

Market Comment | Trade tensions boost volatility and drag equity markets

Global Financial Markets Unit
25 Jun 2018

- **Global trade tensions are weighing on companies' investment decisions worldwide, dragging down equity indices, with the implied volatility currently jumping (VIX 18%).** US tariffs on \$50 bn worth of Chinese goods are due to come into force on 6 July, besides which the US has threatened to impose tariffs on a further \$400 bn worth of imports from China, while the US Treasury is planning to tighten scrutiny of Chinese and other countries investments in sensitive US industries under an emergency law. Europe announced tariffs on \$3.3 billion worth of US products on Friday, leading to fears of new counter retaliation measures from the US against the European automotive sector. Both US and European equity indices declined by more than 1%, technology, materials and industrial sectors (including autos). Moreover, China's high tech sector stocks are under pressure as the fate of Chinese cell phone company ZTE is still uncertain, while Google is being forced to reconsider collaborating with Huawei.
- In this context, **sovereign bond markets continued to attract some safe-haven flows**, with 10 year US Treasury and German bund yields falling slightly. **Political noise continued to weigh on Italy's sovereign debt**, with the 10Y yield jumping (+14 bps) but without any spillover effect in either Spain or Portugal today. As a result, the risk premium widened in Italy to (250 bps) while it remained broadly steady in both Spain and Portugal.
- **Despite global trade strains, the USD continued relatively steady against other major currencies.** The JPY appreciated slightly, in line with the flight to safe-haven currencies. However, EM currencies continued under pressure, depreciating across the board. The TRY show intraday volatility, appreciating immediately after president Erdogan won the election, but ending the session down. The CNY depreciated (0.6%), after China's PBOC announced a 50 bps RRR cut last night. The MXN started the week depreciating against the USD despite last week's decision of the Mexican Central Bank to increase its interest rate by 25 bps (positioned at a level 7.75%) (see) and both the CLP and the COP also depreciated on the back of lower commodity prices.
- **The oil Brent prices are currently declining** (-1.6% to 74.4 \$/b) after last week decision from OPEC and other allies to increase crude oil supply by 1 million barrels per day (see).

Table 1

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Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US GYV	2.52	1.7	2.5	2	61
US	2.87	-2.2	4.4	10	41
GER (2-yr)	-0.67	-0.8	5.7	8	6
Germany	0.33	-1.0	-7.1	-15	-14
France	0.72	0.9	0.6	4	-11
Spain	1.35	-0.3	9.6	4	-26
Italy	2.83	13.2	27.2	43	73
Portugal	1.83	1.4	8.6	7	18
Greece	4.13	-1.8	-29.2	-13	2
Japan (2-yr)	-0.13	0.0	0.0	1	0
Japan	0.04	-0.2	1.4	1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	12.02	-9.1	-8.9	116	176
Chile	4.58	-1.7	2.1	1	7
Colombia	6.58	-0.6	-5.1	0	14
Mexico	7.76	8.0	16.0	8	18
Peru	5.39	1.0	-5.5	1	52
Poland	3.19	1.5	-2.9	3	12
Russia	7.78	-0.5	-21.0	33	12
Turkey	16.26	58.0	3.0	200	490
India	7.83	0.8	4.9	4	44
Indonesia	7.62	7.6	32.1	4	132
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	39	1.9	6.5	10	11
Italy	250	14.2	24.3	57	80
Portugal	151	2.4	15.7	8	-3
Spain	102	0.7	16.7	10	-12
2-yr sovereign spread vs Germany					
France	23	10.3	13.5	16	7
Italy	167	12.5	53.4	81	131
Portugal	55	0.8	7.2	19	-13
Spain	46	0.4	10.6	16	19
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
1-yr sovereign CDO *					
Brazil	257	-4.2	-11	71	97
Chile	56	-1.4	0	1	7
Colombia	122	-4.0	4	12	17
Argentina	392	-9.1	20	58	154
Mexico	132	-6.0	-12	12	25
Peru	86	-3.8	-2	1	14
Poland	65	-0.5	1	9	16
Russia	139	-4.5	-6	8	21
Turkey	293	-14.9	-20	19	128
China	58	-0.8	1	1	7
India	91	-2.3	3	1	22
Indonesia	120	-5.1	1	8	45
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	18	4.2	6	5	8
VSTOXX	18	3.7	4	2	5
EM EFT volatility Index	21	2.3	3	2	4
Dollar/Euro volatility	7	0.0	0	0	1
EM FX volatility index	10	-0.2	0	1	2
Credit spread (BAA) (change in bp)	200	2.2	9	15	22
US bonds volatility index	53	-0.1	1	1	4
Commodity indicators (bps)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.48	-	3	8	16
EZ Inflation expectations (5Y5Y)	1.73	-	-1	2	-1
Emerging SVCC (bps)					
level	Daily	Weekly	Monthly	YTD	
US	55	-1.0	2	2	13
EZ	92	-0.5	6	23	52
UK	55	-0.5	3	7	14
Large Spanish	89	0.4	8	19	53
Medium Spanish	93	-1.7	-6	12	18
Commodity SVCC (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	151	-1.0	2	2	13
EZ Non-financial	81	-0.5	6	23	52
UK Non-financial	108	-0.9	2	2	15
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
LIBOR Index	-0.36	0	0	0	1
Euro3m 3m	-0.32	0	0	0	1
Earlibor 12m	-0.18	0	0	1	1
Libor 3m	2.34	0	1	1	64
Libor 12m	2.78	1	0	2	67
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,714	-1.5	-2.2	0.5	1
Dow Jones	24,224	-1.5	-3.1	-2.4	-2
Nikkei	22,338	-0.8	-1.5	0.4	-2
FTSE 100	7,509	-2.3	-1.6	2.7	-2
Euro Stoxx 50	3,369	-2.1	-2.8	-4.3	-3
BSE	8,618	-1.8	-1.6	-3.8	-5
DAX	12,270	-2.5	-4.4	4.5	5
CAC	5,284	-1.9	-3.1	-4.8	0
NIB	21,355	-2.4	-3.4	6.1	2
ASE Athens	777	0.8	0.8	0.8	-5
MSCI Latin *	80,481	0.6	0.6	-7.6	-6
Bovespa (Brazil)	70,092	-0.8	0.4	-12.5	-10
Merbi (Mexico)	46,614	-0.3	0.1	2.6	-7
IBV (Argentina)	29,068	-3.8	5.1	2.8	-6
MSCI EM Europe *	5,227	0.7	0.5	-2.5	-3
Poland	2,156	-0.3	0.2	-2.6	-12
Nikkei 10 (Europe)	4,283	-0.9	1.4	2.2	5
Isse 100 (Turkey)	94,008	-1.9	1.0	-7.0	-20
MSCI EM Asia	909	0.3	-2.6	-2.3	-1
Shanghai Com (China)	2,859	-1.1	5.4	9.4	-15
Jakarta Indonesia	5,859	0.6	-2.2	1.2	-8
Emerging sector					
level	Daily	Weekly	Monthly	YTD	
US banks	127.0	-1.9	-3.6	-6.9	-8
JPM	104.6	-1.1	-3.3	-6.0	-3
Cit	65.8	-2.1	-1.4	-5.1	-12
Ba	28.4	-2.1	-3.4	-6.0	-5
MS	47.8	-2.1	-5.8	-11.4	-8
GS	221.4	-2.1	-4.3	-6.2	-13
EZ banks	90.2	-1.8	-1.6	-10.0	-17
BNP	52.9	-1.9	-2.0	-13.7	-15
Crédit Agricole	11.6	-1.2	-1.4	-9.1	-17
Deutsche Bank	9.3	-2.5	-2.3	-10.8	-42
ING	12.5	-1.3	-1.0	-5.4	-19
Intesa	2.5	-3.2	-1.9	-8.1	-9
SC	35.8	-1.1	-2.0	-12.7	-17
Unicredit	14.3	-1.9	-0.7	-11.0	-9
UK banks	84.9	-2.0	-1.5	-6.3	-8
RSC	702.8	-2.6	-3.1	-3.8	-8
RBS	257.1	-1.7	1.0	-11.4	-7
Barclays	190.5	-1.8	-2.3	-7.2	-6
Lloyds	61.2	-1.4	0.5	-7.2	-10
Large Spanish banks	71.3	-2.3	0.3	8.5	-16
Santander	4.6	-3.0	-1.3	-10.4	-16
BBVA	6.0	-1.7	0.6	-6.7	-16
Medium Spanish banks	70.1	-2.4	2.0	8.9	-9
Catalan	3.8	-2.5	-2.9	-11.8	-10
Sabadell	1.4	-1.1	-1.7	-13.5	-19
Bankinter	8.3	-3.2	-2.6	-5.0	-4
Banica	3.3	-2.6	0.2	-8.3	-19
Commodities (% change in currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,170	0.4	0.6	0.2	-3
GBPUSD	1.33	0.1	0.2	0.8	-2
USDJPY	109.63	0.3	0.8	0.3	2
DXY	94.37	-0.2	-0.4	0.6	3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	26.98	0.2	2.3	9.7	47
USD BRL (Brazil)	3.78	0.2	-0.9	-3.6	-16
USD CJP (China)	639.19	-0.4	0.3	2.1	5
USDCOP (Colombia)	2936	-0.7	-0.4	-2.9	0
USD MEX (Mexico)	20.11	-0.5	2.0	2.7	3
USD PEN (Peru)	3.27	-0.1	0.1	0.2	-1
LACI	57.26	-0.1	0.4	-3.7	-10
USD PLN (Poland)	3.71	-0.1	-0.3	-1.0	-8
USD RUB (Russia)	62.84	0.2	0.8	2.1	9
USD TRY (Turkey)	4.69	-0.3	0.2	0.3	-25
USD CNV (China)	6.54	-0.6	-1.6	-2.5	-1
USD INR (India)	68.13	-0.4	0.2	0.3	-7
USD IDR (Indonesia)	14,159	-0.5	-1.6	0.2	-5
ADXY	107.8	-0.3	-0.9	-1.7	-2
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	74.4	-1.6	-1.3	-6	12
WTI	68	-0.5	-3.6	-4	13
Copper	302	-0.5	-2.7	-2	-7
Gold	1267	-0.2	-0.9	-3	-4
S&P Spot commodity *	471	-2.3	0.8	-4	6
S&P Brent Spot *	641	3.5	0.5	-4	-13
S&P Metals Spot *	377	0.2	-2.1	-3	-4
S&P Agricultural *	292	0.5	-0.4	-7	2

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

Fuente: BBVA Research

Debt markets (10Y, %, changes in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-y)	2.52	-1.7	-2.5	-2	-61
US	2.87	-2.2	-4.4	-10	-41
GER (2-y)	-0.67	-0.0	-0.7	-8	-6
Germany	0.33	-1.0	-7.1	-15	-14
France	0.72	0.9	0.6	-4	-11
Spain	1.35	-0.3	0.6	-4	-26
Italy	2.83	13.2	27.2	43	-73
Portugal	1.83	1.4	8.6	-7	-18
Greece	4.13	-1.8	-29.2	-13	-2
Japan (2-y)	0.13	0.0	0.0	1	0
Japan	0.24	-0.5	-1.4	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	12.02	-9.1	-8.9	116	176
Chile	4.58	-1.7	-2.0	-1	-7
Colombia	6.58	-0.6	-5.1	0	14
Mexico	7.76	0.0	-16.0	8	18
Peru	5.39	1.0	-5.5	1	52
Poland	3.19	1.5	-2.9	-3	-12
Russia	7.76	-0.5	-21.0	33	12
Turkey	16.26	58.0	3.0	200	490
India	7.83	0.8	-4.9	-4	44
Indonesia	7.62	2.6	23.1	4	133
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
level	Daily	Weekly	Monthly	YTD	
France	39	1.9	6.5	10	11
Italy	250	14.2	34.3	57	87
Portugal	151	2.4	15.7	8	-3
Spain	102	-0.7	16.7	10	-12
2-yr sovereign spread vs Germany					
France	23	10.3	13.5	16	7
Italy	157	12.5	53.4	81	131
Portugal	55	0.9	7.2	-19	-13
Spain	46	0.4	10.6	16	19
Emerging Markets					
5-yr sovereign CDS *					
level	Daily	Weekly	Monthly	YTD	
Brazil	257	-4.2	-11	71	97
Chile	56	-1.4	0	1	7
Colombia	122	-4.0	-4	12	17
Argentina	392	-9.1	-20	58	154
Mexico	192	-6.0	-12	12	25
Peru	86	3.8	-2	-1	14
Poland	65	-0.5	1	9	16
Russia	139	-4.5	-6	8	21
Turkey	293	-14.9	-20	19	129
China	58	-0.8	1	1	7
India	91	-2.3	3	1	22
Indonesia	130	-2.1	1	8	45
Risk indicators					
Volatility indicators (change in bp)					
level	Daily	Weekly	Monthly	YTD	
VIX	18	41.2	6	9	8
VSTOXX	18	3.7	4	2	5
EM EFT volatility Index	21	2.3	3	2	4
Dinleriana volatility	7	0.0	0	0	1
EM FX volatility index	10	-0.2	0	1	2
Credit spread (BAA) change in bps	200	2.2	9	15	22
US bonds volatility index	53	-0.1	1	1	4
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y)	2.48	-	3	8	16
EZ Inflation expectations (5Y)	1.23	-	-1	2	-1
Brexit 5-yr CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	55	-1.0	2	2	13
EZ	92	-0.5	6	23	52
UK	55	-0.5	3	7	14
Large Spanish	89	0.4	8	19	53
Medium Spanish	93	-4.7	-6	12	18
European 5-yr CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	151	-1.0	2	2	13
EZ Non-financial	81	-0.5	6	23	52
UK Non-financial	108	-0.9	2	3	15
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EURIA Index	-0.36	0	0	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.18	0	0	1	1
Libor 3m	2.34	0	1	1	64
Libor 12m	2.78	1	0	2	67
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,714	-1.5	2.2	0.5	1
Dow Jones	24,224	-1.5	-3.1	3.4	-2
Nikkei	22,338	-0.8	-1.5	0.4	-2
FTSE 100	7,509	-2.3	-1.6	2.7	-2
EuroStoxx 50	3,369	-2.1	-2.8	4.3	-3
IBEX	9,618	-1.8	-1.6	-3.8	-5
DAX	12,270	-2.5	-4.4	-4.5	-5
CAC	5,284	-1.9	-3.1	-4.8	0
MI	21,355	-2.4	-3.4	-6.1	-2
ASE Athens	777	0.8	0.8	0.8	-5
MSCI Latam *	80,481	0.6	0.6	-7.6	-6
Bovespa (Brazil)	70,092	-8.8	0.4	-12.5	-10
Mexcel (Mexico)	46,614	-0.3	0.1	2.6	-7
Merval (Argentina)	29,069	-3.8	5.1	2.0	-6
MSCI EM Europe *	5,227	0.7	0.5	2.5	-3
Poland	2,156	-0.3	0.2	-2.6	-12
Moon 10 (Russia)	4,383	-0.9	1.4	2.2	6
Rex 100 (Turkey)	94,008	-1.9	1.0	-7.4	-20
MSCI EM Asia *	909	0.3	2.6	-2.3	-1
Shanghai Com (China)	2,859	-1.1	-5.4	9.4	-15
Jakarta Indonesia	5,559	0.5	-2.2	1.2	-8
European banks					
level	Daily	Weekly	Monthly	YTD	
US banks	137.0	-1.9	-3.6	-6.9	-8
JPM	104.6	-1.1	-3.3	-6.0	-3
Ch	65.8	-2.1	-1.4	-5.1	-12
BoA	28.4	-2.1	-3.4	-6.0	-5
MS	47.8	-2.1	-5.8	-11.4	-8
GS	221.4	-2.1	-4.3	-6.2	-13
EZ banks	90.2	-1.8	-1.6	-10.0	-17
BNP	52.9	-1.9	-2.0	-13.7	-15
Credit Agricole	11.6	-1.2	-1.4	-9.1	-17
Deutsche Bank	9.3	-2.5	-2.3	-10.8	-42
ING	12.5	-1.3	-1.0	-5.4	-19
Intesa	2.8	-3.2	-1.8	-6.1	-9
SG	35.8	-1.1	-2.0	-12.7	-17
Unicredit	14.3	-1.9	-0.7	-11.0	-9
UK banks					
HSBC	702.3	-2.6	-3.1	-3.8	-8
RBS	257.1	-1.7	1.0	-11.4	-7
Barclays	190.5	-1.8	-2.3	-7.2	-6
Lloyds	61.2	-1.4	-0.5	-7.2	-10
Large Spanish banks	71.3	-2.3	-0.3	-8.5	-16
Santander	4.6	-3.0	-1.3	-10.4	-16
BBVA	6.0	-1.7	0.6	-6.7	-16
Medium Spanish banks	70.1	-2.4	-2.0	-8.9	-9
Cáritasbank	3.6	-2.5	-2.8	-11.8	-10
Sabadell	1.4	-1.1	-1.7	-13.5	-17
Bankinter	8.3	-3.2	-2.6	-5.0	-4
Banisa	2.3	-2.6	-0.2	-6.3	-15
Commodities (% red for currency depreciation)					
Developed					
level	Daily	Weekly	Monthly	YTD	
EURUSD	1,170	0.4	0.6	0.2	-3
GBPUSD	1.33	0.1	0.2	0.8	-2
USDJPY	109.63	0.3	0.8	0.3	2
DXY	94.37	-0.2	0.4	0.6	-3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	26.98	0.2	2.3	9.7	-47
USDARS (Brazil)	3.78	0.2	-0.9	-3.6	-16
USDCOP (Colombia)	639.19	-0.4	0.3	2.1	-5
USDCOP (Colombia)	2936	-0.7	0.4	2.9	0
USDMXN (Mexico)	20.11	-0.5	2.0	2.7	-3
USDPEN (Peru)	3.27	-0.1	0.1	0.2	-1
LACI	57.26	-0.1	0.4	3.7	-10
USDPLN (Poland)	3.71	-0.1	0.3	1.0	-8
USDRON (Romania)	62.84	0.2	0.8	-2.1	-9
USDTRY (Turkey)	4.69	-0.3	0.2	0.3	-25
USDTRY (China)	6.54	-0.6	1.6	2.5	-1
USDINR (India)	68.13	-0.4	0.2	0.3	-7
USDIDR (Indonesia)	14,159	-0.5	-1.6	-0.2	-5
ADXX	107.8	-0.3	-0.9	-1.7	-2
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	74.4	-1.6	-1.3	-6	-12
WTX	58	-0.5	3.6	-4	-13
Copper	302	-0.5	-2.7	-2	-7
Gold	1267	-0.2	0.9	-3	-4
S&P Spot commodity *	471	2.3	0.9	4	6
S&P Brent Spot *	641	3.5	0.5	4	13
S&P Metals Spot *	377	0.2	-2.1	-3	-4
S&P Agriculture *	292	0.5	-0.4	-7	2

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

Fuente: BBVA Research

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