

# Market Comment | Cautious mood in financial markets amid geopolitical and trade concerns

Global Financial Markets Unit  
23 Jul 2018

- **Cautious mood in financial markets as geopolitical tensions re-emerged between the US and Iran, while ongoing trade fears continued to rise.**
- **US yields increased all along the yield curve, especially the longer tenors** (US 10Y +6 bps, approaching to the 3% threshold), **leading the 10Y German yield upward. This increase in safe-haven yields was led by expectations that the BoJ would adjust the parameters of its quantitative easing, draining the liquidity in bond markets.** The Japanese 10Y yield increased (+4.6 bps) (see). Elsewhere in the peripheral countries, yields have remained broadly steady ahead of this week's ECB meeting (see ECB preview below), except in Italy, where political uncertainty increased.
- In fx markets, **the USD was flat against its major peers, despite lower-than-expected US existing home sales for June** (see). However EM currencies continued under pressure, the main exception being the TRY, which rebounded against the US dollar. The Chinese currency continued to depreciate, after the PBoC injected \$74bn of cash into the banking system through loans to commercial banks (see). The actions sparked fears about a potential currency war. In this context, the CNY reached its weakest level since August 2017. Increasing tensions between the US and Iran boosted oil prices (see). However higher oil prices failed to benefit either the BRL or the MXN, the latter negatively affected by trade tensions.
- **Equity markets declined slightly across the board on the back of several factors** such as: increasing safe-haven yields, ongoing trade concerns and renewed geopolitical concerns between the US and Iran. Yet, Chinese stocks ended their session with slight gains after the PBoC injected cash into the banking sector.

## ECB preview

**The ECB is expected to leave monetary policy unchanged at its July meeting**, after the announcement of the end of the APP (asset purchase programme) and the enhanced guidance on rates. However, a cautious tone can be expected regarding concerns about protectionism and its effects on activity. The focus in the coming months will be on knowing when and at what pace interest rates will rise.

**The central bank remains on track in its exit strategy as economic conditions continue to improve** and it is increasingly confident regarding the inflation outlook. In particular, we do not expect changes in forward guidance after June's announcement.

**Economic indicators over the last month seem to confirm that the euro zone is geared towards more moderate but solid growth this year** (0.4% QoQ), supported by the strength of domestic demand after slowing markedly in the first quarter. Hard data improved in May but failed to recover from disappointing figures earlier this year, while confidence indicators seem to level off up to June and remain resilient despite

increasing uncertainty. In this context, the sharp increase in inflation in May, especially, and June was driven by higher oil prices along with the depreciation of the euro, but core inflation remained broadly steady at low levels over the first half of the year despite incipient signs of inflationary pressures stemming from input prices and a tighter labour market. All in all, the euro zone's economic performance over the last month was in line with the ECB's assessment, reinforcing its cautious mood in a global environment of heightened uncertainty, mostly linked to the escalation of protectionism.

Regarding our baseline scenario, we delay the first depo and refi rate hikes after the strong and explicit guidance on rates "interest rates to remain at their present levels at least through the summer of 2019": first depo rate hike (+20bps) in Sept19, first refi rate hike (+25 bps) in Dec19. However, we cannot rule out a depo rate hike in July or a depo&refi hike at the same time in Sept19, as there is a debate in the Governing Council on the meaning of 'through summer', and on the timing of a rate hike: some say as early as July 2019 and others rule out a move before autumn.

One topic that could come up during the Q&A is that of market jitters due to global trade tensions and their consequences for the global economy and particularly that of the euro zone. Regarding this, Mr Draghi will adopt a cautious tone, but he will confirm that trade fears are already affecting the economy. Despite this, it is very likely that the central bank will downplay the turmoil somewhat, emphasizing that the economic recovery remains robust and that it is confident of the recovery of inflation, keeping the central bank on track in its monetary normalization process.

Table 1

Update 18:00 CET July 23

Debt markets (10Y % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.62	2.7	2.4	3	10
US	2.95	5.9	9.4	6	49
GER (2-yr)	-0.60	1.7	2.3	7	1
Germany	0.41	3.6	4.3	2	-12
France	0.72	3.7	6.7	1	-11
Spain	1.38	0.8	4.3	-11	-29
Italy	2.64	5.0	6.2	-9	54
Portugal	1.77	-0.8	-0.7	-7	-24
Greece	3.85	1.5	-1.3	-37	-36
Japan (2-yr)	-0.10	2.1	2.7	3	3
Japan	0.09	4.8	4.6	-1	4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.09	5.4	-8.4	-97	84
Chile	4.57	0.0	-0.7	-3	6
Colombia	6.68	-0.2	4.3	7	24
Mexico	7.71	1.8	-3.5	-9	13
Peru	5.18	1.7	2.4	-24	32
Poland	3.19	0.2	2.2	4	-13
Russia	7.82	-1.1	12.9	4	18
Turkey	16.18	-44.0	-141.0	2	482
India	7.81	2.3	0.8	-1	42
Indonesia	7.81	-7.3	27.2	3.1	151
Country risk (bp, change in bp)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	0.1	2.4	0	1
Italy	223	1.4	1.9	-11	66
Portugal	137	-4.4	-5.0	-9	-12
Spain	97	-2.0	-0.1	3	18
2-yr sovereign spread vs Germany					
France	20	0.7	-0.6	0	4
Italy	124	2.4	-3.5	-29	87
Portugal	51	-0.7	-1.4	-6	1
Spain	32	-1.3	0.3	-14	5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	222	17.2	-18	-43	62
Chile	56	-1.3	1	-1	7
Colombia	110	-1.1	2	-17	5
Argentina	432	-8.4	9	18	194
Mexico	115	-1.6	5	-26	8
Peru	82	-1.4	0	9	10
Poland	60	-0.3	-1	-4	12
Russia	134	-1.3	10	-11	17
Turkey	305	-6.3	-17	-9	141
China	65	-1.5	-3	8	14
India	98	1.1	-1	7	28
Indonesia	119	0.2	-1	-14	37
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in pp)					
VIX	13	0.1	0	2	3
VSTOXX	14	0.4	1	-2	1
EM EFT volatility Index	18	1.0	1	-1	2
Dollar Euro volatility	7	0.1	0	-1	0
EM FX volatility index	10	0.2	0	0	2
Credit spread (BAA) (change in bps)	185	-5.9	-5	-11	7
US bonds volatility index	49	1.9	-1	-4	0
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US inflation expectations (5Y5Y)	2.43	-	-1	-1	11
EZ inflation expectations (5Y5Y)	1.70	-	-	-	-4
Banking CDS (bps)	level	Daily	Weekly	Monthly	YTD
US	53	-0.1	0	-1	11
EZ	91	2.7	5	-4	52
UK	69	0.6	7	1.6	28
Large Spanish	82	1.4	-1	-2	46
Medium Spanish	91	0.7	-1	-2	16
Commodity CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	160	-0.1	0	-1	11
EZ Non-financial	78	2.7	5	-4	52
UK Non-financial	102	0.4	-2	-6	10
Interbank markets (% change in bp)	level	Daily	Weekly	Monthly	YTD
COHA Index	-0.37	0	0	0	0
Euribor 3m	-0.32	0	0	0	1
Earlibor 12m	-0.18	0	0	0	1
Libor 3m	2.34	-1	1	1	65
Libor 12m	2.80	-1	1	3	69
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main Indices					
S&P500	2,803	0.0	0.2	1.9	4
Dow Jones	25,049	0.0	-0.1	2.4	1
Nikkei	22,397	-1.3	-0.9	-1.3	2
FTSE 100	7,656	-0.3	0.7	1.3	0
EuroStoxx 50	3,454	-0.2	0.1	1.5	-1
IBEX	9,726	0.0	0.1	0.2	-4
DAX	12,549	-0.1	-0.1	0.3	-3
CAC	5,378	-0.4	0.6	1.2	2
MB	21,605	-0.9	-1.0	0.3	-1
ASE Athens	752	-0.4	-1.9	-2.8	-8
MSCI Latam *	86,409	1.0	1.9	6.0	1
Bovespa (Brazil)	78,093	0.6	1.9	11.4	0
Merckel (Mexico)	48,866	0.0	0.9	5.2	-2
Merval (Argentina)	27,801	0.6	5.9	9.9	-11
MSCI EM Europe *	5,197	-0.3	2.4	0.0	-4
Poland	2,205	1.0	3.3	2.5	-10
Mircex 10 (Russia)	4,313	0.5	-3.9	-1.8	5
Ind 100 (Turkey)	95,305	1.3	6.2	0.3	-19
MSCI EM Asia *	896	0.7	-0.5	-3.2	-4
Shanghai Com (China)	2,860	1.1	1.6	0.6	-15
Jakarta (Indonesia)	5,316	0.2	-0.5	0.5	-7
Emerging banks (%)	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	146.9	1.6	2.4	4.1	-1
CX	113.5	2.0	2.7	5.6	5
WFC	70.1	1.2	0.9	3.6	6
BAC	30.7	2.0	3.2	5.0	3
MS	50.9	1.2	4.0	2.2	-3
GS	233.9	1.0	1.1	3.1	9
EZ banks					
BNP	90.0	0.6	-0.5	0.8	-18
CRD	52.1	0.8	-0.8	2.0	-16
Credit Agricole	11.5	0.5	0.3	1.2	-18
Deutsche Bank	10.4	1.0	0.5	10.4	-35
ING	12.6	1.3	0.7	0.9	-18
Intesa	2.4	-0.2	-2.2	6.3	-13
SG	36.2	0.5	-0.5	0.7	-16
Unicredit	14.0	0.4	-2.1	2.6	-11
UK banks					
HSBC	722.0	1.0	2.2	2.0	-6
RBS	242.0	0.1	-0.7	-6.8	-13
Barclays	136.6	-0.1	2.6	-1.9	-8
Lloyds	62.3	-0.5	-0.3	1.5	-8
Large Spanish banks					
Santander	72.3	0.7	0.6	0.3	-15
BBVA	6.0	0.9	0.6	0.9	-15
Medium Spanish banks					
Cajabank	70.5	0.8	-0.8	-0.8	-8
Sabadell	3.7	0.5	-0.3	2.2	-6
Santiaf	1.4	-0.2	-1.8	-3.2	-18
Bankinter	8.5	1.0	-1.5	0.6	6
Banisa	2.2	2.3	0.7	-2.7	22
Currencies (%; incl for currency depreciation)	level	Daily	Weekly	Monthly	YTD
Developed					
EURUSD	1,170	-0.2	-0.1	0.9	-3
GBPUSD	1,31	-0.2	-1.0	-1.0	-4
USDJPY	111.36	0.0	0.8	-1.2	1
DX	94.55	-0.1	-0.0	0.3	3
Emerging					
USDARS (Argentina)	27.60	-0.1	-0.9	0.3	-50
USDZAR (Brazil)	3.79	-0.7	1.7	0.7	-16
USDCJP (China)	651.68	-0.3	-1.8	-3.3	9
USDCOP (Colombia)	2900	-0.7	-0.9	1.8	1
USDMMX (Mexico)	19.08	-0.3	-1.4	6.1	2
USDPEN (Peru)	3.28	-0.2	-0.4	6.1	-11
LACI	57.85	-0.6	-0.2	1.5	-9
USDPLN (Poland)	3.70	-0.3	-0.6	0.9	-7
USD RUB (Russia)	63.07	0.7	-1.2	0.9	-10
USDTRY (Turkey)	4.75	0.9	1.9	0.7	-26
USDCNY (China)	6.80	-0.4	-1.6	4.7	5
USDINR (India)	65.85	0.0	0.4	-1.3	8
USDIDR (Indonesia)	14.482	0.3	-0.6	-2.7	-7
ADXY	105.4	-0.4	-1.0	-2.8	-4
Commodities (%)	level	Daily	Weekly	Monthly	YTD
Oil					
Brent	73.6	0.8	2.5	1	11
WTI	89	-2.8	0.7	5	13
Copper	274	-0.1	-0.5	-9	-16
Gold	1225	-0.6	-1.3	-3	-7
S&P Spot commodity *	458	0.5	1.5	-1	3
S&P Bond Spot *	622	0.6	1.8	0	10
S&P Metals Spot *	343	1.4	-0.4	-9	-13
S&P Agricultural *	284	1.2	2.8	-2	0

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

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Fuente: BBVA Research

Debt markets (10Y, %; changes in bps)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
US (2-yr)	2.62	2.7	2.4	8	70	
US	2.95	5.9	9.4	6	49	
GER (2-yr)	-0.60	1.7	2.3	7	1	
Germany	0.41	3.6	4.3	2	-12	
France	0.72	3.7	6.7	1	-11	
Spain	1.38	0.8	4.3	-1	-29	
Italy	2.64	5.0	6.2	-9	54	
Portugal	1.77	-0.8	-0.7	-7	-24	
Greece	3.85	-1.8	-1.1	-42	-25	
Japan (2-yr)	0.10	2.1	2.7	3	3	
Japan	0.09	4.8	4.6	4	4	
Emerging Markets						
level	Daily	Weekly	Monthly	YTD		
Brazil	11.09	5.4	-38.4	-97	84	
Chile	4.67	6.0	0.7	-3	5	
Colombia	6.68	-0.2	4.3	7	24	
Mexico	7.71	1.9	3.5	-9	13	
Peru	5.19	1.7	2.4	-24	32	
Poland	3.19	0.2	2.2	4	-13	
Russia	7.82	-1.1	12.9	4	10	
Turkey	16.18	-44.0	-141.0	2	482	
India	7.81	2.3	0.8	4	42	
Indonesia	7.81	2.3	2.2	31	151	
Country risk (bp; changes in bps)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
<b>10-yr sovereign spread vs Germany</b>						
France	31	0.1	2.4	0	1	
Italy	223	1.4	1.9	-11	66	
Portugal	137	-4.4	5.0	-9	-12	
Spain	97	2.9	0.1	-3	-18	
<b>2-yr sovereign spread vs Germany</b>						
France	20	0.7	0.6	8	4	
Italy	124	0.4	3.1	-29	87	
Portugal	51	-0.7	-1.4	-6	1	
Spain	37	-1.3	0.3	-14	5	
Emerging Markets						
level	Daily	Weekly	Monthly	YTD		
<b>5-yr sovereign CDS *</b>						
Brazil	222	-17.2	-18	-43	62	
Chile	56	-1.3	1	-1	7	
Colombia	110	-1.1	2	-17	5	
Argentina	432	-8.4	9	18	194	
Mexico	119	-1.5	5	-26	8	
Peru	82	-1.4	1	-8	10	
Poland	60	-0.3	-1	-4	12	
Russia	194	-1.3	10	-11	17	
Turkey	305	-6.3	-17	-9	141	
China	65	-1.5	3	8	14	
India	99	1.3	-1	7	28	
Indonesia	119	0.2	-1	-14	33	
Risk indicators						
Volatility indicators (change in bp)	level	Daily	Weekly	Monthly	YTD	
VIX	13	0.1	0	2	3	
VSTOXX	14	0.4	1	-2	1	
EM EFF volatility Index	18	1.0	1	-1	2	
Diversifiers volatility	7	0.1	0	-1	0	
EM FX volatility index	10	0.2	0	0	2	
Credit spread (BAA) (change in bps)	185	-5.9	-5	-11	7	
US bonds volatility index	49	1.9	1	-4	0	
Inflation expectations (%)						
level	Daily	Weekly	Monthly	YTD		
<b>US Inflation expectations (5Y5Y)</b>						
US	2.43	-	-1	-1	11	
<b>EZ Inflation expectations (5Y5Y)</b>						
EZ	1.70	-	-1	-1	4	
Bonding 5-yr CDS (bps)						
level	Daily	Weekly	Monthly	YTD		
US	53	-0.1	0	-1	11	
EZ	91	2.7	5	4	52	
UK	69	0.6	7	16	28	
Large Spanish	82	1.4	-1	-2	46	
Medium Spanish	91	0.3	-1	-2	16	
Corporate 5-yr CDS (bps)						
level	Daily	Weekly	Monthly	YTD		
US Non-financial	160	-0.1	0	-1	11	
EZ Non-financial	78	2.7	5	4	52	
UK Non-financial	102	0.4	2	-6	10	
Interbank markets (%; changes in bp)						
level	Daily	Weekly	Monthly	YTD		
EURIBOR Index	-0.37	0	0	0	0	
EURibor 3m	-0.32	0	0	0	1	
EURibor 12m	-0.18	0	0	0	1	
Libor 3m	2.34	-1	1	1	65	
Libor 12m	2.80	-1	1	3	66	
Stock markets (%)						
level	Daily	Weekly	Monthly	YTD		
<b>Main indices</b>						
S&P500	2,803	0.0	0.2	1.9	4	
Dow Jones	25,049	0.0	-0.1	2.4	1	
Nikkei	22,397	-1.3	0.9	1.3	-2	
FTSE 100	7,656	-0.3	0.7	1.3	0	
Euro Stoxx 50	3,454	-0.2	0.1	1.5	-1	
IBEX	9,726	0.0	0.1	0.2	-4	
DAX	12,549	0.1	0.1	0.3	-3	
CAC	5,378	-0.4	0.6	1.2	2	
MB	21,695	-0.9	-1.0	0.3	-1	
ASE Athens	752	0.4	-1.9	-2.8	-8	
MSCI Latam *	86,409	1.0	1.9	6.0	1	
Bovespa (Brazil)	78,093	-0.6	1.9	11.4	0	
Mexcel (Mexico)	48,886	0.0	0.9	5.2	-2	
Merval (Argentina)	27,801	0.6	5.9	8.9	-11	
MSCI EM Europe *	5,197	-0.3	2.4	0.8	-4	
Polmix	2,205	1.0	3.3	2.5	-10	
Moon 10 (Russia)	4,313	0.5	-3.9	-1.8	5	
Rex 100 (Turkey)	95,395	1.3	5.2	0.3	-19	
MSCI EM Asia *	896	0.7	0.5	-2	4	
Shanghai Com (China)	2,860	1.1	1.6	0.6	-15	
Jakarta Indonesia	5,516	0.8	-0.5	0.5	-7	
European banks						
level	Daily	Weekly	Monthly	YTD		
<b>US banks</b>						
JPM	113.5	2.0	2.7	5.6	5	
Ch	70.1	1.2	0.9	3.6	6	
BofA	30.7	2.0	3.2	5.0	3	
MS	50.9	1.2	4.0	2.2	-3	
GS	233.9	1.0	1.1	3.1	9	
<b>EZ banks</b>						
BNP	52.1	0.8	0.9	2.0	16	
Credit Agricole	11.5	0.6	0.3	1.2	18	
Deutsche Bank	10.4	1.0	0.5	10.4	35	
ING	12.6	1.3	0.7	0.9	-18	
Intesa	2.4	-0.2	2.2	6.8	-13	
SG	36.2	0.5	0.5	0.7	-16	
Unicredit	14.0	0.4	-2.1	-2.6	-13	
<b>UK banks</b>						
HSBC	722.0	1.0	2.2	2.0	6	
RBS	242.0	0.1	-0.7	-5.8	-13	
Barclays	186.6	-0.1	2.6	1.9	-8	
Lloyds	62.3	-0.5	-0.3	1.5	-8	
<b>Large Spanish banks</b>						
Santander	72.3	0.7	0.6	0.3	-15	
BBVA	4.7	0.4	0.7	0.3	-14	
<b>Medium Spanish banks</b>						
Cajabank	70.5	0.8	-0.8	0.8	-8	
Sabadell	3.7	0.5	0.3	2.3	6	
Banque	1.4	-0.2	-1.8	-3.2	-18	
Banque	8.5	1.0	-1.5	0.6	6	
Banque	3.2	-3.3	0.7	-3.7	-32	
Commodities (%; red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
<b>EURUSD</b>						
EURUSD	1,170	-0.2	-0.1	0.9	-3	
GBPUSD	1,311	-0.2	1.0	1.8	-4	
USDJPY	111.36	0.0	0.8	-1.2	1	
DXY	94.55	-0.1	0.0	0.3	-3	
Emerging						
level	Daily	Weekly	Monthly	YTD		
<b>USDARS (Argentina)</b>						
USDARS	27.60	-0.1	-0.9	-0.3	-50	
<b>USDTRY (Brazil)</b>						
USDTRY	3.79	-0.7	1.7	0.7	-16	
<b>USDCOP (Colombia)</b>						
USDCOP	661.68	-0.6	1.8	3.3	-9	
<b>USDQOP (Columbia)</b>						
USDQOP	2900	-0.7	0.9	1.8	1	
<b>USDMXN (Mexico)</b>						
USDMXN	19.08	-0.3	-1.4	6.1	2	
<b>USDPEN (Peru)</b>						
USDPEN	3.38	-0.2	0.4	0.1	-1	
<b>LACI</b>						
LACI	57.85	-0.6	0.2	1.5	-9	
<b>USDPLN (Poland)</b>						
USDPLN	3.70	-0.3	0.6	0.9	-7	
<b>USDINR (India)</b>						
USDINR	63.07	0.7	-1.2	0.9	-10	
<b>USDTRY (Turkey)</b>						
USDTRY	4.75	0.9	1.9	0.7	-26	
<b>USDCHY (China)</b>						
USDCHY	6.80	-0.4	1.6	4.7	5	
<b>USDHND (India)</b>						
USDHND	68.86	0.0	0.4	1.3	-8	
<b>USDIDR (Indonesia)</b>						
USDIDR	14,482	0.1	-0.6	-2.7	-7	
ADXX	105.4	-0.4	-1.0	-2.8	-4	
Commodities (%)						
level	Daily	Weekly	Monthly	YTD		
<b>Brent</b>						
Brent	73.6	0.8	2.5	1	11	
<b>WtX</b>						
WtX	59	-2.8	0.7	5	13	
<b>Copper</b>						
Copper	274	-0.1	0.5	-9	-16	
<b>Gold</b>						
Gold	1,225	-0.6	-1.3	-3	-7	
<b>S&amp;P Spot commodity *</b>						
S&P Spot commodity *	458	0.5	1.5	-1	3	
<b>S&amp;P Brent Spot *</b>						
S&P Brent Spot *	622	0.6	1.8	0	10	
<b>S&amp;P Metals Spot *</b>						
S&P Metals Spot *	343	1.4	-0.4	-9	-13	
<b>S&amp;P Agriculture *</b>						
S&P Agriculture *	284	1.2	2.8	-2	0	

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

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Fuente: BBVA Research

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