

Market Comment | Yields increased across the board

Global Financial Markets Unit
30 Jul 2018

- **Cautious tone returned to financial markets ahead of an eventful week due to numerous Central Banks' policy meetings.** It is expected that the main Central Banks, notably the Federal Reserve and the BoJ will maintain the current level of their respective interest rates. However, uncertainty about a possible change in the Yield Curve Control (YCC) path in Japan weighed on core bonds. The BoE is expected to raise interest rates, while in Latam, Banxico and the Central Bank of Brazil will announce their policy decisions this week. **Meanwhile global trade fears remain.**
- In this context, **core yields increased across the board:** the US 10Y Treasury yield almost reached its 3% threshold (+2 bps) while the 10Y Bund inched up 4bps although Germany's inflation was in line with expectations for July ([see](#)). **Peripheral yields were up but peripheral risk premia remained broadly unchanged.**
- **Equity markets showed a negative performance:** the US stock market showed small losses due to the underperformance of the technology companies offsetting some gains in the industrial sector ([see](#)), while European stock prices decreased. Asian equity markets closed with losses led by the Japanese stock index ahead of tomorrow's BoJ policy decision.
- **The USD slightly depreciated against other G-10 currencies, favouring the recent rally of the EUR. Despite the weakening of the RMB fixing rate, the CNY was flat at the end of the session, while the TRY depreciated against the US dollar. Most Latam currencies appreciated on the back of increases in the price of crude.** Copper prices fell amid expected upcoming poor economic data for China, which is one of the main metal consumers ([see](#)).

FOMC preview:

Although Chairman Powell has shown a preference for keeping all meetings "live", we continue to expect the committee to keep rates unchanged when they meet on July 31st-August 1st. This is in spite of the fact that the core PCE index is now at the 2% target and job growth remains well above the level needed to remove any remaining slack. In addition, since the communication following the June meeting gave an outward signal of a hawkish shift in monetary policy, we do not expect any major changes to the messaging. On trade, the committee is likely to tread lightly given that the President has expressed his displeasure with the current interest rate differentials between the U.S. and its major trading partners and the impact that it is having on the dollar. As a result, this meeting is likely to do no more than move the ball along, leaving the Fed watchers to wait in anticipation of the vaunted Jackson Hole Economic Policy Symposium at the end of August. Notwithstanding any major shift in the economic outlook, we continue to expect that the committee will raise rates again in September and December, and three additional times in 2019.

Table 1
Update 18:0 CET July 30

Debt markets (10Y % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.67	0.4	-15	16	15
US	2.97	1.7	1.7	13	51
GER (2-yr)	-0.59	1.4	1.6	0	3
Germany	0.45	4.3	4.0	7	8
France	0.75	4.5	3.1	4	8
Spain	1.43	5.1	4.6	0	25
Italy	2.79	4.3	14.7	1	69
Portugal	1.77	4.2	-0.2	-6	-24
Greece	3.85	4.9	2.7	-17	-23
Japan (2-yr)	-0.11	-0.4	-1.2	1	2
Japan	0.10	1.6	6.6	5	5
Emerging Markets					
Brazil	11.02	-2.1	-3.6	-83	77
Chile	4.56	-0.3	-1.6	3	4
Colombia	6.80	0.7	11.5	21	36
Mexico	7.75	0.7	3.1	17	17
Peru	5.13	-0.7	-6.5	-14	26
Poland	3.20	3.9	1.8	-3	-11
Russia	7.87	-2.5	5.1	2	23
Turkey	17.63	29.0	145.0	201	627
India	7.79	1.2	-1.8	-14	41
Indonesia	7.23	2.3	-8.1	-17	143
Country risk (bp, change in bp)					
Developed Markets					
1-yr sovereign spread vs Germany					
France	30	0.2	0.9	-3	0
Italy	234	0.0	10.7	-7	77
Portugal	133	0.4	-4.2	-13	-16
Spain	98	0.8	0.6	7	17
2-yr sovereign spread vs Germany					
France	19	-0.1	-0.4	-4	3
Italy	138	2.0	14.2	-14	101
Portugal	41	-2.9	-10.3	-15	-9
Spain	27	-0.9	-5.4	-17	0
Emerging Markets					
5-yr sovereign CDS *					
Brazil	209	-3.0	-14	-59	48
Chile	50	-1.0	-7	-10	0
Colombia	103	-1.4	-7	-26	-2
Argentina	412	-10.2	-20	-17	174
Mexico	108	0.9	-7	-29	11
Peru	76	-2.0	-7	-15	4
Poland	60	-0.8	0	-5	12
Russia	132	-1.4	-2	-12	15
Turkey	313	6.3	6	113	148
China	57	0.2	8	-9	6
India	88	-1.6	-10	-7	19
Indonesia	108	1.2	-11	-30	22
Risk indicators					
Volatility indicators (change in pp)					
VIX	14	0.3	1	0	4
VSTOXX	13	1.1	-1	-6	-1
EM EFT volatility Index	18	0.4	0	-3	2
Dollar Euro volatility	6	0.0	0	-1	0
EM FX volatility index	10	0.1	0	0	2
Credit spread (BAA) (change in bps)	183	-1.7	-9	-17	5
US bonds volatility index	49	-0.4	-3	3	0
Inflation expectations (%)					
US inflation expectations (5Y5Y)	2.44	-	1	1	13
EZ inflation expectations (5Y5Y)	1.74	-	-	-	0
Banking CDS (bps)					
US	49	0.9	-4	-8	7
EZ	82	0.3	-10	-15	42
UK	61	0.8	-9	2	20
Large Spanish	67	-1.4	-15	-31	31
Medium Spanish	87	-1.4	-	-10	13
Commodity CDS (bps) *					
US Non-financial	157	0.9	-4	-8	7
EZ Non-financial	74	0.3	-10	-15	42
UK Non-financial	98	-0.4	-1	-13	5
Interbank markets (% change in bp)					
COHA Index	-0.37	0	0	0	0
Earlibor 3m	-0.32	0	0	1	1
Earlibor 12m	-0.18	0	0	0	1
Libor 3m	2.34	0	0	1	65
Libor 12m	2.82	0	2	5	71
Stock markets (%)					
Main indices					
S&P500	2,808	-0.4	0.0	3.4	4
Dow Jones	25,380	-0.3	1.3	4.8	2
Nikkei	22,545	-0.7	0.7	1.2	-1
FTSE 100	7,701	0.0	0.6	1.1	1
EuroStoxx 50	3,512	-0.4	1.7	4.4	1
BSE	9,854	-0.1	1.3	2.8	-2
DAX	12,798	-0.5	2.0	5.1	-1
CAC	5,491	-0.4	2.1	4.1	4
MB	21,941	-0.1	1.6	2.4	0
ASE Athens	758	0.9	0.9	1.4	-7
MSCI Latam *	87,390	0.3	1.1	8.6	2
Bovespa (Brazil)	79,925	0.1	2.5	11.4	3
Mexcel (Mexico)	49,861	0.4	2.1	6.0	0
Merval (Argentina)	29,077	-0.6	5.0	8.5	-6
MSCI EM Europe *	5,330	0.0	2.6	2.2	-1
Poland	2,328	1.6	5.6	10.9	5
Micex 10 (Russia)	4,343	0.2	0.7	-1.7	5
Shanghai 30 (Taiwan)	96,158	0.6	0.9	0.1	-18
MSCI EM Asia *	998	0.1	1.4	-2.3	-3
Shanghai Com (China)	2,869	-0.2	0.3	2.9	-14
Jakarta Indonesia	6,028	1.4	2.6	4.2	5
Banking sectors					
US banks					
JPM	116.5	0.4	2.8	11.1	8
Ch	72.3	0.9	3.0	8.2	3
BA	31.2	0.5	1.5	8.9	4
MS	50.6	-0.9	-0.3	4.8	-3
GS	237.6	0.0	1.6	6.3	-7
EZ banks	94.2	0.7	4.6	5.5	-14
RFP	55.1	0.5	5.7	4.5	-11
Credit Agricole	11.9	1.0	3.5	4.4	-15
Deutsche Bank	10.9	2.9	5.6	20.7	-31
ING	13.0	-0.3	3.4	5.9	-15
Intesa	2.5	0.8	5.4	11.7	8
SG	37.4	0.5	3.4	4.2	-13
Unicredit	15.0	0.6	7.0	6.6	-4
UK banks	86.3	0.4	1.9	1.0	6
HSBC	725.8	-0.3	0.5	2.3	-5
RBS	253.5	1.6	4.8	-0.4	-9
Barclays	193.0	1.3	3.4	1.6	5
Lloyds	62.4	-0.3	0.2	-0.3	-8
Large Spanish banks	74.3	-0.3	2.8	4.3	-12
Santander	4.8	-1.1	2.2	4.2	-13
BBVA	6.2	0.4	3.4	4.4	-12
Medium Spanish banks	71.8	1.1	1.8	2.2	-6
Cabank	3.9	1.5	5.1	9.3	-1
Sabadell	1.4	1.3	1.9	-1.1	-17
Bankinter	8.3	0.3	-2.1	-1.2	-4
Bankia	2.3	1.9	5.6	3.5	18
Commodities (% change in depreciation)					
Developed					
LIUSD	1,172	0.5	0.2	1.3	-3
GBUSD	1,31	0.3	0.3	0.5	-3
USDJPY	110.99	0.1	0.3	0.5	1
DXY	94.27	-0.4	-0.4	-1.1	-3
Emerging					
USDARS (Argentina)	27.33	0.0	1.0	2.7	-49
USDBRL (Brazil)	3.72	-0.3	1.6	3.6	-14
USDCJP (China)	637.20	0.9	4.0	2.0	5
USDCOP (Colombia)	2875	0.4	1.0	2.5	2
USDMXN (Mexico)	18.54	0.5	1.8	6.0	5
USDPEN (Peru)	3.27	0.1	0.4	0.3	-1
LACI	59.14	0.3	1.7	4.1	-7
USDPIN (Poland)	3.65	0.8	1.5	3.4	-6
USD RUB (Russia)	62.21	0.8	1.4	0.9	8
USDTRY (Turkey)	4.89	-0.7	-3.1	6.6	-30
USDCNY (China)	6.82	0.0	0.2	2.8	-5
USDINR (India)	65.89	0.0	0.3	0.2	8
USDIDR (Indonesia)	14,415	0.0	0.5	0.1	-7
ADXY	105.7	0.0	0.2	-1.2	-4
Commodities (%)					
Brent	75.0	0.9	2.6	-4	13
WTI	70	2.0	3.2	-5	16
Copper	278	0.1	2.0	6	14
Gold	1224	0.0	-0.1	-2	-7
S&P Spot commodity *	495	-0.5	1.5	-4	5
S&P Brent Spot *	636	-0.9	1.9	4	12
S&P Metals Spot *	349	0.2	1.6	-6	-11
S&P Agriculture *	289	-0.2	1.7	2	2

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

Fuente: BBVA Research

Debt markets (10Y, % change in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US 10Y	2.57	0.4	4.5	16	75
US	2.97	1.7	1.7	13	51
GER 10Y	-0.59	-1.4	1.6	8	3
Germany	0.45	4.3	4.0	7	-8
France	0.75	4.5	3.1	4	-8
Spain	1.43	5.1	4.6	0	25
Italy	2.79	4.3	14.7	1	69
Portugal	1.77	4.7	-0.2	-6	-24
Greece	3.88	4.8	2.7	-17	-23
Japan (2-yr)	0.11	-0.4	-1.2	1	2
Japan	0.10	-1.6	6.6	5	5
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.02	-2.1	-3.6	-83	77
Chile	4.56	-0.3	-1.6	-3	4
Colombia	6.80	0.7	11.5	21	36
Mexico	7.75	0.7	3.1	17	17
Peru	5.13	-0.7	-6.6	-14	26
Poland	3.20	3.9	1.8	-3	-11
Russia	7.87	-2.5	5.1	2	23
Turkey	17.63	29.0	145.0	201	627
India	7.79	1.2	-1.8	-14	41
Indonesia	7.23	-1.2	-8.1	-17	143
Country risk (bp, change in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	0.2	-0.9	-3	0
Italy	234	0.0	10.7	-7	77
Portugal	133	0.4	-4.2	-13	-16
Spain	98	0.8	0.6	-7	-17
2-yr sovereign spread vs Germany					
France	19	-0.1	-0.4	-4	3
Italy	138	2.0	14.2	-14	101
Portugal	41	-2.9	-10.3	-15	-9
Spain	27	-0.9	-5.4	-17	0
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	209	-3.0	-1.4	-59	48
Chile	50	-1.0	-7	-10	0
Colombia	103	-1.4	-7	-26	-2
Argentina	412	-10.2	-20	-17	174
Mexico	108	0.9	-7	-29	1
Peru	76	-2.0	-7	-15	4
Poland	60	-0.8	0	-5	12
Russia	132	-1.4	-2	-12	15
Turkey	313	6.3	8	13	148
China	57	0.2	8	9	6
India	88	-1.6	-10	-7	19
Indonesia	108	1.2	-11	-30	22
Risk indicators					
Volatility indicators (change in bps)	level	Daily	Weekly	Monthly	YTD
VIX	14	0.7	1	-3	4
VSTOXX	13	1.1	-1	-6	-1
EM EFT volatility index	18	0.4	0	-3	2
Dineros volatility	6	0.0	0	-1	0
EM FX volatility index	10	0.1	0	0	2
Credit spread (BAA) change in bps	183	-1.7	-9	-17	5
US bonds volatility index	49	-0.4	-3	-3	0
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5Y)					
US	2.44	-	1	1	13
EZ inflation expectations (5Y)					
EZ	1.24	-	4	1	0
Bonding 5-yr CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US					
US	49	0.9	-4	-8	7
EZ	82	0.3	-10	-15	42
UK	61	0.8	8	2	20
Large Spanish	67	-1.4	-15	-31	31
Medium Spanish	87	-1.4	-4	-10	13
European 5-yr CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial					
US Non-financial	157	0.9	-4	-8	7
EZ Non-financial					
EZ Non-financial	74	0.3	-10	-15	42
UK Non-financial					
UK Non-financial	60	-0.4	-4	-13	5
Interbank markets (% change in bps)					
level	Daily	Weekly	Monthly	YTD	
EURIBOR Index					
EURIBOR Index	-0.37	0	0	0	0
EURIBOR 3m					
EURIBOR 3m	-0.32	0	0	1	1
EURIBOR 12m					
EURIBOR 12m	-0.18	0	0	0	1
LIBOR 3m					
LIBOR 3m	2.34	0	0	1	65
LIBOR 12m					
LIBOR 12m	2.82	0	2	6	71
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500					
S&P500	2,808	-0.4	0.0	3.4	4
Dow Jones					
Dow Jones	25,380	-0.3	1.3	4.8	2
Nikkei					
Nikkei	22,545	-0.7	0.7	1.2	-1
FTSE 100					
FTSE 100	7,701	0.0	0.6	1.1	1
Euro Stoxx 50					
Euro Stoxx 50	3,512	-0.4	1.7	4.4	1
IBEX					
IBEX	9,854	-0.1	1.3	2.8	-2
DAX					
DAX	12,798	-0.5	2.0	5.1	-1
CAC					
CAC	5,491	-0.4	2.1	4.1	4
MI					
MI	21,841	-0.1	1.6	2.4	0
ASE Athens					
ASE Athens	758	0.9	0.9	1.4	-7
MSCI Latam *					
MSCI Latam *	87,390	0.3	1.1	8.6	2
Bovespa (Brazil)					
Bovespa (Brazil)	79,825	0.1	2.5	11.4	3
Mexcel (Mexico)					
Mexcel (Mexico)	49,861	0.4	2.1	6.0	0
Merval (Argentina)					
Merval (Argentina)	29,077	-0.6	5.0	8.5	-6
MSCI EM Europe *					
MSCI EM Europe *	5,330	0.0	2.6	2.2	-1
Poland					
Poland	2,328	1.6	5.6	10.9	-5
Moon 10 (Russia)					
Moon 10 (Russia)	4,343	0.2	0.7	1.7	5
Ru 100 (Turkey)					
Ru 100 (Turkey)	96,158	0.6	0.9	0.1	-18
MSCI EM Asia *					
MSCI EM Asia *	899	0.1	1.4	2.3	-3
Shanghai Com (China)					
Shanghai Com (China)	2,869	-0.2	0.3	2.9	-14
Jakarta Indonesia					
Jakarta Indonesia	6,028	-1.4	2.6	4.2	-5
FX rates					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	116.5	0.4	2.8	11.1	8
Ch	72.1	0.9	1.0	8.2	-3
BoA	31.2	0.5	1.5	8.9	4
MS	50.6	-0.9	-0.3	4.8	-3
GS	237.6	0.0	1.6	6.3	-7
EZ banks					
BNP	94.2	0.7	4.6	5.5	-14
BPI	55.1	0.5	5.7	4.5	11
Credit Agricole	11.9	1.0	3.5	4.4	15
Deutsche Bank	10.9	2.9	5.6	20.7	-31
ING	13.0	-0.3	3.4	5.9	-15
Intesa	2.6	0.8	0.4	1.7	6
SG	37.4	0.5	3.4	4.2	-13
Unicredit	15.0	0.6	7.0	6.6	-4
UK banks					
HSBC	86.3	0.4	1.9	1.0	-6
RBS	725.8	-0.3	0.5	2.3	-5
Barclays	253.5	1.6	4.8	0.4	-9
Lloyds	193.0	-1.1	3.4	1.6	-8
Large Spanish banks					
Santander	62.4	-0.3	0.2	-0.3	-8
BBVA	74.3	-0.3	2.8	4.3	-12
Medium Spanish banks					
Santander	4.8	-1.1	2.2	4.2	-13
BBVA	6.2	0.4	3.4	4.4	-12
Medium Spanish banks					
CajaBank	71.8	1.1	1.8	2.2	-6
Sabadell	3.9	1.5	5.1	9.3	-1
Banque	1.4	1.3	1.9	-1.1	-17
Banque	8.3	0.3	-2.1	-1.2	4
Banque	2.3	-1.9	5.6	3.5	-18
Commodities (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1,172	0.5	0.2	1.3	-3
GBPUSD					
GBPUSD	1.31	0.3	0.3	0.5	-3
USDJPY					
USDJPY	110.99	0.1	0.3	0.5	1
DX					
DX	94.27	-0.4	-0.4	-1.1	-3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)					
USDARS (Argentina)	27.33	0.0	1.0	2.7	-49
USDTRY (Brazil)					
USDTRY (Brazil)	3.72	-0.3	1.6	3.6	-14
USDCOP (Colombia)					
USDCOP (Colombia)	637.20	0.9	4.0	2.0	-5
USDQOP (Columbia)					
USDQOP (Columbia)	2875	0.4	1.0	2.5	2
USDMXN (Mexico)					
USDMXN (Mexico)	18.54	0.5	1.8	6.0	5
USDPEN (Peru)					
USDPEN (Peru)	3.27	0.1	0.4	0.3	-1
LACI					
LACI	59.14	0.3	1.7	4.1	-7
USDPLN (Poland)					
USDPLN (Poland)	3.65	0.8	1.5	3.4	-6
USDINR (India)					
USDINR (India)	62.21	0.8	1.4	0.9	-8
USDTRY (Turkey)					
USDTRY (Turkey)	4.89	-0.7	-3.1	-6.6	-30
USDCHF (China)					
USDCHF (China)	6.82	0.0	-0.2	2.8	-5
USDINR (India)					
USDINR (India)	68.68	0.0	0.3	0.2	-8
USDIDR (Indonesia)					
USDIDR (Indonesia)	14,415	0.0	0.5	0.1	-7
ADXX					
ADXX	105.7	0.0	0.2	-1.2	-4
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	75.0	0.9	2.6	-4	13
WTX					
WTX	7.0	2.0	3.2	6	16
Copper					
Copper	279	0.1	2.0	-6	-14
Gold					
Gold	1224	0.0	-0.1	-2	-7
S&P Spot commodity *					
S&P Spot commodity *	465	-0.5	1.5	-4	5
S&P Brent Spot *					
S&P Brent Spot *	636	-0.5	1.9	-4	12
S&P Metals Spot *					
S&P Metals Spot *	349	0.2	1.6	-6	-11
S&P Agricultural *					
S&P Agricultural *	289	-0.2	1.7	2	2
* With one day delay					
Source: Bloomberg, Datastream and Haver					

Fuente: BBVA Research

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