

# Market Comment | Core yields at their recent highest levels ahead of ECB meeting (preview)

Global Financial Markets Unit  
10 Sep 2018

- **Calm in developed markets, while emerging markets continued under pressure.** Threat of fresh US tariffs on Chinese imports ([see](#)), and uncertainty on US-Canada NAFTA talks in the spotlight. Moreover, tighter financial conditions (after last week's strong jobs data in the US) could also contribute to hampering emerging assets.
- **Main developed core yields retained last week's increase** and 10Y UST remained hovering around 2.90%. German yields surpassed the 0.40% threshold thanks to positive news on the Brexit negotiations ([see](#)) and an improved outlook for Italy ([see](#)), as a result of which Italy's risk premium continued to narrow. Thursday ECB meeting: see preview below.
- **Main developed equity markets reflected gains: US and European indices increased, with Italy and Spain outperforming**, favoured by the banking sector. Meanwhile, Asian equity indices were mixed, with sharp declines in Chinese stocks amid worries about escalating trade disputes with the US.
- **The USD depreciated, while the EUR and the GBP appreciated strongly amid optimism about a Brexit deal and ahead of the BoE's meeting.** Despite this recent weakness of the US dollar, emerging currencies remained under pressure. Additionally, negative idiosyncratic factors continued to weigh on the Russian rouble, while the TRY fell despite the expected tweak to the monetary policy stance by Turkey's Central Bank.

## ECB Preview

**The ECB is expected to leave monetary policy unchanged at its September meeting, after the announcement of the end of the asset purchase programme by December this year and the enhanced guidance on rates at the June meeting. However, a cautious tone can be expected regarding concerns about protectionism and turmoil in EMs.**

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

One topic that could come up during the Q&A is the question of global risks and their impact on the euro zone. In particular, risks related with trade war concerns have recently been added to by the turmoil in Ems, which has had a differential impact in Europe. Regarding this, Mr Draghi will adopt a cautious tone, but he will continue to stress that the economic recovery remains robust and that the bank is confident of the recovery of inflation, keeping the central bank on track in its monetary normalisation process.

Regarding our baseline scenario, we expect the first depo rate hike (+15 bps) in September 2019, and the first refi rate hike (+25 bps) in December 2019. However, neither a depo rate hike in July nor a depo&refi hike at the same time in September 2019 can be ruled out, as there is a debate in the Governing Council on

the meaning of “through summer”, and on the timing of rate hikes: some as early as July 2019 and others ruling out a move until autumn.

In the coming months the focus will be on knowing when and at what pace interest rates will rise. The ECB is not in a hurry to make any change in its forward guidance as the July meeting minutes revealed that ECB members were pleased that June monetary policy decisions had been well understood by financial markets. Moreover, the race to succeed Mario Draghi as president of the ECB will also be in the forefront as Draghi's term ends in October of next year. The question is to what extent the current "prudence" strategy can be altered ahead of the eventual hiking cycle.

Economic indicators over the last six weeks have confirmed that the Eurozone economy has shifted down a gear but was still growing steadily at a solid 0.4% QoQ in the first half of the year supported by the strength of domestic demand. The resilience of confidence up to August suggests that this performance is likely to continue in the third quarter but the worsening of some leading components, mainly related to foreign demand, raise concerns about the negative effects on activity of both increasing protectionism and stress in emerging economies in coming quarters.

In this context, headline inflation remained at 2% in August boosted by higher oil prices and the weakness of the euro from mid-year, while core inflation remained broadly stable at low levels over the year despite incipient signs of inflationary pressures stemming from input prices and a tighter labour market. All in all, incoming data so far are broadly in line with the ECB's macro view in June, so we expect minor changes in its updated forecasts this month (if any, it would be a slight downward revision), but stressing the intensifying downward risks related to heightened uncertainty on the global environment and reinforcing further the ECB cautious mood.

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.71	0.4	0.0	6	79
US	2.93	-0.6	7.3	1	47
GER (2-yr)	0.54	0.9	5.9	7	7
Germany	0.40	1.4	6.8	3	-12
France	0.71	-0.8	1.8	0	-11
Spain	1.45	-0.8	0.3	6	-22
Italy	2.91	-12.5	-25.1	1	82
Portugal	1.88	-1.9	-2.3	12	-13
Greece	4.20	-0.7	-25.4	8	9
Japan (2-yr)	0.11	0.0	0.2	0	3
Japan	0.12	0.5	0.0	0	7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	12.47	31.6	12.1	90	222
Chile	4.48	0.8	2.5	-3	-3
Colombia	6.95	1.8	11.5	14	50
Mexico	8.06	2.2	13.8	37	48
Peru	5.16	0.2	3.1	11	29
Poland	3.27	-1.7	5.6	15	-4
Russia	9.24	-4.6	44.7	93	161
Turkey	19.04	35.0	-117.0	19	768
India	8.16	12.9	15.9	41	77
Indonesia	8.57	11.8	25.9	93	228
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	21	-2.2	-5.0	-3	1
Italy	251	-13.9	-31.9	-1	94
Portugal	148	-3.3	-9.1	9	-1
Spain	105	-2.2	-6.5	3	-10
<b>5-yr sovereign spread vs Germany</b>					
France	15	-0.6	-2.0	-4	-1
Italy	128	-19.6	-71.4	-33	91
Portugal	42	-2.6	-6.1	-2	-8
Spain	29	-1.1	-4.2	-3	2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS*</b>					
Brazil	278	0.9	-23	60	117
Chile	58	0.2	2	9	9
Colombia	115	1.1	4	10	10
Argentina	718	15.3	-60	252	480
Mexico	124	1.3	4	10	17
Peru	85	0.8	2	8	13
Poland	64	-0.3	1	3	15
Russia	177	2.2	10	31	59
Turkey	522	-19.2	-59	168	358
China	59	-0.4	2	-2	8
India	97	0.1	9	10	28
Indonesia	141	-0.4	14	28	56
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.8	1	3	4
VSTOXX	16	-0.6	0	3	3
EM FT volatility Index	22	-0.1	2	5	6
Dollar/euro volatility	7	0.0	0	1	1
EM FX volatility Index	13	-0.1	0	2	5
Credit spread (BAA) (change in bps)	194	0.6	2	8	16
US bonds volatility index	49	0.8	-1	2	0
US inflation expectations (bps)	level	Daily	Weekly	Monthly	YTD
US inflation expectations (5YSY)	2.39	-	2	-6	7
EZ inflation expectations (5YSY)	level	Daily	Weekly	Monthly	YTD
Banking 5Y CDS (bps)*	1.69	-	-2	-4	-5
US	level	Daily	Weekly	Monthly	YTD
US	52	-0.3	0	3	10
EZ	87	-1.4	-11	1	48
UK	62	-2.1	-6	2	21
Large Spanish	75	-2.2	-10	-1	39
Medium Spanish	92	-1.9	-1	3	17
Corporate 5Y CDS (bps)*	level	Daily	Weekly	Monthly	YTD
US Non-financial	163	-0.3	0	3	10
EZ Non-financial	77	-1.4	-11	1	48
UK Non-financial	99	0.1	-1	0	7
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.35	0	-1	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.17	0	0	1	2
Libor 3m	2.33	0	1	-1	64
Libor 12m	2.85	0	1	-2	74
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,881	0.3	-0.7	0.9	7
Dow Jones	25,807	0.0	-0.2	1.6	4
Nikkei	22,373	0.3	-1.5	-1.0	-2
FTSE 100	7,279	0.0	-3.0	-6.0	-5
EuroStoxx 50	3,309	0.5	-2.5	-5.3	-5
BEX	9,271	1.1	-1.1	-5.0	8
DAX	11,986	0.2	-2.9	-5.4	-7
CAC	5,270	0.3	-2.7	-4.2	0
IBEX	20,919	2.3	-2.6	-3.3	-4
ASE Athens	705	2.5	-2.9	-6.6	-14
MSCI Latam*	84,052	0.2	-0.9	-3.2	-2
Ibovespa (Brazil)	76,303	0.1	0.2	-1.1	-2
Mercol (Mexico)	48,774	-0.4	-1.4	-1.0	-3
Merval (Argentina)	29,553	-0.9	2.6	9.8	-5
MSCI EM Europe*	5,261	-0.2	1.8	1.5	-2
Poland	2,271	0.6	-3.6	-2.3	-8
Micex 10 (Russia)	4,223	0.0	-1.3	-2.6	2
Sei 100 (Turkey)	91,688	-1.7	-4.4	-6.6	-22
MSCI EM Asia*	861	0.1	-2.9	-3.0	-7
Shanghai Com (China)	2,669	-1.2	-1.9	-4.5	-20
Jakarta (Indonesia)	5,831	1.0	-3.1	-4.3	-6
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>					
JPM	145.8	0.0	-1.0	-2.1	-2
C	114.2	-0.1	-0.3	-2.3	6
CB	70.2	0.7	-1.5	-2.5	6
BofA	30.9	0.0	-0.2	-2.3	3
MS	48.2	-0.1	-1.4	-2.6	-8
GS	232.7	-0.5	-2.1	-9.5	-9
<b>EZ banks</b>					
BNP	87.4	1.5	1.6	-5.7	-20
ING	50.6	0.3	-0.1	-6.6	-18
Credit Agricole	12.2	0.9	2.5	-2.0	-13
Deutsche Bank	9.6	-0.5	-2.0	-10.8	-40
ING	11.2	0.5	-4.5	-11.9	-27
Intesa	2.4	4.5	8.9	8.8	-14
SG	35.6	0.6	0.7	-4.1	-17
Unicredit	13.5	4.7	8.4	-6.3	-14
<b>UK banks</b>					
RBS	80.4	0.8	-0.8	-5.5	-13
HSBC	653.0	-0.3	-3.2	-10.0	-15
RBS	249.3	1.8	2.7	-1.1	-10
Barclays	176.8	1.3	-0.4	-7.7	-13
Lloyds	59.4	1.1	-0.4	-4.4	-12
<b>Large Spanish banks</b>					
Santander	64.0	1.1	-1.7	-10.8	-24
BBVA	4.3	1.0	0.3	-9.9	-22
<b>Medium Spanish banks</b>					
Casabank	5.2	0.4	-2.9	-12.6	-27
Sabadell	70.2	1.1	2.3	-1.9	-9
CaixaBank	4.0	1.2	-2.5	0.4	1
Sabadell	1.4	1.8	2.3	-6.2	-20
Bankinter	7.7	0.9	1.2	-2.8	-3
Bankia	3.4	-0.8	-2.8	0.7	-17
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>					
EURUSD	1,160	0.4	-0.1	0.7	4
GBPUSD	1,30	0.0	1.2	1.6	-4
USDJPY	111.11	-0.1	0.0	0.0	1
DKX	95.11	-0.3	0.0	-0.4	4
Emerging	level	Daily	Weekly	Monthly	YTD
<b>USDARS (Argentina)</b>					
USDARS (Argentina)	37.46	-1.3	7.7	-25.0	-51
<b>USDBRL (Brazil)</b>					
USDBRL (Brazil)	4.11	-1.4	1.1	-7.6	-21
<b>USDCLP (Chile)</b>					
USDCLP (Chile)	694.87	-0.6	-1.5	-6.8	-13
<b>USDCOP (Colombia)</b>					
USDCOP (Colombia)	3080	0.7	1.0	-7.7	-5
<b>USDMXN (Mexico)</b>					
USDMXN (Mexico)	19.32	0.0	-0.7	-3.2	1
<b>USDPEN (Peru)</b>					
USDPEN (Peru)	3.33	0.0	-0.8	-1.7	-3
<b>INR</b>					
INR	53.82	0.7	0.0	-7.5	-15
<b>USDRPLN (Poland)</b>					
USDRPLN (Poland)	3.72	0.4	0.7	-0.2	-7
<b>USDRUB (Russia)</b>					
USDRUB (Russia)	70.54	-0.9	-3.7	-6.5	-18
<b>USDTRY (Turkey)</b>					
USDTRY (Turkey)	6.47	-0.9	-2.6	-14.2	-42
<b>USDTRY (China)</b>					
USDTRY (China)	6.86	-0.2	-0.5	-0.5	-5
<b>USDINR (India)</b>					
USDINR (India)	72.45	-1.0	-1.7	-5.2	-12
<b>USDIDR (Indonesia)</b>					
USDIDR (Indonesia)	14,857	-0.2	0.3	-3.0	-9
ADXY	104.5	0.0	-0.6	-0.7	-5
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>					
Brent	77.0	0.2	-1.4	7	16
<b>WTX</b>					
WTX	68	-0.4	-3.3	1	12
<b>Copper</b>					
Copper	261	0.4	-1.3	5	-20
<b>Gold</b>					
Gold	1196	0.0	-0.4	-1	-9
<b>S&amp;P Spot commodity *</b>					
S&P Spot commodity *	461	0.3	-1.6	1	4
<b>S&amp;P Brent Spot *</b>					
S&P Brent Spot *	694	0.4	-1.0	6	15
<b>S&amp;P Metal Spot *</b>					
S&P Metal Spot *	334	0.6	-1.9	4	-15
<b>S&amp;P Agricultural *</b>					
S&P Agricultural *	282	0.3	-1.5	6	-1

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

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Fuente: BBVA Research

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Peru	5.16	0.2	3.1	11	29
Poland	3.27	-1.7	5.6	15	-4
Russia	9.24	-4.6	44.2	93	161
Turkey	19.04	36.0	112.0	19	268
India	8.16	12.9	15.9	41	77
Indonesia	8.57	11.6	25.9	93	228
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
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Portugal	148	-3.3	-9.1	9	-1
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Poland	64	0.3	1	3	15
Russia	177	2.2	10	31	59
Turkey	522	-19.2	-59	168	358
China	59	-0.4	-2	-2	0
India	97	0.1	9	10	28
Indonesia	111	-0.4	14	28	56
Risk indicators					
Volatility indicators (change in bp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.8	1	3	-4
VSTOXX	16	-0.6	0	3	-3
EM EFT volatility Index	22	-0.1	2	5	6
Dollar/euro volatility	7	0.0	0	1	1
EM FX volatility index	13	-0.1	0	2	5
Credit stress (BAA) (change in bp)	194	0.2	2	8	86
US bonds volatility index	49	0.8	-1	2	0
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
<b>US Inflation expectations (5Y)</b>					
US	2.39	-	-2	-5	-
<b>EZ Inflation expectations (5Y)</b>					
EZ	1.69	-	-2	-4	-5
Banking S&P CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	52	0.3	0	3	10
EZ	87	-1.4	-11	1	48
UK	62	-2.1	-6	-2	21
Large Spanish	75	-2.2	-10	-1	39
Medium Spanish	92	-1.9	-1	3	17
Corporate S&P CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	163	-0.3	0	3	10
EZ Non-financial	77	-1.4	-11	1	48
UK Non-financial	99	-0.1	-1	0	7
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	-1	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.17	0	0	1	2
Libor 3m	2.33	0	1	1	64
Libor 12m	2.85	0	1	2	74
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,881	0.3	0.7	0.9	-7
Dow Jones	25,907	0.0	0.2	1.6	-4
Nikkei	22,373	0.3	-1.5	-1.0	-2
FTSE 100	7,279	0.0	-3.0	6.0	-5
Euro Stoxx 50	3,309	0.5	-2.5	-5.3	-5
IBEX	9,271	1.1	-1.1	-5.0	-8
DAX	11,986	0.2	-2.9	-5.4	-7
CAC	5,270	0.3	-2.7	-4.2	0
MI8	20,919	2.3	2.6	-3.3	-4
ASE Athens *	705	2.5	2.9	-6.6	-14
MSCI Latin *	84,052	0.2	-0.9	-3.2	-2
Bovespa (Brazil)	76,323	0.1	0.2	-3.1	-2
Mexbol (Mexico)	48,774	0.4	-1.4	-1.0	-3
Merval (Argentina)	29,553	0.9	2.6	9.8	-5
MSCI EM Europe *	5,291	0.2	-1.6	-1.5	-2
Poland	2,271	0.6	-3.6	-2.3	-8
Mosx 10 (Russia)	4,223	0.0	-1.3	-2.6	-2
Isx 100 (Turkey)	91,698	1.7	2.4	-5.6	-22
MSCI EM Asia *	861	0.1	-2.9	-3.0	-7
Shanghai Com (China)	2,669	-1.2	-1.9	-4.5	-20
Jakarta (Indonesia)	5,831	1.0	-3.1	-4.3	-6
Banking sector					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
JPM	145.8	0.0	-1.0	-2.1	-2
WFC	114.2	-0.1	-0.3	-2.3	6
CS	70.2	0.7	-1.5	-2.5	-6
BoA	30.9	0.0	0.2	-2.3	3
MS	48.2	-0.1	-1.4	-2.6	-8
GS	232.7	0.5	-2.1	-0.5	9
<b>EZ banks</b>					
BNP	87.4	1.5	1.6	-5.7	-20
BNP	59.6	0.3	-0.1	-8.6	-18
Credit Agricole	12.2	0.9	2.5	-2.0	-13
Deutsche Bank	9.6	-0.5	-2.0	-10.8	-40
ING	11.2	0.5	-4.5	-11.9	-27
Intesa	2.4	4.5	9.8	-0.8	-14
SG	35.6	0.6	0.7	-4.1	-17
Unicredit	13.5	4.7	8.4	6.3	-14
<b>UK banks</b>					
HSBC	80.4	0.8	-0.8	-6.5	-13
HSBC	653.0	-0.3	-3.2	-10.0	-15
RES	249.3	1.8	2.7	-1.1	-10
Barclays	178.8	1.3	0.4	7.7	-13
Lloyds	59.4	1.1	-0.4	-4.4	-12
<b>Large Spanish banks</b>					
Santander	64.0	1.1	-1.7	-10.8	-24
Santander	4.3	1.8	0.3	8.9	-22
BBVA	5.2	0.4	-2.9	-12.6	-27
<b>Medium Spanish banks</b>					
Cajabank	70.2	1.1	2.3	-1.9	-9
Cajabank	4.0	1.2	3.5	0.4	-1
Sabadell	1.4	1.8	2.3	-6.2	-20
Bankinter	7.7	0.9	1.2	-2.8	-3
Bankia	3.4	0.8	2.9	0.7	-17
Currencies (% ind for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>					
EURUSD	1,160	0.4	-0.1	0.7	-4
GBPUSD	1,30	0.6	1.2	1.6	-4
USD JPY	111.11	-0.1	0.0	0.0	1
DKY	95.11	0.3	0.0	0.4	-1
Emerging					
level	Daily	Weekly	Monthly	YTD	
<b>USDARS (Argentina)</b>					
USDARS	37.46	1.3	-2.7	-25.0	-11
USD BRL (Brazil)	4.11	-1.4	1.1	-7.6	-21
USD CLP (Chile)	694.87	-0.6	-1.5	-6.8	-13
USD COP (Colombia)	3980	0.7	-1.0	-5.7	-5
USD MXN (Mexico)	19.32	0.0	-0.7	-3.2	1
USD PEN (Peru)	3.33	0.0	0.8	-1.7	-3
IACT	53.82	0.7	0.0	-7.5	-15
USD PLN (Poland)	3.72	0.4	-0.7	0.2	-7
USD RUB (Russia)	70.54	0.9	-3.7	5.5	-18
USD TRY (Turkey)	6.47	0.9	2.6	-14.2	-42
USD CNY (China)	6.86	-0.2	-0.5	-0.5	-5
USD INR (India)	72.45	-1.0	-1.7	-5.2	-12
USD IDR (Indonesia)	14,057	-0.2	-0.3	-3.0	-9
ADXY	104.5	0.0	0.6	-0.7	-5
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>					
Brent	77.0	0.2	-1.4	-7	16
WTX	68	-0.4	-3.3	1	12
Copper	261	0.4	-1.3	-5	-20
Gold	1196	0.0	0.4	-1	-9
S&P Spot commodity *	461	0.3	-1.6	1	4
S&P Brent Spot *	654	0.4	-1.0	6	15
S&P Metals Spot *	334	0.6	-1.0	4	-15
S&P Agricultural *	282	0.3	-1.5	6	-1

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

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