

Market Comment | EMs under pressure, while Italian politics returned to the forefront

Global Financial Markets Unit
18 May 2018

- **EMs continued under pressure, as the 10Y US Treasury yield consolidated above the 3% threshold and the USD went on** an upward trend during the week, among other things due to positive macroeconomic data (US retail sales, early this week, [\(see\)](#)). Against this backdrop, the US equity market remained stable and the volatility index remained subdued despite the remaining geopolitical tensions ([see](#)). The rally in oil prices (above \$79 per barrel) contributed to fuel inflation expectations and consequently US yields, so the potential positive effect on EMs was muted, even in net oil-exporting countries.
- **The eurozone bonds markets suffered some volatility during the week after political uncertainty in Italy.** The leak of a draft written by the Five Star Movement and the League brought political concerns to the forefront and caused a significant increase in Italian peripheral risk premium, and today's announcement of a government agreement fuelled this trend ([see](#)). **Political tensions in Italy had some contagion to its peers (Spain and Portugal).**
- In the same line, Italian equity indices underperformed other European indices, which showed gains during the week. The main exceptions were IBEX and also the banking sector across Europe, which is very sensitive to recent developments. **The EUR also suffered from this uncertainty and hovered around 1.18 against the USD (its lowest level in the year).**
- Bund yields increased slightly from very low levels, supported by **comments from ECB officials** which were read as slightly hawkish by markets (Villeroy [see](#), Nowotny [see](#)). Nonetheless, safe-haven flows due to the challenging political outlook in Italy erased preceding upward pressure and yields of 10Y GER returned below 0.60% at the end of the week. The confirmation of slowdown in EZ inflation in April ([see](#)), considered as temporary, had a muted effect on markets.
- **EMs remained under pressure and did not benefit from the sharp increase in oil prices.** EM fx continued with their downward trend during the week as well as other EM assets (credit and sovereign bonds). The rebound in oil prices partly mitigated the fall but it was not enough to ease the pressure on them. In this context, **some central banks started to react:** Turkey's central bank showed its readiness to act if necessary to prevent further deterioration (Central Bank of Turkey, [see](#)), Brazil held interest rates unchanged unexpectedly ([see](#)) and Bank Indonesia hiked rates ([see](#)).
- As expected, **Banxico held the interest rate** at 7.5% ([see](#)) in a very challenging outlook for Mexico: uncertainty on **NAFTA negotiations** remains as a deadline set by US Republicans has already passed without a significant decision on the deal, decreasing the chance of an agreement within this year ([see](#)), adding pressure on the MXN.

Table1
Update 18.0 CET 18 May

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.55	1.8	12	12	63
US	3.08	-3.5	10.7	20	61
GER (2-yr)	-0.58	-2.2	-0.3	-2	3
Germany	0.58	-6.1	2.0	5	11
France	0.83	-3.9	4.4	8	1
Spain	1.44	3.9	17.0	23	-17
Italy	2.23	11.4	35.7	51	13
Portugal	1.87	6.5	18.9	26	-14
Greece	4.54	9.8	51.5	55	44
Japan (2-yr)	-0.14	-0.4	-0.2	1	0
Japan	0.06	1.4	2.3	4	1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.51	26.3	44.2	78	26
Chile	4.88	2.8	12.3	20	7
Colombia	6.84	1.5	10.4	24	19
Mexico	7.81	6.1	21.2	44	23
Peru	5.39	9.8	28.5	57	51
Poland	3.34	2.7	10.7	31	2
Russia	7.49	4.2	3.8	9	-14
Turkey	14.53	13.0	125.0	218	317
India	7.84	-4.3	11.1	30	45
Indonesia	2.39	17.8	25.1	75	110
Country 44k (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	2.2	2.4	4	-3
Italy	165	17.5	33.7	46	2
Portugal	129	12.6	16.9	21	-25
Spain	86	9.6	15.0	18	-28
2-yr sovereign spread vs Germany					
France	11	1.7	2.0	2	-5
Italy	68	9.4	36.0	42	31
Portugal	44	3.1	4.9	-9	-24
Spain	28	1.9	3.4	4	1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	194	6.7	14	28	33
Chile	57	2.3	5	10	8
Colombia	113	4.5	7	13	8
Argentina	358	4.6	-2	94	120
Mexico	125	6.0	13	20	18
Peru	87	3.7	7	15	15
Venezuela	16,599	0.0	0	0	0
Poland	56	0.0	3	8	7
Russia	134	1.4	2	-8	16
Turkey	270	10.9	29	66	105
China	58	1.0	1	-1	-1
India	88	0.3	10	14	18
Indonesia	122	2.9	6	26	37
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in pp)					
VIX	13	-0.2	1	2	3
VSTOIX	14	0.8	2	1	1
EM EFT volatility index	19	0.0	2	1	2
Dollar/euro volatility	7	0.0	1	1	1
EM FX volatility index	9	0.0	0	1	1
Credit spread (BAA)(change in bp)	181	3.5	-1	6	4
US bonds volatility index	5.4	-0.9	7	4	5
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.49	-	-	-	17
EZ Inflation expectations (5Y5Y)	1.70	-	-	-	-4
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	54	0.4	3	1	12
EZ	59	0.5	2	6	19
UK	45	1.0	1	1	4
Large Spanish	54	2.1	4	12	18
Medium Spanish	74	2.2	3	8	21
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	148	0.4	3	1	12
EZ Non-financial	70	0.5	2	8	19
UK Non-financial	105	0.2	0	3	12
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
COBA Index	-0.37	0	0	0	1
Euribor 3m	-0.33	0	0	0	0
Euribor 12m	-0.19	0	0	0	0
Libor 3m	2.33	1	-2	2	64
Libor 12m	2.77	0	0	2	66
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,719	-0.1	-0.3	0.4	1
Dow Jones	24,745	0.1	-0.3	0.0	0
Nikkei	22,930	0.4	0.8	3.5	1
FTSE 100	7,279	-0.1	0.7	6.3	2
EuroStoxx 50	3,574	-0.5	0.2	2.4	2
IBEX	10,112	-1.0	-1.5	2.6	0
DAX	13,078	-0.3	0.6	3.9	2
CAC	5,615	-0.1	1.3	4.4	6
MB	23,450	-1.5	-2.9	-1.3	7
ASE Athens	783	-0.4	-4.8	-7.1	-4
MSCI Latam *	89,158	2.5	2.0	2.1	4
Ibovespa (Brazil)	82,352	-1.5	-3.4	-4.0	6
Mexbol (Mexico)	45,552	-0.5	-2.5	-7.2	-9
Merval (Argentina)	31,868	0.2	6.8	1.1	3
MSCI EM Europe *	5,444	-0.7	-0.5	1.4	1
Poland	2,230	1.1	-4.3	-3.7	-9
Mircex 10 (Russia)	4,517	-0.3	-0.9	3.0	10
Ise 100 (Turkey)	102,410	0.5	0.5	8.6	-13
MSCI EM Asia *	934	-0.5	-0.1	1.1	1
Shanghai Com (China)	3,193	1.2	0.9	3.1	6
Jakarta (Indonesia)	5,783	-1.0	-2.1	-8.0	-9
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	148.1	1.5	-2.2	0.7	0
JPM	111.3	-1.5	-2.3	1.8	3
Cit	70.2	-2.0	-3.7	1.7	-6
BAK	30.5	1.0	-1.3	3.3	2
MS	54.3	-1.0	-1.6	2.0	4
GS	238.0	-0.5	-2.0	-6.3	-7
EZ banks					
103.4	-1.2	-3.2	4.5	-5	
BNP	61.4	-1.0	-1.9	-1.1	-1
Credit Agricole	13.4	-1.4	-0.3	-0.1	-4
Deutsche Bank	10.8	1.5	7.2	7.8	-22
ING	13.2	0.4	-1.2	6.5	-14
Intra	3.0	-2.5	-4.6	-3.5	9
SG	41.5	-0.2	-2.0	-7.6	-4
Unicredit	16.2	-2.8	-9.6	-8.7	3
UK banks					
91.6	-0.4	-1.5	2.6	-1	
Other					
HBC	732.9	0.4	0.4	8.3	-4
RBS	290.1	1.5	1.4	7.0	5
Barclays	207.5	-0.7	-3.2	-3.0	2
Dynis	65.0	-0.3	-1.6	-2.4	-2
Large Spanish banks					
79.7	-2.3	-4.8	-1.6	-6	
Santander	5.2	-2.7	-5.7	-4.8	-5
BBVA	6.6	-1.9	-4.0	1.4	-7
Medium Spanish banks					
77.8	-2.1	-3.9	0.9	1	
Caixabank	4.1	-1.7	-4.4	2.5	4
Sabadell	1.6	-3.4	-6.3	-5.0	-3
Banquepar	8.9	-1.7	-2.5	4.0	12
Banque	3.6	-2.3	-3.5	0.7	-11
Currencies (% net for currency depreciation)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD	1.18	-0.2	-1.4	-4.8	-2
GBPUSD	1.35	-0.2	-0.5	-5.1	-1
USDJPY	110.71	0.1	-1.2	3.2	1
DXY	93.68	0.2	1.2	4.5	2
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	24.56	1.0	-5.9	-22.0	-33
USDBRL (Brazil)	3.75	1.3	4.0	10.8	-15
USDCLP (Chile)	637.13	0.8	-2.8	-7.1	-5
USDCOP (Colombia)	2922	0.8	-3.0	-7.8	0
USDMXN (Mexico)	19.93	-1.0	-2.6	-10.2	-2
USDPEN (Peru)	3.29	-0.4	-1.0	-2.2	-2
USZAR	58.16	-1.2	-3.0	-9.5	-9
USDPIN (Poland)	3.65	0.2	2.2	8.4	-6
USDRLB (Russia)	62.44	0.4	-0.8	-2.6	-9
USDTRY (Turkey)	-4.49	-0.3	-4.1	-12.1	-19
USDCNY (China)	6.38	-0.2	-0.7	-1.7	2
USDINR (India)	68.01	-0.5	-1.0	-3.6	-7
USDIR (Indonesia)	14,155	-0.7	-1.4	-3.8	-5
ADXY	109.7	-0.1	-0.6	-1.8	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
 Brent					
WTI	79.1	-0.2	2.6	6	19
WTI	7.1	-0.1	1.0	4	18
Copper	305	-1.0	-1.6	-3	-6
Gold	1291	0.1	-2.0	-4	-2
S&P Spot commodity *	490	0.2	1.2	3	11
S&P Brent Spot *	67.4	0.1	3.0	9	19
S&P Metals Spot *	388	0.1	0.4	-5	-1
S&P Agricultural *	301	0.2	-0.2	-1	6

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

Fuente: BBVA Research

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Colombia	6.64	1.5	10.4	24	19
Mexico	7.81	6.1	21.2	44	23
Peru	5.39	9.0	39.5	57	51
Poland	3.34	2.7	10.7	31	2
Russia	7.49	4.2	3.8	9	-14
Turkey	14.53	13.0	105.0	219	317
India	7.84	-4.3	11.1	30	45
Indonesia	7.38	17.8	25.1	75	110
Country risk (bp, change in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
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Emerging Markets					
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Venezuela	16.599	0.0	0	0	0
Poland	56	0.0	3	8	7
Russia	134	1.4	2	-8	16
Turkey	270	10.9	29	66	105
China	58	-1.0	-1	-1	7
India	89	0.3	10	14	18
Indonesia	122	2.9	6	26	37
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in pp)					
VIX	13	-0.2	1	-2	3
VSTOXX	14	0.9	2	1	1
EM EFT volatility Index	19	0.0	2	1	2
Dollar/euro volatility	7	0.0	1	1	1
EM FX volatility Index	9	0.0	0	1	1
Credit spread (BAA) change in bp	161	3.5	-1	6	4
US bonds volatility index	54	-0.9	7	4	5
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.49	-	5	5	17
EZ Inflation expectations (5Y5Y)	1.70	-	-1	1	-4
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level	Daily	Weekly	Monthly	YTD	
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EZ Non-financial	70	0.5	2	6	19
UK Non-financial	105	0.2	0	3	12
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
EOBA Index	-0.37	0	0	0	1
Eurobor 3m	-0.33	0	0	0	0
Eurobor 12m	-0.19	0	0	0	0
Libor 3m	2.33	1	-2	-2	64
Libor 12m	2.77	0	0	2	66
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,719	-0.1	-0.3	0.4	1
Dow Jones	24,745	0.1	0.3	0.8	0
Nike	22,930	0.4	0.8	3.5	1
FTSE 100	7,779	-0.1	0.7	6.3	2
EuroStoxx 50	3,574	-0.5	0.2	2.4	2
IBEX	10,112	-1.0	-1.5	2.6	0
DAX	13,078	-0.3	0.6	3.9	2
CAC	5,615	-0.1	1.3	4.4	6
MB	23,450	-1.5	-2.9	-1.3	7
ASE Athens	783	-0.4	-4.8	7.1	4
MSCI Latam *	89,158	-2.5	2.0	2.1	4
Ibovespa (Brazil)	82,352	-1.5	-3.4	4.0	6
Mercol (Mexico)	45,552	-0.5	-2.5	7.2	-9
Merval (Argentina)	31,868	-0.2	6.8	11	3
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Poland	2,230	-1.1	-4.3	3.7	9
Mosc 10 (Russia)	4,517	0.3	0.9	1.0	10
Ise 100 (Turkey)	102,410	0.5	0.5	8.6	-13
MSCI Asia *	934	-0.5	-0.1	1.1	1
Shanghai Com (China)	3,193	1.2	0.9	3.1	5
Jakarta (Indonesia)	5,783	-1.0	-2.1	0.0	-9
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	143.1	-1.2	-2.2	0.7	0
Cit	111.3	-1.5	-2.3	1.8	3
Ch	70.2	-2.0	-3.7	1.7	-6
BofA	30.5	-1.0	-1.3	3.3	2
MS	84.3	-1.0	-1.6	2.0	4
GS	238.0	-0.5	-2.0	6.3	-7
EZ banks					
BNP	103.4	-1.3	-3.2	4.5	5
BNP	61.6	-1.0	-1.9	-1.1	-1
Credit Agricob	13.4	-1.4	-0.3	0.1	-4
Deutsche Bank	10.8	-1.9	-7.2	7.8	32
ING	13.2	0.4	1.2	6.5	-14
Intesa	3.0	-2.5	-4.6	3.5	9
SG	41.5	-0.5	-2.8	7.6	4
Unicredit	16.2	-2.8	-9.6	8.7	3
UK banks					
HSBC	91.6	-0.4	-1.5	2.6	-1
HSBC	732.9	0.4	0.4	8.3	4
RBS	290.1	-1.5	-1.4	7.0	5
Barclays	207.5	-0.7	-3.2	3.0	2
Lloyds	66.0	-0.3	-1.6	2.4	-2
Large Spanish banks					
Santander	5.2	-2.7	-5.7	4.8	-5
BBVA	6.6	-1.9	-4.0	1.4	-7
Medium Spanish banks					
Casabank	77.8	-2.1	-3.9	0.9	1
Casabank	4.1	-1.7	-4.4	2.5	4
Sabadel	1.6	-3.4	-6.3	5.9	-3
Bankiár	8.9	-1.7	-2.5	4.0	12
Bankia	3.6	-2.3	-3.5	0.7	-11
Currencies (% net for currency appreciation)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD	1.18	-0.2	-1.4	-4.8	-2
GBPUSD	1.35	-0.3	-0.5	-5.1	-1
USDJPY	110.71	0.1	-1.2	3.2	1
DXY	93.68	0.2	1.2	4.5	2
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	24.56	-1.0	-5.8	-22.0	-33
USDBRL (Brazil)	3.75	-1.3	-4.0	-10.8	-15
USDCUP (Cuba)	637.13	-0.8	-2.8	7.1	5
USDCOP (Colombia)	29.22	-0.6	3.0	7.8	0
USDMXN (Mexico)	19.93	-1.0	-2.6	-10.2	-2
USDPEN (Peru)	3.29	-0.4	-1.0	2.2	-2
INR	58.16	-1.2	3.0	9.5	9
USDPIN (Poland)	3.65	-0.2	-2.2	8.4	6
USDRUB (Russia)	62.44	-0.4	-0.8	2.6	9
USDTRY (Turkey)	4.49	-0.7	-4.1	-12.1	-19
USDCNY (China)	6.38	-0.2	-0.7	-1.7	2
USDINR (India)	68.01	-0.5	-1.0	3.6	-7
USDIDR (Indonesia)	14,156	-0.7	-1.4	2.8	5
ADXY	109.7	-0.1	-0.6	1.8	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
WTX	79.1	-0.2	2.6	8	19
Copper	71	-0.1	1.0	4	18
Gold	305	-1.0	-1.6	-3	-6
1291	0.1	-2.0	-4	-2	
S&P Spot commodity *	490	0.2	1.2	3	11
S&P Brent Spot *	874	0.1	3.0	9	19
S&P Metals Spot *	388	0.1	0.4	5	-1
S&P Agriculture *	301	-0.2	-0.2	-1	6

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

Fuente: BBVA Research

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