixabank	4.1	-3.5	-1.8	4.4	4
Sabotell	1.7	-4.2	-3.3	3.8	-1
Bankinter	9.0	-1.8	0.0	0.4	14
Banella	3.7	-1.2	1.2	0.5	9
Commodities (€, net for currency depreciation)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD	1.18	-0.5	-0.6	-4.8	-2
GBPUSD	1.35	-0.2	-0.6	6.0	-1
USDJPY	110.23	0.1	0.4	2.9	2
DXY	93.50	0.3	0.5	4.6	2
Emerging					
USDARS (Argentina)	24.04	0.1	-5.9	-18.0	31
USDBRL (Brazil)	3.68	-0.7	-2.4	-7.7	-13
USDCPL (China)	631.06	0.1	0.4	5.9	4
USDCOP (Colombia)	2868	0.2	0.1	9.2	2
USDMXN (Mexico)	19.73	-0.2	-0.8	9.6	-1
USDPEN (Peru)	3.27	0.2	0.7	1.5	-1
LACI	58.98	-0.7	1.6	7.9	-7
USDPLN (Poland)	3.63	-0.1	-1.0	8.3	5
USDRLB (Russia)	61.86	0.7	1.9	-1.2	-8
USDTRY (Turkey)	4.42	0.6	3.1	7.9	-17
USDCHY (China)	6.37	0.1	-0.1	-1.5	2
USDINR (India)	67.80	0.5	-0.8	-3.5	-7
USDIDR (Indonesia)	14,097	-0.4	-0.1	-2.3	-4
ADXY	110.0	0.0	0.2	1.5	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	78.2	-0.3	1.3	9	17
WTI	71	-0.4	-0.2	7	18
Copper	395	0.1	0.2	-1	-6
Gold	1290	-0.1	-1.8	-4	-2
S&P Spot Commodity *	488	0.2	0.4	5	10
S&P Brent Spot *	666	0.4	1.6	11	18
S&P Metals Spot *	387	-0.4	-0.2	-2	-2
S&P Agriculture *	302	0.6	-1.1	0	6

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.57	-0.2	4.3	20	65
US	3.08	0.7	7.5	25	62
GER (2-yr)	-0.57	-2.5	0.5	0	4
Germany	0.61	-3.9	4.7	8	14
France	0.84	-2.0	4.7	9	2
Spain	1.41	5.3	10.8	17	-20
Italy	2.12	16.3	23.5	32	2
Portugal	1.81	6.6	9.4	16	-20
Greece	4.37	24.4	17.4	32	27
Japan (2-yr)	-0.13	-0.2	-0.3	1	0
Japan	0.06	0.3	1.0	1	1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.22	4.2	-0.6	38	-4
Chile	4.50	4.0	5.1	12	-1
Colombia	6.59	4.7	0.8	22	15
Mexico	7.78	0.8	7.6	40	20
Peru	5.06	-0.4	-2.3	25	19
Poland	3.27	-2.0	0.0	18	-4
Russia	7.47	-1.6	4.3	6	-17
Turkey	14.13	8.0	84.0	126	277
India	7.91	0.2	19.8	42	52
Indonesia	7.22	12.5	-17.2	61	92
Country risk (bp, change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	24	1.9	0.0	1	5
Italy	151	20.2	18.8	23	-12
Portugal	120	10.5	4.7	8	-34
Spain	61	9.2	6.1	9	-34
2-yr sovereign spread vs Germany					
France	11	2.1	1.9	1	-6
Italy	66	17.8	36.9	38	29
Portugal	45	7.1	6.6	-11	-22
Spain	28	3.9	3.4	3	1
Emerging Markets					
5-yr sovereign CDS *	level	Daily	Weekly	Monthly	YTD
Brazil	191	6.6	9	22	30
Chile	57	2.8	-1	9	8
Colombia	112	3.6	5	13	7
Argentina	380	-39.6	-6	118	142
Mexico	122	5.4	-6	18	15
Peru	85	2.9	-2	12	13
Venezuela	16.599	0.0	0	0	0
Poland	55	-0.3	5	6	6
Russia	134	5.3	9	8	16
Turkey	259	23.7	13	59	94
China	60	3.4	3	0	9
India	83	4.0	6	9	14
Indonesia	120	7.7	9	23	35
Risk indicators					
Volatility indicators (change in bp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.8	0	-3	4
VSTOXX	14	0.9	0	-1	0
EM EFT volatility index	19	-0.5	0	-2	2
Dollar/euro volatility	6	0.6	1	2	1
EM FX volatility index	9	0.3	0	1	1
Credit spread (BAA) change in bp	161	-0.7	5	4	5
US bonds volatility index	53	4.3	3	3	3
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.46	-	4	3	14
EZ Inflation expectations (5Y5Y)	1.73	-	3	5	-1
Banking 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	52	2.1	-1	-2	10
EZ	55	1.1	-2	1	16
UK	42	0.4	-3	-5	2
Large Spanish	50	2.0	-2	4	14
Medium Spanish	71	1.8	1	0	-4
Corporate 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	148	2.1	-1	-2	10
EZ Non-financial	68	1.2	-2	1	16
UK Non-financial	104	0.4	0	1	11
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
EOBA Index	-0.26	0	0	1	1
Euribor 3m	-0.33	0	0	0	0
Euribor 12m	-0.19	0	0	0	0
Libor 3m	2.32	1	-3	-3	63
Libor 12m	2.75	0	-2	2	65
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,716	0.2	0.7	1.4	1
Dow Jones	24,734	0.1	0.7	0	0
Nike	22,717	-0.4	1.4	4.0	0
FTSE 100	7,734	0.1	0.9	7.4	1
EuroStoxx 50	3,563	0.0	0.2	3.5	2
IBEX	10,111	-0.9	-1.1	3.5	0
DAX	12,996	0.2	0.4	4.9	1
CAC	5,568	0.3	0.6	4.8	5
MB	23,734	-2.3	-2.2	1.7	9
ASE Athens Index	788	-1.4	-3.8	4.0	4
MSCI Latam *	90,615	0.0	1.8	0.5	6
Ibovespa (Brazil)	86,324	1.4	2.4	4.2	11
Mercol (Mexico)	46,344	0.2	0.1	-4.3	-7
Merval (Argentina)	31,156	1.6	11.6	0.5	0
MSCI EM Europe *	5,481	-1.6	1.6	2.7	2
Poland	2,276	0.0	-0.2	1.1	8
Mixe 10 (Russia)	4,550	0.4	1.3	0.1	10
Ise 100 (Turkey)	102,158	0.6	1.4	7.7	-13
MSCI Asia *	937	-0.9	0.9	0.5	2
Shanghai Com (China)	3,170	-0.7	0.3	1.9	-6
Jakarta (Indonesia)	5,841	-1.8	1.2	6.8	-8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	150.5	-0.4	0.3	1.2	1
JPM	112.9	-0.1	-0.4	2.5	5
Cit	71.9	-1.0	0.0	2.6	-3
BofA	31.1	-0.5	1.1	3.6	4
MS	54.9	0.0	1.3	2.8	5
GS	240.9	-0.3	-0.3	6.6	-6
EZ banks	105.1	-1.7	1.3	1.9	4
BNP	62.3	-1.5	-0.6	1.2	0
Credit Agricob	13.5	-0.5	0.4	0.7	-3
Deutsche Bank	11.0	-2.7	-1.9	5.4	31
ING	13.3	-0.8	1.5	5.5	-13
Intesa	3.1	-2.5	-1.9	0.8	13
SG	42.0	-1.5	-0.7	5.4	-3
Unicredit	17.0	-4.7	-3.1	-1.6	8
UK banks	91.9	-0.8	1.4	3.8	0
HSBC	738.8	0.0	2.7	10.0	3
RBS	291.5	0.6	5.6	10.9	5
Barclays	208.5	-1.5	-1.2	2.5	3
Lloyds	65.7	-1.6	-1.3	2.9	-3
Large Spanish banks	80.9	-2.1	2.4	1.1	5
Santander	5.3	-2.5	-2.0	-1.1	-2
BBVA	6.6	-1.6	2.7	3.2	-7
Medium Spanish banks	79.2	-2.6	-0.7	2.2	3
CaixaBank	4.1	-3.5	-1.8	4.4	4
Sabadell	1.7	-4.2	-2.3	3.8	-1
Bankiilar	9.0	-1.8	0.0	6.4	14
Bankia	3.7	-1.2	1.2	0.5	-9
Commodities (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.18	-0.5	-0.6	-4.8	-2
GBPUSD	1.35	-0.2	-0.6	6.0	-1
USDJPY	110.23	0.1	0.4	7.8	2
DXY	93.50	0.3	0.5	4.6	2
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	24.04	0.1	-1.9	-18.9	-31
USDBRL (Brazil)	3.68	-0.7	-2.4	7.7	-13
USDCUP (Cuba)	631.06	0.1	0.4	5.8	4
USDCOP (Colombia)	28.68	-0.2	-1.3	5.2	2
USDMXN (Mexico)	19.73	-0.2	-0.8	9.6	-1
USDPEN (Peru)	3.27	0.2	0.7	1.5	-1
IAC1	58.98	-0.7	1.6	7.9	-7
USDPIN (Poland)	3.63	-0.1	-1.0	8.3	5
USDRLB (Russia)	61.86	0.7	1.9	1.2	8
USDTRY (Turkey)	4.42	0.6	3.1	7.9	-17
USDCNY (China)	6.37	0.1	-0.1	-1.5	2
USDINR (India)	67.80	0.5	-0.8	3.5	-7
USDIDR (Indonesia)	14,297	-0.4	0.1	2.3	4
ADXY	110.0	0.0	0.2	1.5	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	78.2	-0.3	1.3	9	17
WTX	71	-0.4	-0.2	7	18
Copper	305	0.1	0.2	-1	-6
Gold	1290	-0.1	-1.8	-4	-2
S&P Spot commodity *	488	0.2	0.4	5	10
S&P Brent Spot *	666	0.4	1.6	11	18
S&P Metals Spot *	387	-0.4	-0.2	-2	-2
S&P Agriculture *	302	0.6	-1.1	0	6

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

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