

# Market Comment | The easing of tensions in Italy triggered a positive mood in markets

Global Financial Markets Unit  
01 Jun 2018

- **The performance of the main financial markets during this past week has been largely determined by the evolution of the political situation in Italy** and during the last two days by the US government's announcement of the imposition of tariffs on imports from its main partners, reviving concerns about the global trade outlook. All these events have triggered some movements of risk aversion but they receded somewhat at the end of the week
- **High volatility in financial markets and movements of risk aversion during the first part of the week, particularly concentrated in European markets.** The uncertainty regarding the political situation in Italy, with a potential election on the table after the president of the Republic rejected the candidate proposed by the coalition between the Five Star Movement and the League ([see](#)). These events led the German Bund -which is considered a risk-free asset - to hit 0.20%, its minimum level in all the year, while Italy's risk premium rebounded to levels not seen since 2014. There was some contagion to other peripherals during the week. Nonetheless, the announcement of the new government helped to recover some ground ([see](#)). In Spain, the **PM lost the non-confidence vote** ([see](#)). The effect on markets was very slight, as any potential impact was overshadowed by the latest developments in Italy, which triggered a positive mood in the final part of the week.
- **The US is to impose tariffs on steel and aluminium imports from the EU, Canada and Mexico from today after two months of exemptions**([see](#)), triggering a new source of concerns given the odds of retaliation as the trade relationship between China and the US has also deteriorated in the last few days ([see](#)). During the week US yields were dragged down due to uncertainty in Europe and 10Y UST yields returned at some moments to hover around 2.90% fostered by today's US job growth ([see](#)).
- **In this context developed equity markets showed a negative performance during the week despite today's recovery.** During the first part of the week European equity indices registered sharp drops, led by the banking sector and with some contagion to US indices. As the week went by, in line with bond markets, they recovered some ground as the political situation in Italy became clearer, eclipsing, albeit only partly, the global trade concerns.
- **The euro suffered from the political uncertainty and renewed its lowest point this year during the week** despite the release of higher than expected inflation figures ([see](#)). However, it recovered partially at the end of the week. The risk aversion movement increased demand for reserve currencies such as the Japanese yen, the Swiss franc and the USD
- **The USD's strength weighed on emerging currencies across the board**, which depreciated despite the increasing oil prices, which returned to hover around 80 USD ([see](#)). The Mexican peso was particularly hit given the aforementioned increasing trade concerns as well as Brazilian real due to its

idiosyncratic situation.

Table1  
Update 16:15 CET 01 June

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.48	4.8	0.0	-11	56
US	2.90	4.5	-2.7	-6	44
GER (2-yr)	-0.63	2.3	-1.1	-6	-2
Germany	0.38	3.2	-2.8	-20	-9
France	0.70	3.2	-1.1	-10	-12
Spain	1.46	-3.9	-0.2	15	-15
Italy	2.71	-8.7	24.6	9.2	61
Portugal	1.91	-7.0	-3.9	22	-10
Greece	4.51	-7.4	10.0	58	41
Japan (2-yr)	-0.13	0.9	0.3	0	0
Japan	0.05	0.7	0.3	0	0
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.46	0.0	40.8	159	120
Chile	4.88	0.2	0.2	10	6
Colombia	6.82	0.0	1.9	19	19
Mexico	7.78	-1.0	14.6	26	21
Peru	5.39	-0.1	2.3	45	52
Poland	3.22	-3.3	1.4	4	-9
Russia	7.48	-1.5	4.4	10	-16
Turkey	18.28	45.0	10.0	114	292
India	7.85	2.2	5.4	11	46
Indonesia	5.39	0.0	-37.4	-1	68
Country 44k (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	32	-0.5	1.7	10	4
Italy	233	-12.4	27.4	112	70
Portugal	153	-10.7	-1.1	42	-1
Spain	109	-7.6	2.6	36	-6
2-yr sovereign spread vs Germany					
France	13	-3.9	3.8	4	-4
Italy	171	-1.3	60.8	144	134
Portugal	66	-2.0	-6.1	8	-2
Spain	54	-13.2	7.6	31	27
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	230	12.9	40	53	70
Chile	59	0.7	6	6	10
Colombia	127	5.8	17	19	22
Argentina	395	11.5	58	91	157
Mexico	140	9.4	20	24	33
Peru	95	3.2	9	17	23
Venezuela	16,599	0.0	0	0	0
Poland	67	1.7	9	18	18
Russia	135	3.2	6	2	18
Turkey	269	16.4	1	68	105
China	57	-0.7	0	-5	6
India	91	0.2	2	16	22
Indonesia	121	3.3	3	15	36
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in pp)					
VIX	14	-1.6	1	-2	4
VSTOIX	16	-2.1	0	2	2
EM EFT volatility index	18	-1.1	0	-1	2
Dollar/euro volatility	7	-0.4	0	0	1
EM FX volatility index	9	-0.1	0	0	1
Credit spread (BAA)(change in bp)	185	-4.5	0	1	7
US bonds volatility index	61	-1.3	6	11	11
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5Y5Y)	2.39	-	-	-	7
EZ inflation expectations (5Y5Y)	1.73	-	4	3	-1
Banking Sy CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	61	1.7	8	5	19
EZ	104	2.8	33	49	65
UK	52	-3.0	2	7	11
Large Spanish	100	-5.8	27	52	64
Medium Spanish	100	-7.0	19	30	25
Corporate Sy CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	155	1.7	8	5	19
EZ Non-financial	79	2.8	33	49	65
UK Non-financial	108	-3.1	1	4	15
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
COBA Index	-0.35	0	1	0	2
Euribor 3m	-0.32	0	0	1	1
Euribor 12m	-0.18	0	0	1	0
Libor 3m	2.36	0	-2	-5	61
Libor 12m	2.70	0	-4	-7	59
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,727	0.8	0.2	3.5	1
Dow Jones	24,617	0.8	-0.6	2.9	-1
Nikkei	22,171	-0.1	-1.2	-1.3	-3
FTSE 100	7,716	0.5	-0.2	2.3	1
EuroStoxx 50	3,462	1.6	-1.5	2.6	-1
IBEX	9,649	1.9	-1.8	-4.4	-4
DAX	12,770	1.3	-1.3	-0.2	-1
CAC	5,477	1.4	-1.2	-1.0	-4
MB	22,268	2.2	-0.6	-8.2	2
ASE Athens	776	2.7	2.7	-9.6	-5
MSCI Latam *	83,684	-0.1	-3.0	9.2	-2
Ibovespa (Brazil)	78,118	1.8	-1.0	-7.6	0
Mercol (Mexico)	45,033	0.8	-0.1	-5.8	-10
Merval (Argentina)	28,559	0.0	-3.7	-3.6	-8
MSCI EM Europe *	5,324	-0.3	-0.7	-3.0	-1
Poland	2,180	1.1	-1.5	-4.9	-11
Micex 10 (Russia)	4,471	0.4	-0.3	1.4	0
Ise 100 (Turkey)	99,346	-1.3	-3.7	-5.1	-15
MSCI EM Asia *	924	0.9	-0.8	-1.0	0
Shanghai Com (China)	3,075	-0.7	-2.1	-0.2	-8
Jakarta (Indonesia)	5,984	-0.5	0.6	-0.2	-6
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	108.7	1.6	-1.8	0.7	1
Cit	67.7	1.6	-1.0	-0.4	-9
BK	79.5	1.7	-2.1	-0.2	-1
MS	51.2	2.0	-3.5	-1.0	-2
GS	229.5	1.6	-2.4	-2.0	-10
EZ banks					
94.0	3.6	-4.8	-14.2	-14	
BNP	54.2	2.2	-10.4	-15.7	-13
Credit Agricole	12.2	3.8	-3.8	-10.5	-13
Deutsche Bank	9.5	3.9	-6.3	-16.8	-40
ING	12.9	3.6	-1.9	-8.4	-16
Intra	2.6	4.6	-0.3	-17.0	-5
SG	37.9	2.7	-6.9	-16.6	-12
Unicredit	14.8	5.5	-3.1	-16.9	-5
UK banks					
89.8	1.9	-1.7	0.2	-3	
HSC	728.4	1.1	-0.6	-0.2	-5
RBS	282.6	2.7	2.5	3.7	2
Barclays	202.9	2.9	-1.6	-1.2	0
Dynis	64.0	1.2	-2.5	-0.5	-5
Large Spanish banks					
73.2	3.7	-3.4	-11.1	-14	
Santander	4.8	4.1	-4.0	-11.3	-12
BBVA					
6.8	3.3	-2.9	-10.9	-15	
Medium Spanish banks					
72.5	3.0	-3.2	6.7	5	
CaixaBank	3.8	3.8	-3.5	9.5	-5
Sabadell	1.5	2.8	-7.0	-8.9	-12
Banquepar	8.4	2.3	-0.9	-3.3	6
Banque	3.4	3.8	-3.1	-7.7	-17
Commodities (% net for currency depreciation)					
level	Daily	Weekly	Monthly	YTD	
Development					
EURUSD	1,168	-0.1	0.2	-2.3	-3
GBPUSD	1,333	0.2	0.1	-1.8	-2
USDJPY	109.64	-0.8	-0.2	0.2	2
DXY	94.18	0.2	-0.1	1.8	3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	24.96	0.1	-1.9	-17.8	-36
USDBRL (Brazil)	3.72	0.0	-1.9	4.9	-14
USDCPL (Chile)	631.23	0.1	-1.2	-2.0	-4
USDCOP (Colombia)	2,862	1.0	0.6	-1.0	-2
USDMXN (Mexico)	19.83	0.4	-1.5	-3.9	-1
USDPEN (Peru)	3.27	0.1	0.0	0.1	-1
USDRUB (Russia)	58.45	0.2	-1.4	4.7	-8
USDPPLN (Poland)	3.69	0.0	0.3	-3.4	-7
USDRUB (Russia)	62.07	0.6	0.2	3.1	-8
USDTRY (Turkey)	-4.58	-1.3	2.8	-8.7	-32
USDCNY (China)	6.42	-0.2	-0.5	-0.9	1
USDINR (India)	67.06	0.5	1.0	0.6	-6
USDIRR (Indonesia)	13,896	0.0	1.6	0.4	-3
ADXY	109.9	0.1	0.1	0.3	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
76.9	-0.9	0.6	5	15	
WTI	67	-0.8	2.0	-2	10
Copper	307	0.5	0.2	1	-6
Gold	1295	-0.2	-0.5	-1	-2
S&P Spot commodity *	481	-0.5	-0.1	2	9
S&P Brent Spot *	660	-0.2	1.4	6	17
S&P Metal Spot *	389	0.4	0.7	1	-1
S&P Agricultural *	312	0.4	-1.4	0	10

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

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Fuente: BBVA Research

Debt markets (10Y % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.40	-4.8	0.0	-1	56
US	2.90	4.5	-2.7	-6	44
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Germany	0.38	1.7	-2.8	-20	-9
France	0.70	3.2	-1.1	-10	-12
Spain	1.46	-3.9	-0.2	15	-15
Italy	2.21	-5.7	24.6	92	61
Portugal	1.91	-7.0	-3.9	22	-10
Greece	4.51	-7.4	10.0	58	41
Japan (2-yr)	-0.13	0.9	0.3	0	0
Japan	0.05	0.7	0.3	0	0
EM/Developing Markets	13.58	21.7	Weekly	Monthly	YTD
Brazil	11.46	0.0	40.8	159	120
Chile	4.58	0.2	0.2	10	8
Colombia	6.62	0.0	1.9	18	18
Mexico	7.78	-1.0	14.6	26	21
Peru	5.39	-0.1	2.3	45	52
Poland	3.22	-3.3	1.4	4	-9
Russia	7.48	-1.5	4.4	10	-16
Turkey	14.28	45.0	10.0	174	292
India	7.85	2.2	5.4	11	46
Indonesia	6.98	0.0	-37.4	-1	-68
Country risk (bp change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	32	-0.5	1.7	10	4
Italy	233	-12.4	27.4	112	70
Portugal	153	-10.7	-1.1	42	-1
Spain	109	-7.6	2.6	36	6
2-yr sovereign spread vs Germany					
France	13	-3.9	3.8	4	-4
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Developing Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	230	12.9	40	53	70
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Colombia	127	5.8	17	19	22
Argentina	395	11.5	58	91	157
Mexico	140	9.4	20	24	33
Peru	95	3.2	9	17	23
Venezuela	16,599	0.0	0	0	0
Poland	67	1.7	9	18	18
Russia	135	3.2	8	7	18
Turkey	269	16.4	1	68	105
China	57	-0.7	0	2	6
India	91	0.2	2	16	22
Indonesia	121	3.3	3	15	36
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in pp)					
VIX	14	-1.6	1	-2	4
VSTOXX	16	-2.1	0	2	2
EM EFT volatility index	18	-1.1	0	-1	2
Dollar/euro volatility	7	-0.4	0	0	1
EM FX volatility index	9	-0.1	0	0	1
Credit spread (BAA) change in bp	165	-4.5	0	1	7
US bonds volatility index	61	-1.3	6	11	11
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.39	-	-1	-7	7
EZ Inflation expectations (5Y5Y)	1.73	-	4	3	-1
Banking 5Y CDS (pp) *	level	Daily	Weekly	Monthly	YTD
US	61	1.7	8	5	19
EZ	104	-0.4	33	49	65
UK	52	-3.0	2	7	11
Large Spanish	100	-5.8	27	52	64
Medium Spanish	100	-7.0	19	30	25
Corporate 5Y CDS (pp) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	155	1.7	8	5	19
EZ Non-financial	79	3.2	33	49	65
UK Non-financial	108	-3.1	1	4	15
Interbank markets (% change in bp)	level	Daily	Weekly	Monthly	YTD
EURIBOR Index	-0.25	0	1	1	-2
EURIBOR 3m	-0.32	0	0	1	1
EURIBOR 12m	-0.18	0	0	1	0
Libor 3m	2.30	0	-2	-5	61
Libor 12m	2.70	0	-4	-7	59
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,727	0.8	0.2	3.5	1
Dow Jones	24,617	0.8	0.6	2.9	-1
Nike	22,171	-0.1	-1.2	-1.3	-3
FTSE 100	7,716	0.5	-0.2	2.3	1
EuroStoxx 50	3,462	1.6	-1.5	2.6	-1
IBEX	9,649	1.9	-1.8	-4.4	-4
DAX	12,770	1.3	-1.3	0.2	-1
CAC	5,477	-1.4	-1.2	-1.0	-4
MB	22,268	2.2	-0.6	8.2	2
ASE Athens	776	2.7	2.7	9.6	5
MSCI Latam *	63,684	-0.1	-0.0	9.2	2
Ibovespa (Brazil)	78,118	1.8	-1.0	-7.6	0
Mercol (Mexico)	45,033	0.8	-0.1	5.8	-10
Merval (Argentina)	28,558	0.0	3.7	3.6	6
MSCI EM Europe *	5,324	-0.3	-0.7	-3.0	-1
Poland	2,180	1.1	-1.5	-4.9	-11
Mixe 10 (Russia)	4,411	0.4	0.3	1.4	9
Ise 100 (Turkey)	99,346	-1.3	-3.7	5.1	-15
MSCI Asia *	924	0.9	-0.8	-1.0	0
Shanghai Com (China)	3,075	-0.7	2.1	0.2	-8
Jakarta (Indonesia)	5,984	-0.5	0.6	0.2	-6
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	142.8	1.7	2.1	0.4	4
JPM	108.7	1.6	-1.8	0.7	1
Cit	67.7	1.6	-1.0	0.4	-9
BofA	29.5	1.7	-2.1	0.2	-1
MS	51.2	2.0	-3.5	-1.0	-2
GS	229.5	1.6	-2.4	2.0	-10
EZ banks	94.0	3.6	4.8	-14.2	-14
BNP	54.2	2.2	-10.4	-15.7	-13
Credit Agricob	12.2	3.8	-3.8	-10.5	-13
Deutsche Bank	9.5	3.9	-8.3	-16.8	-40
ING	12.9	3.6	-1.9	8.4	-16
Intesa	2.6	4.6	-0.3	-17.0	-5
SG	37.9	2.7	-6.9	-16.6	-12
Unicredit	14.9	5.5	-3.1	-16.9	-5
UK banks	89.8	1.9	-1.7	0.2	-3
HSBC	728.4	1.1	-0.6	0.2	5
RBS	282.6	2.7	-2.5	3.7	2
Barclays	202.9	2.9	-1.6	1.2	0
Lloyds	64.0	1.2	-2.5	0.5	5
Large Spanish banks	73.2	3.7	3.4	-11.1	-14
Santander	4.8	4.1	-4.0	-11.3	-12
BBVA	6.0	2.3	-2.9	-10.9	-15
Medium Spanish banks	72.5	3.0	-3.2	6.7	5
CaixaBank	3.8	3.8	-3.5	9.5	-5
Sabadell	1.5	2.8	-7.0	8.9	-12
Bankiär	8.4	2.3	-0.9	3.3	6
Bankia	3.4	3.8	-3.1	7.7	-17
Currencies (% net for currency depreciation)	level	Daily	Weekly	Monthly	YTD
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,168	-0.1	0.2	-2.3	-3
GBPUSD	1,33	0.2	0.1	-1.8	-2
USDJPY	109.64	-0.8	0.2	0.2	7
DXY	94.18	0.2	-0.1	1.8	3
Developing	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	24.96	0.1	-1.5	-17.8	-36
USDBRL (Brazil)	3.72	0.0	-1.9	-4.9	-14
USDCUP (Cuba)	631.23	0.1	-1.2	2.0	4
USDCOP (Colombia)	2862	1.0	-2.5	-1.0	2
USDMXN (Mexico)	19.83	0.4	-1.5	-3.9	-1
USDPEN (Peru)	3.27	0.1	0.0	0.1	-1
INR1	58.45	0.2	-1.4	4.7	8
USDPIN (Poland)	3.69	0.0	0.3	3.4	7
USDRLB (Russia)	62.07	0.6	0.2	3.1	8
USDTRY (Turkey)	4.58	-1.3	2.8	9.7	-22
USDCNY (China)	6.42	-0.2	-0.5	0.9	1
USDINR (India)	67.06	0.5	1.0	0.6	-6
USIDRR (Indonesia)	13.996	0.0	1.6	0.4	-3
ADXY	109.9	0.1	0.1	0.3	0
Commodities (%)	level	Daily	Weekly	Monthly	YTD
Brent	76.9	-0.9	0.6	5	15
WTX	67	-0.8	-2.0	2	10
Copper	307	0.5	0.2	1	-6
Gold	1295	-0.2	-0.5	-1	-2
S&P Spot commodity *	481	-0.5	-0.1	2	9
S&P Brent Spot *	660	-0.2	-1.4	6	17
S&P Meats Spot *	389	0.4	0.7	1	1
S&P AgriCommod *	312	0.4	-1.4	0	10

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

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Fuente: BBVA Research

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Fuente: BBVA Research

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**Spain's PM lost the non-confidence vote [\(see\)](#).** The effect on markets was very slight, as any potential impact was overshadowed by the latest developments in Italy, which triggered a positive mood in the final part of the week