

Market Comment | EM markets and trade concerns drove markets late in the week

Global Financial Markets Unit
31 Aug 2018

- **The optimism early this week in financial markets after the US and Mexico agreed on a NAFTA deal faded progressively at the end of the week.** Uncertainty over negotiations between the US and Canada, Trump's latest comments regarding the US possibly withdrawing from the WTO ([see](#)) and above all, the worsening situation in emerging markets weighed: Argentina and Turkey returned to the forefront, with spillovers to other emerging markets.
- Against this backdrop, **sovereign bond yields remained stable, but they had registered high volatility during the week.** The UST 10Y increased from its recent lower bound but still remained below 2.85% while the ongoing upward trend in the 10Y German Bund halted abruptly yesterday as the situation in EMs - particularly in Turkey - worsened and also affected, albeit to a lesser extent, by today's release of lower-than-expected euro zone inflation ([see](#)).
- In the same line, the **positive mood in developed equity markets moderated as the week went by:** during the last two days, the fall in US equity indices partly offset their recent rally, which had driven them to record highs. In the euro zone, the main equity indices fell this week, dragged down, among other things, by the banking sector (-2.5%), which suffered its highest volatility in Turkey. In this context, peripheral risk premia widened with no negative differentiation of Italy despite Fitch credit rating revision late today ([see](#)).
- Despite recent developments in EMs, **there has not been a clear safe-haven movement in developed currencies:** The USD remained stable against its main peers, as did the JPY. The EUR underperformed in the final part of the week. Meanwhile, **EM assets continued under heavy pressure, mainly driven by Argentina's and Turkey's** performance at the end of the week. The recent relative stability of the USD and the ongoing upward trend in crude oil prices have not been enough to give any relief to EM currencies as spillovers from some countries (mainly Argentina and Turkey) weighed.
- The **Argentine peso dropped sharply** and forced authorities to take emergency measures: Argentina's government had to seek the early release of \$50bn from the IMF due to "lack of trust from the markets" ([see](#)) and the Central Bank increased the interest rate to 60% ([see](#)).
- In Turkey, after a week of holidays, **the TRY resumed its downward trend** due to the still pending resolution of the Brunson Case and fuelled by Moody's downgrading some banks' credit ratings ([see](#)) following the recent sovereign rating downgrade. However, the TRY depreciation halted, benefited by the announcement of tax cuts on local currency deposits in order to boost savings in TRY.
- Moreover, **the stability of the RMB** (favoured by the tweak of the PBOC to keep the yuan more stable against the US dollar ([see](#)), and the release of better-than-expected data for China's manufacturing

sector ([see](#)) contributed to the slightly better performance of EM Asian markets this week.

Table 1

Update 16:30 CET August 31

Debt markets (10Y, % changes in bp)					
	level	Daily	Weekly	Monthly	YTD
Developed Markets					
US (2-yr)	2.84	-1.0	1.9	4	72
US	2.84	-1.1	3.4	-16	38
GER (2-yr)	0.60	0.2	-0.3	-4	1
Germany	0.34	-1.0	-0.9	-14	-19
France	0.69	-0.4	0.2	-9	-13
Spain	1.47	0.3	7.9	2	-20
Italy	3.23	1.2	2.5	44	113
Portugal	1.93	0.7	10.4	14	-8
Greece	4.40	-3.1	20.0	42	30
Japan (2-yr)	-0.11	-0.3	0.0	-2	2
Japan	0.11	-0.4	0.6	-2	6
Emerging Markets					
Brazil	12.25	-11.3	16.5	96	199
Chile	4.46	-0.1	1.9	10	-5
Colombia	6.94	0.1	5.1	5	40
Mexico	7.90	-1.2	8.2	13	32
Peru	5.11	0.0	2.1	0	24
Poland	3.19	-3.6	1.6	2	-12
Russia	8.82	-3.2	6.3	98	118
Turkey	20.69	8.0	-22.0	289	933
India	7.95	2.1	2.9	25	57
Indonesia	8.20	19.1	26.2	46	190
Country risk (bp, changes in bp)					
	level	Daily	Weekly	Monthly	YTD
Developed Markets					
10-yr sovereign spread vs Germany					
France	35	0.6	1.1	5	5
Italy	289	2.2	8.4	58	132
Portugal	159	1.7	11.3	28	10
Spain	114	1.3	8.8	16	-1
2-yr sovereign spread vs Germany					
France	16	-0.3	-1.5	-4	0
Italy	202	6.1	19.8	69	165
Portugal	48	0.6	8.4	8	-1
Spain	33	0.7	2.6	8	6
Emerging Markets					
5-yr sovereign CDS *					
Brazil	299	9.5	22	86	139
Chile	56	2.3	2	7	7
Colombia	112	3.3	0	6	7
Argentina	759	105.8	156	340	521
Mexico	119	4.2	3	4	12
Peru	83	3.3	1	5	11
Poland	63	0.3	0	-1	14
Russia	163	0.6	-2	31	65
Turkey	544	33.0	62	223	380
China	59	2.4	0	1	8
India	88	-1.3	-1	-1	19
Indonesia	122	4.4	1	11	37
Risk indicators					
	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in pp)					
VIX	13	-0.3	1	0	-3
VSTOXX	15	1.1	2	2	2
EM EFT volatility index	20	-0.4	2	2	4
Indonesia volatility	7	0.1	0	1	1
EM FX volatility index	13	0.4	0	3	5
Credit spread (BAA) (change in bps)	193	1.1	2	10	15
US bonds volatility index	50	-1.3	1	2	1
Inflation expectations (%)					
US inflation expectations (5Y5Y)	2.41	-	0	-6	9
EZ inflation expectations (5Y5Y)	1.71	-	0	-2	-3
Banking 5y CDS (bps) *					
US	52	0.9	0	3	10
EZ	96	1.6	2	16	57
UK	67	1.2	3	6	27
Large Spanish	83	3.7	3	17	47
Medium Spanish	92	1.5	0	7	17
Commodity prices (bps) *					
	level	Daily	Weekly	Monthly	YTD
US Non-financial					
US Non-financial	161	0.9	0	-3	10
EZ Non-financial					
EZ Non-financial	78	1.6	2	16	57
UK Non-financial					
UK Non-financial	109	0.4	0	2	7
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EURIBOR					
EURIBOR 3m	-0.36	0	0	0	1
EURIBOR 6m	-0.32	0	0	0	1
EURIBOR 12m	-0.17	0	0	1	2
LIBOR					
LIBOR 3m	2.31	0	0	-4	62
LIBOR 12m	2.83	0	2	1	73
Stock markets (%)					
	level	Daily	Weekly	Monthly	YTD
US indices					
S&P500	2,901	0.0	0.9	2.1	9
Dow Jones	26,015	0.1	0.9	2.7	5
Nikkei	22,865	0.0	1.2	0.5	0
FTSE 100	7,475	-0.5	-1.4	2.3	2
EuroStoxx 50	3,400	-0.9	-0.8	-3.1	-3
BSE	9,420	0.5	-1.8	-3.9	-7
DAX	12,388	-0.9	-0.1	-2.7	-4
CAC	5,417	-1.1	-0.3	-1.5	2
MIB	20,339	-0.8	-1.9	-6.7	-7
ASE Athens	729	-1.5	0.6	-4.3	-11
MSCI Latam *	84,625	-1.9	0.4	-2.9	-1
Ibovespa (Brazil)	76,677	0.4	0.5	-3.3	-2
Mercol (Mexico)	49,436	-0.4	-0.4	0.0	-1
Merval (Argentina)	26,755	0.0	-6.3	-9.0	-14
MSCI EM Europe *	5,356	-0.8	2.5	-0.9	-1
Poland	2,346	-0.3	1.4	1.3	5
Moon 10 (Russia)	4,276	0.8	1.7	2.3	4
ISE 100 (Turkey)	93,082	-0.2	3.2	-4.2	-21
MSCI EM Asia *	890	-0.6	1.4	-0.2	3
Shanghai Com (China)	2,725	-0.5	-0.2	-3.5	-19
Jakarta (Indonesia)	6,018	-0.8	0.6	1.4	5
Banking sector					
	level	Daily	Weekly	Monthly	YTD
US banks					
US banks	1467	-0.9	0.2	-1.3	-1
JPM	114.1	-0.9	0.5	1.3	6
Cb	70.9	-0.8	0.3	-1.5	-5
Bof	30.7	-1.1	-0.8	-1.9	3
HS	48.9	-0.9	1.5	2.6	6
GS	238.4	-0.4	1.4	1.0	-7
EZ banks					
EZ banks	85.6	-1.1	-2.5	-9.5	-22
BNP	50.6	-1.3	-0.6	-8.7	-18
Credit Agricole	11.8	-0.8	-1.5	-1.5	-16
Deutsche Bank	9.7	-0.9	-1.1	-12.4	-39
ING	11.7	-1.2	-2.2	-10.4	-24
Intesa	2.1	-1.2	-3.3	-15.2	-23
SG	35.3	-1.0	-2.3	-7.1	-18
UK banks					
UK banks	122.5	-1.2	-5.7	-16.2	-21
HSBC	80.6	-0.8	-2.5	-6.3	-13
HRE	672.1	0.4	-2.1	-5.9	-12
RBS	241.8	-0.9	-1.2	-4.9	-13
Barclays	175.8	-1.4	-4.3	-8.3	-13
Lloyds	59.4	-0.8	-2.3	-6.3	-12
Large Spanish banks					
Large Spanish banks	65.5	-0.2	-2.0	-11.7	-23
Santander	4.3	0.1	-1.5	-9.8	-21
BBVA	5.4	0.3	-2.5	-13.3	-24
Medium Spanish banks					
Medium Spanish banks	68.8	-1.0	-0.6	-4.5	-10
Cajabank	3.9	-0.2	0.0	3.6	-2
Sabadell	1.3	-0.9	-2.2	-7.2	-21
Bankinter	7.7	-1.2	-0.2	-5.6	-4
Bankia	3.3	-1.7	-0.8	-4.2	-20
Currencies (% net for currency depreciation)					
	level	Daily	Weekly	Monthly	YTD
Developed					
EUR/USD	1.164	-0.2	0.2	-0.1	-3
GBP/USD	1.30	0.2	1.1	-1.1	-4
USD/JPY	110.89	0.1	0.3	0.8	1
DXY	94.92	0.2	-0.2	0.3	3
Emerging					
USD/ARS (Argentina)	38.07	1.2	-18.9	-27.7	-52
USD/BRL (Brazil)	4.12	0.6	-0.5	9.1	-21
USD/CLP (Chile)	679.68	-0.2	-2.8	-5.6	-11
USD/COP (Colombia)	3043	-0.3	-2.9	-5.1	-4
USD/MXN (Mexico)	19.08	0.2	-0.9	-2.6	2
USD/PEN (Peru)	3.31	0.0	-0.3	-1.1	-2
USD/PLN (Poland)	54.12	0.2	-3.0	-7.9	-15
USD/PLN (Poland)	3.68	0.1	0.0	-0.7	-6
USD/RUB (Russia)	67.24	1.1	-0.8	-6.8	-15
USD/TRY (Turkey)	6.61	0.7	-0.1	-24.4	-43
USD/CNY (China)	6.83	0.2	-0.3	-0.1	-5
USD/INR (India)	71.00	-0.4	-1.5	-3.6	-11
USD/IDR (Indonesia)	14,710	-0.2	0.4	-1.8	-8
ADXY	105.2	0.3	-0.4	0.5	-4
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent					
Brent	77.5	-0.4	2.2	7	16
WTX	70	-0.5	1.7	3	16
Copper	267	-0.6	-0.9	2	-18
Gold	1204	0.3	-0.2	-1	9
S&P Spot commodity *	469	0.3	1.2	3	6
S&P Brent Spot *	664	0.7	2.5	8	17
S&P Metals Spot *	344	-1.1	0.1	0	-13
S&P Agricultural *	282	-0.5	-1.0	-4	-1

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

Fuente: BBVA Research

Debt markets (10y, % changes in bps)					
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Peru	5.11	0.0	2.1	0	24
Poland	3.19	3.6	1.6	2	-12
Russia	8.82	-3.2	6.3	98	118
Turkey	20.69	8.0	-22.0	289	933
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Mexico	119	4.2	3	4	12
Peru	83	3.3	1	5	11
Poland	63	0.3	0	-1	14
Russia	163	1.6	-2	31	45
Turkey	544	33.0	62	223	380
China	59	2.4	0	1	8
India	88	-1.3	-1	-3	19
Indonesia	122	4.4	1	11	37
Risk indicators					
Volatility indicators (change in ppt)					
VIX	12	0.3	1.5	-2	3
VSTOXX	15	1.1	2	2	2
EM EFT volatility index	20	0.4	2	2	4
Dollar Euro volatility	7	0.1	0	1	1
EM FX volatility index	13	0.4	0	3	5
Credit spread (BAA) (change in bps)	193	1.1	2	10	15
US bonds volatility index	59	1.2	1	2	1
Inflation expectations (%)					
US Inflation expectations (5Y5Y)	2.41	-	0	-6	9
EZ Inflation expectations (5Y5Y)	1.71	-	0	-2	-3
Banking 5Y CDS (bps) *					
US	52	0.9	0	3	10
EZ	96	1.6	2	16	57
UK	67	1.2	3	6	27
Large Spanish	83	3.7	3	17	47
Medium Spanish	92	1.5	0	7	17
Corporate 5Y CDS (bps) *					
US Non-financial	161	0.9	0	10	10
EZ Non-financial	78	1.6	2	16	57
UK Non-financial	100	0.4	0	2	7
Interbank markets (% changes in bp)					
EONIA Index	-0.36	0	0	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.17	0	0	1	2
Libor 3m	2.31	0	0	-4	62
Libor 12m	2.83	0	2	1	73
Stock markets (%)					
Index indices					
S&P500	2,901	0.0	0.0	3.1	9
Dow Jones	26,015	0.1	0.9	2.7	5
Nikkei	22,865	0.0	1.2	0.5	0
FTSE 100	7,475	0.5	1.4	-2.3	-2
Eurostoxx 50	3,400	-0.9	-0.8	-3.1	-3
IBEX	9,420	0.5	-1.8	-3.9	-7
DAX	12,388	-0.9	-0.1	-2.7	-4
CAC	5,417	-1.1	-0.3	-1.5	2
MI8	20,339	-0.8	-1.9	-6.7	-7
ASX Allstars	7,229	-1.5	0.6	-4.3	-11
MSCI Latam *	84,025	-1.9	0.4	-2.9	1
Ibovespa (Brazil)	76,627	0.4	0.5	-3.3	-2
Mexbol (Mexico)	49,436	-0.4	0.4	0.0	-1
Merval (Argentina)	26,755	0.0	6.3	-9.0	-14
MSCI EM Europe *	5,356	-0.8	2.5	-0.9	-1
Poland	2,346	-0.3	1.4	1.3	-5
Mosc 10 (Russia)	4,276	0.8	1.7	-2.3	4
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MSCI EM Asia	890	0.6	1.4	-0.2	-3
Shanghai Com (China)	2,725	0.5	0.2	-3.5	-19
Jakarta (Indonesia)	6,018	-0.8	0.6	1.4	5
Banking sector					
US banks					
JPM	114.1	-0.9	0.5	-1.3	6
Cit	70.9	-0.8	0.3	-1.5	-5
BoA	30.7	-1.1	-0.8	-1.9	3
MS	49.9	-0.8	1.5	-2.6	6
GS	238.4	-0.4	1.4	1.0	-7
EZ banks	85.6	-1.1	-2.5	-9.5	-22
BNP	50.6	-1.3	-2.6	-8.7	-18
Credit Agricole	11.8	-0.8	-1.5	-1.5	-16
Deutsche Bank	9.7	-0.9	-1.1	-12.4	-39
ING	11.7	-1.2	-2.2	-10.4	-24
Inessa	2.1	-1.2	-3.3	-15.2	-23
SG	35.3	-1.0	-2.3	-7.1	-18
Unicredito	12.5	-1.2	-5.7	-16.2	-21
UK banks	80.6	-0.8	-2.5	-6.3	-13
HSBC	67.2	0.4	-2.1	-5.9	-12
RBS	241.8	0.9	-1.2	-4.9	-13
Barclays	175.8	-1.4	-4.3	-8.3	-13
Lloyds	59.4	0.8	-2.3	-6.3	-12
Large Spanish banks	65.5	0.2	-2.0	-11.7	-23
Santander	4.3	0.1	-1.5	-9.8	-21
BBVA	5.4	0.3	-2.5	-13.3	-24
Medium Spanish banks	68.8	-1.0	-0.6	-4.5	-10
Casabank	3.8	-0.2	0.0	-1.6	2
Sabadell	1.3	-0.9	-2.2	-7.2	-21
Bankinter	7.7	-1.2	-0.2	-5.6	-4
Bankia	3.3	-1.2	-0.8	-4.2	-20
Commodities (% red for currency depreciation)					
Developed					
EURUSD	1.164	-0.2	0.2	-0.1	-3
GBPUSD	1.30	0.2	1.1	-1.1	4
USDJPY	110.89	0.1	0.3	0.8	1
DXY	94.92	0.2	-0.2	0.3	3
Emerging					
USDARS (Argentina)	38.07	1.2	-18.9	-27.7	-52
USD BRL (Brazil)	4.12	0.6	0.5	-9.1	-21
USDCLP (Chile)	678.68	-0.2	2.8	-5.6	-11
USDCOP (Colombia)	3043	-0.3	-2.9	-5.1	-4
USDMXN (Mexico)	19.08	0.2	0.9	-2.6	2
USDPEN (Peru)	3.31	0.0	-0.3	-1.1	-2
LACI	54.12	0.2	-3.0	-7.9	-15
USDPLN (Poland)	3.68	0.1	0.0	0.7	-6
USD RUB (Russia)	67.54	1.1	-0.8	-6.8	-15
USDTRY (Turkey)	6.61	0.7	-9.1	-24.4	-43
USD CNY (China)	6.83	0.2	-0.3	-0.1	-5
USD INR (India)	71.00	-0.4	-1.5	-3.6	-11
USD IDR (Indonesia)	14,710	-0.2	0.4	-1.8	8
ADXY	105.2	0.3	0.4	0.5	-4
Commodities (%)					
Brent	77.5	-0.4	2.2	-7	16
WTX	70	-0.5	1.7	3	16
Copper	267	-0.6	-0.9	-2	-18
Gold	1204	0.3	-0.2	-1	-9
S&P Spot commodity *	469	0.3	1.2	3	6
S&P Brent Spot *	664	0.7	2.5	8	17
S&P Metals Spot *	344	-1.1	-0.1	0	-13
S&P Agricultural *	282	-0.5	-1.0	-4	-1

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

Fuente: BBVA Research

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