

Market Comment | US-EU agree on easing trade tensions

Global Financial Markets Unit
26 Jul 2018

- **Positive mood in financial markets** after trade tensions between the US and the EU eased, with company results providing some volatility amid an uneventful ECB meeting.
- **US President Trump and the President of the European Commission, Juncker, agreed to ease trade tensions**, working together on eliminating transatlantic trade barriers for many industrial goods and on reforming the World Trade Organization (WTO) ([see](#)).
- **ECB keeps stance unchanged as expected**. The monetary authority kept interest unchanged, and repeated that it would maintain the interest rate at its lowest level “at least through the summer of 2019”. Moreover, Mr. Draghi said money markets’ expectations are well aligned with the ECB Council. The monthly asset purchase programme (APP) of €30 bn will change to €15 bn at the end of September until December 2018, when it will end. Mr. Draghi said growth is solid and broad-based. **Regarding inflation, the ECB said that excluding volatile items inflation remained subdued but it is confident that inflation will move towards its target** ([see](#)).
- **The US equity markets rallied and the 10Y yield moved upwards right after the agreement between the US and the EU, also leading European stocks higher at the start of the session**, with implied volatility remaining subdued (VIX below 13%) and the USD depreciated. **Nonetheless, US equity indices trimmed gains today** due to weak corporate earnings results and FB’s profit warning ([see](#)). Although **European yields started the session increasing**, with the 10Y German yield reaching 0.42%, **but reversed partially after the ECB said that markets were aligned with ECB interest expectations, while the US 10Y yield also reversed yesterday’s gains**.
- Despite US-EU trade tensions easing, **trade frictions between the US and China still weighed on China’s assets**. The yuan depreciated slightly, despite the increase in the daily fixing, while the equity markets declined, although the PBoC said that the specific capital requirement for some banks will be eased as a counter-cyclical adjustment in reaction to rising uncertainty over trade.
- **In Fx markets, the USD reversed yesterday’s depreciation and appreciated against G-10 currencies, while the EUR fell after Draghi’s remarks. Pressure on EM currencies has been back**, after yesterday’s appreciation, with the BRL and the TRY leading the depreciation against the US dollar. Rally on crude oil prices favoured some Latam currencies, as the MXN and CLP.

Table 1

Update 17:50 CET July 26

Debt markets (% change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.67	0.4	83	14	75
US	2.96	-1.7	12.0	8	49
GER (2-yr)	-0.60	-0.3	2.7	6	1
Germany	0.40	0.3	6.9	0	-12
France	0.70	-0.1	6.8	-4	-13
Spain	1.36	0.9	2.1	9	31
Italy	2.70	2.3	19.5	-19	61
Portugal	1.73	-0.4	-2.4	-16	-28
Greece	3.85	3.4	-1.0	-26	-35
Japan (2-yr)	-0.12	0.4	1.0	1	2
Japan	0.09	5.2	5.6	5	5
Emerging Markets					
Brazil	11.01	7.8	-16.5	-89	75
Chile	1.87	0.0	-0.3	2	6
Colombia	6.78	1.0	9.9	21	34
Mexico	7.70	-3.4	-0.2	3	18
Peru	5.15	-1.0	-1.2	-16	28
Poland	3.14	0.0	0.5	-8	-18
Russia	7.88	0.0	4.7	3	24
Turkey	17.52	52.0	53.0	126	616
India	7.76	-2.6	-2.3	-7	37
Indonesia	7.74	-2.9	-7.2	3	144
Country risk (bp, change in bp)					
Developed Markets					
1-yr sovereign spread vs Germany					
France	30	-0.4	-0.1	-5	-1
Italy	230	2.0	12.6	-19	73
Portugal	133	-0.7	-9.3	-16	-16
Spain	96	0.6	-4.9	-10	-19
2-yr sovereign spread vs Germany					
France	19	0.0	-0.2	-5	2
Italy	131	2.9	13.2	-41	54
Portugal	43	-3.9	-9.0	-15	-7
Spain	28	-3.3	-6.9	-19	1
Emerging Markets					
5-yr sovereign CDS *					
Brazil	215	-5.2	-22	-45	55
Chile	53	-3.3	-3	-6	4
Colombia	108	-2.6	-3	-17	3
Argentina	441	-6.9	4	39	203
Mexico	110	-3.8	-4	-25	3
Peru	79	-3.4	-4	9	7
Poland	62	2.9	-1	-4	14
Russia	135	-1.6	2	-9	-17
Turkey	311	-8.9	-4	3	147
China	60	-2.3	-5	-2	9
India	90	-7.5	-5	-1	21
Indonesia	109	-4.3	-7	-26	24
Risk indicators					
Volatility indicators (change in pp)					
VIX	12	-0.1	-1	1	2
VSTOXX	12	-1.4	-1	-5	-1
EM EFT volatility Index	17	-0.2	-1	-3	0
Dollar/euro volatility	6	-0.2	-1	-1	0
EM FX volatility index	10	-0.2	0	0	2
Credit spread (BAA) (change in bp)	185	1.7	-5	-14	8
US bonds volatility index	48	-2.2	-4	3	-1
Inflation expectations (%)					
US inflation expectations (5Y5Y)	2.44	-	6	2	12
EZ inflation expectations (5Y5Y)	1.71	-	0	2	-3
Banking Cx CDS (bps)					
US	51	-0.1	-2	-7	8
EZ	85	-0.7	1	-12	46
UK	63	-1.5	-1	6	22
Large Spanish	75	-2.2	-4	-21	39
Medium Spanish	92	0.0	2	-4	17
Commodity Cx CDS (bps) *					
US Non-financial	159	-0.1	-2	-7	8
EZ Non-financial	76	-0.7	1	-12	46
UK Non-financial	100	-0.5	-2	-9	7
Interbank markets (% change in bp)					
COHA Index	-0.37	0	0	0	1
Earlibor 3m	-0.32	0	0	0	1
Earlibor 12m	-0.18	0	0	0	1
Libor 3m	2.34	0	-1	0	64
Libor 12m	2.81	0	1	1	70
Stock markets (%)					
Main indices					
S&P500	2,842	-0.2	1.3	4.4	5
Dow Jones	25,556	0.6	2.0	5.2	3
Nikkei	22,587	-0.1	-0.8	1.1	-1
FTSE 100	7,670	0.2	0.2	1.8	0
EuroStoxx 50	3,509	1.2	1.1	4.2	1
IBEX	9,775	0.8	0.6	1.4	-3
DAX	14,820	1.9	1.1	4.8	0
CAC	5,475	0.9	1.1	3.7	4
MB	21,863	1.4	-0.1	2.1	0
ASE Athens	755	0.3	-1.5	-1.8	-8
MSCI Latam *	87,762	0.8	2.4	9.0	2
Bovespa (Brazil)	89,185	0.0	3.5	12.3	3
Merval (Mexico)	49,856	0.5	2.3	6.3	0
Merval (Argentina)	29,142	-0.8	8.7	2.3	-6
MSCI EM Europe *	5,295	0.7	0.9	2.2	2
Poland	2,305	1.9	7.4	7.0	6
Micc 10 (Russia)	4,330	0.3	0.4	0.9	5
Sh 100 (Taiwan)	94,817	-0.6	2.0	0.4	-19
MSCI EM Asia *	898	0.6	1.6	0.3	-3
Shanghai Com (China)	2,882	-0.7	4.0	1.3	-14
Jakarta (Indonesia)	5,345	0.2	0.9	1.5	-8
Financials					
US banks					
JPM	148.8	0.0	3.9	8.3	0
CX	115.1	-0.1	4.7	9.7	7
BA	71.5	-0.3	3.7	7.9	-4
WAL	31.1	0.0	4.7	8.9	4
MS	51.1	0.2	2.5	7.0	-2
GS	237.2	0.2	3.3	7.1	-7
EZ banks					
BNP	92.5	1.1	3.1	3.2	-15
CR	54.0	1.5	4.1	2.3	-13
Credit Agricole	11.7	0.7	1.9	1.0	-17
Deutsche Bank	10.5	2.3	2.2	14.5	-34
ING	13.0	1.2	4.9	4.9	-15
Inteas	2.5	1.0	1.8	6.3	-10
SG	36.9	0.5	1.7	3.0	-15
Unicredit	14.8	1.6	5.8	4.4	-6
UK banks					
HSBC	65.7	0.5	1.3	0.7	-7
RBS	727.2	0.5	1.3	2.7	-5
Lloyds	247.8	0.7	1.8	-3.8	-11
Barclays	139.4	0.7	2.1	0.2	-7
Bankinter	62.6	0.3	0.3	2.0	-8
Large Spanish banks					
Santander	73.6	1.1	2.4	2.5	-13
BBVA	4.8	0.9	2.4	3.3	-13
Medium Spanish banks					
CajaBank	6.1	1.2	2.4	1.8	-14
Sabadell	70.7	-1.3	1.0	1.0	-8
CaixaBank	3.8	-0.4	2.8	7.6	-4
Sabadell	1.4	2.1	1.8	1.2	-16
Bankinter	8.1	-4.7	-2.5	-2.2	2
Banque	2.2	0.4	4.8	-1.0	20
Commodities (% incl for currency depreciation)					
Developed					
LIUSD	1,166	-0.6	0.1	0.1	-3
GBUSD	1,131	0.5	0.9	0.7	-3
USDJPY	111.13	-0.1	1.2	-1.0	1
DXY	94.62	0.4	-0.6	0.1	-3
Emerging					
USDARS (Argentina)	27.41	-0.1	1.2	-1.2	-49
USDBRL (Brazil)	3.73	-0.9	2.8	2.0	-14
USDCJP (China)	648.16	0.1	2.1	-1.2	-7
USDCOP (Colombia)	2884	0.0	-0.1	1.6	2
USDMXN (Mexico)	18.59	0.4	2.4	6.8	5
USDPEN (Peru)	3.27	0.0	0.0	6.2	-10
LACI	58.90	-0.2	2.0	2.8	-7
USDPLN (Poland)	3.67	-0.3	1.3	1.3	-6
USDRUB (Russia)	62.86	-0.1	1.2	0.3	9
USDTRY (Turkey)	4.85	-1.6	-0.9	5.1	-29
USDINR (China)	6.79	-0.3	0.3	3.2	-5
USDINR (India)	66.87	0.2	0.6	9.6	8
USIDR (Indonesia)	14.463	0.1	-0.1	-2.0	-7
ADXY	105.8	-0.8	0.0	-1.8	-4
Commodity (%)					
Brent	74.5	0.8	2.6	-2	12
WTI	70	0.6	0.4	-1	16
Copper	280	-0.1	4.4	-6	-14
Gold	1227	-0.4	0.4	-3	-7
S&P Spot Commodity *	469	1.0	2.2	-2	5
S&P Brent Spot *	633	0.8	2.4	2	12
S&P Metals Spot *	348	-0.5	3.1	-6	-12
S&P Agricultural *	290	2.5	3.4	2	2

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

Fuente: BBVA Research

Debt markets (10Y, %; changes in bps)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
US 10Y	2.57	0.4	8.3	14	75	
US	2.96	-1.7	12.0	8	49	
GER 10Y	-0.60	-0.3	2.7	6	1	
Germany	0.40	0.3	6.8	0	-12	
France	0.70	-0.1	6.8	-4	-13	
Spain	1.36	0.9	2.1	-9	-33	
Italy	2.70	2.3	19.5	-19	61	
Portugal	1.73	-0.4	-2.4	-16	-28	
Greece	3.85	3.4	-1.0	-26	-75	
Japan (2-yr)	0.12	0.4	1.0	1	2	
Japan	0.09	5.2	5.6	5	5	
Emerging Markets						
Brazil	11.01	7.8	-16.5	-89	75	
Chile	4.57	0.0	0.3	-2	6	
Colombia	6.78	1.0	9.8	21	34	
Mexico	7.70	-3.4	-0.2	3	13	
Peru	5.15	-1.0	1.2	-16	28	
Poland	3.14	0.0	0.5	-8	-18	
Russia	7.88	0.0	4.7	3	24	
Turkey	17.52	52.0	53.0	126	616	
India	7.76	-2.6	-2.3	-7	37	
Indonesia	7.74	-2.9	-2.2	1	144	
Country risk (bp, changes in bps)						
10-yr sovereign spread vs Germany						
France	30	-0.4	-0.1	-5	-1	
Italy	230	2.0	12.6	-19	73	
Portugal	133	-0.7	-9.3	-16	-16	
Spain	96	0.6	4.9	-10	-19	
2-yr sovereign spread vs Germany						
France	19	0.0	-0.2	-5	2	
Italy	131	2.9	12.2	-41	94	
Portugal	43	-3.9	-9.0	-15	-7	
Spain	28	-3.3	-6.9	-19	1	
Emerging Markets						
5-yr sovereign CDS *						
Brazil	215	-5.2	-22	-45	55	
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Poland	62	2.9	-1	-4	14	
Russia	136	-1.6	2	-9	17	
Turkey	311	-9.9	-4	3	147	
China	60	-2.3	5	-2	9	
India	90	-1.5	-8	-1	21	
Indonesia	109	-4.3	-7	-26	24	
Risk indicators						
Volatility indicators (change in bp)						
VIX	12	-0.1	-1	-4	2	
VSTOXX	12	-1.4	-1	-5	-1	
EM EFT volatility index	17	-0.2	-1	-3	0	
Dineros volatility	6	-0.2	-1	-1	0	
EM FX volatility index	10	-0.2	0	0	2	
Credit spread (BAA) (change in bps)	185	1.7	-5	-14	8	
US bonds volatility index	48	-2.0	-1	-3	-1	
Inflation expectations (%)						
US Inflation expectations (5Y)	2.44	-	6	2	12	
EZ Inflation expectations (5Y)	1.21	-	0	-2	-3	
Bundling 5-y CDS (bps)						
US	51	-0.1	-2	-7	8	
EZ	85	-0.7	1	-12	46	
UK	63	1.5	-1	6	22	
Large Spanish	75	-2.2	-4	-21	39	
Medium Spanish	92	0.0	2	-4	17	
Government 5-y CDS (bps) *						
US Non-financial	159	-0.1	-2	-7	8	
EZ Non-financial	76	-0.7	1	-12	46	
UK Non-financial	100	-0.5	-3	-9	7	
Interbank markets (%; changes in bp)						
EURIA Index	-0.37	0	0	0	1	
Euribor 3m	-0.32	0	0	0	1	
Euribor 12m	-0.18	0	0	0	1	
Libor 3m	2.34	0	-1	0	64	
Libor 12m	2.81	0	1	4	70	
Stock markets (%)						
Main indices						
S&P500	2,842	-0.2	1.3	4.4	5	
Dow Jones	25,556	0.6	2.0	5.2	3	
Nikkei	22,527	-0.1	0.6	1.1	-1	
FTSE 100	7,670	0.2	0.2	1.8	0	
Euro Stoxx 50	3,509	1.2	1.1	4.2	1	
IBEX	9,776	0.8	0.6	1.4	-3	
DAX	12,820	1.9	1.1	4.8	0	
CAC	5,475	0.9	1.1	3.7	4	
MI	21,863	1.4	-0.1	2.1	0	
ASE Athens	755	0.3	-1.5	-1.8	-8	
MSCI Latam *	87,762	0.8	2.4	9.0	2	
Bovespa (Brazil)	80,185	0.0	3.5	12.3	3	
MexBF (Mexico)	49,856	0.5	2.3	6.1	0	
Merval (Argentina)	29,142	-0.8	8.7	23.3	-6	
MSCI EM Europe *	5,295	0.7	0.9	2.3	-2	
Poland	2,305	1.9	7.4	7.0	-6	
Moon 10 (Russia)	4,330	0.3	0.4	0.9	5	
Ru 100 (Turkey)	94,817	-6.6	2.0	0.4	-19	
MSCI EM Asia *	890	0.6	1.6	0.3	-3	
Shanghai Com (China)	2,882	-0.7	4.0	1.3	-14	
Jakarta Indonesia	5,346	0.2	0.9	1.5	-6	
European banks						
US banks						
JPM	115.1	-0.1	4.7	9.7	7	
Ch	71.5	-0.3	3.7	7.8	-4	
BoA	31.1	0.0	4.7	8.9	4	
MS	51.1	0.2	2.5	7.0	-2	
GS	237.2	0.2	3.3	7.1	-7	
EZ banks						
BNP	54.0	1.5	4.1	2.3	-13	
Crédit Agricole	11.7	0.7	1.9	1.0	-17	
Deutsche Bank	10.5	2.3	2.2	14.5	-34	
ING	13.0	1.2	4.9	4.9	-15	
Intesa	2.8	1.0	1.9	0.8	-10	
SG	36.9	0.5	1.7	3.0	-15	
Unicredit	14.8	1.6	5.8	4.4	-6	
UK banks						
HSBC	727.2	0.5	1.3	2.7	-5	
RBS	247.8	0.7	1.8	3.8	-11	
Barclays	189.4	0.7	2.1	0.2	-7	
Lloyds	62.6	0.3	0.3	2.0	-8	
Large Spanish banks	73.6	1.1	2.4	2.5	-13	
Santander	4.8	0.9	2.4	3.3	-13	
BBVA	6.1	1.2	2.4	1.8	-14	
Medium Spanish banks	70.7	-1.3	1.0	1.0	-8	
Cáritas	3.8	-0.4	2.9	7.6	4	
Sabadell	1.4	2.1	1.8	1.2	-16	
Bankinter	8.1	-4.7	-2.5	-2.2	2	
Bankia	2.2	0.4	4.8	-1.0	-20	
Commodities (%; red for currency depreciation)						
Developed						
EURUSD	1,166	-0.6	0.1	0.1	-3	
GBPUSD	1,311	-0.5	0.9	0.2	-3	
USDJPY	111.13	-0.1	1.2	-1.0	1	
DXY	94.62	0.4	0.6	0.1	3	
Emerging						
USDARS (Argentina)	27.41	-0.1	1.2	-1.2	-49	
USDTRY (Turkey)	3.73	-0.9	2.8	2.0	-14	
USDCOP (Colombia)	648.76	0.1	2.1	-1.2	-7	
USDCOP (Columbia)	2884	0.0	0.1	1.6	2	
USDMXN (Mexico)	18.59	0.4	2.4	6.8	5	
USDPEN (Peru)	3.27	0.0	0.0	-0.2	-1	
LACI	58.90	-0.2	2.0	2.8	-7	
USDPIN (Poland)	3.67	-0.3	1.3	1.3	-6	
USDINR (India)	62.86	-0.1	1.2	0.3	-9	
USDTRY (Turkey)	4.85	-1.6	0.9	5.1	-29	
USDCHF (China)	6.79	-0.3	0.3	3.2	-5	
USDINR (India)	68.67	0.2	0.6	0.6	-8	
USDIDR (Indonesia)	14,463	0.1	-0.1	-2.0	-7	
ADXX	105.6	-0.5	0.0	1.8	-4	
Commodities (%)						
Brent	74.5	0.8	2.6	-2	12	
WTX	7.0	0.6	0.4	-1	16	
Copper	2.90	-0.1	4.4	-6	-14	
Gold	1227	-0.4	0.4	-3	-7	
S&P Spot commodity *	465	1.0	2.2	-2	5	
S&P Brent Spot *	633	0.8	2.4	-2	12	
S&P Metals Spot *	348	-0.5	3.1	-6	-12	
S&P Agriculture *	290	2.5	3.4	2	2	

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

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