

Market Comment | Escalating trade tensions did not trigger safe-haven demand

Global Financial Markets Unit
21 Sep 2018

- Trade tensions remained in the spotlight during this week, however, the tit-for-tat tariff battle had only a limited impact on financial markets. **There was no safe-haven movement and risk assets registered gains during the week.** Furthermore, the USD weakness was the main support to EM assets, which recovered some ground this week despite the UST 10Y topping 3%.
- **The US announced its decision to impose tariffs on a further \$200 bn worth of Chinese imports** ([see](#)). The tariff will be 10% - less than expected - but if no deal is reached before the end of the year, it will rise to 25%. In the aftermath, China retaliated ([see](#)) however, the decision to reduce tariffs on imports (including those from the US) helped to ease tensions ([see](#)).
- Other sources of risk evolved in different ways: **NAFTA talks resumed this week**, but despite the “good faith and goodwill” there are low probabilities of closing an agreement in the short term. Meanwhile, **deadlock in Brexit negotiations continued** during this week’s Salzburg summit where EU negotiations warned May that her Chequers Brexit plan would not work ([see](#)).
- **The UST 10Y yield slightly surpassed the 3% level during this week** without wreaking havoc in financial markets. **In Europe, the German 10Y yield also reached the 0.5% threshold** within this week, but today it inched down after some disappointing PMI data ([see](#)). Peripheral risk premium were almost unchanged, with the exception of Italy’s, which narrowed during the week despite uncertainty about 2019 budget negotiations.
- **The rally in developed markets continued:** US and European stock prices increased. In fact US indices hit their highest historical levels during this week. Asian markets increased, with China leading the positive performance, offsetting the market’s negative reaction to the government’s cut in import duty. Meanwhile, US implied volatility remained at 12% this week and some emerging equities faltered despite a relative calm in global tensions.
- **The diminishing appetite for safe-haven assets hampered the USD, which depreciated and consequently benefited other currencies:** The EUR appreciated, approaching 1.18 USD/EUR, and the GBP was flat during this week against the USD as the latter’s weakness offset somewhat high uncertainty regarding a Brexit deal.
- **Weak USD gave some breathing space to most of EM currencies.** After the announcement of the **new economic plan in Turkey**, the TRY reflected some volatility, and ended the week depreciated despite the weakness of the USD ([see](#)). The BRL appreciated after the Central Bank of Brazil kept the Selic rate at its current level (6.5%), as expected, amid sluggish growth, low inflation and political uncertainty. Other EM central banks, such as the South African Reserve Bank, also left their interest

rates unchanged ([see](#)). Increasing oil prices ahead of the oil producers' meeting also supported Latam currencies ([see](#)).

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.91	0.5	3.1	22	69
US	3.06	0.0	6.7	24	60
GER (2-yr)	0.54	-1.1	-0.1	5	7
Germany	0.46	-1.6	0.5	11	-7
France	0.78	-1.2	0.9	9	-5
Spain	1.50	-1.6	0.9	11	116
Italy	2.85	-3.1	-13.1	-21	76
Portugal	1.87	-1.2	1.5	8	-14
Greece	4.07	-0.2	-1.9	-14	-4
Japan (2-yr)	0.11	-0.3	-0.1	1	3
Japan	0.13	1.0	1.5	3	9
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.90	-15.3	-49.8	-21	165
Chile	4.51	0.0	0.4	5	0
Colombia	6.90	0.8	-1.2	10	46
Mexico	8.07	0.5	4.6	28	49
Peru	5.22	0.0	1.7	10	35
Poland	3.23	-0.7	-0.1	8	-8
Russia	8.82	-1.1	-13.7	-11	118
Turkey	18.11	-7.0	-27.0	-200	975
India	8.08	0.7	-4.8	25	69
Indonesia	8.14	-3.2	-27.3	30	184
Country risk (vs change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	32	0.4	0.4	-2	2
Italy	240	-1.5	-13.6	-32	82
Portugal	142	0.4	1.0	-4	-7
Spain	104	0.0	0.4	0	-11
5-yr sovereign spread vs Germany					
France	17	0.0	0.8	-2	0
Italy	133	-1.8	-7.5	-37	96
Portugal	45	0.1	1.3	4	-5
Spain	32	0.1	-0.1	7	5
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS*					
Brazil	272	-2.9	-9	20	112
Chile	48	3.4	0	-4	-1
Colombia	113	8.2	6	3	8
Argentina	569	-36.8	-118	-12	331
Mexico	116	8.8	4	-1	9
Peru	77	4.5	1	-4	6
Poland	65	1.8	4	1	16
Russia	157	5.0	-11	-7	39
Turkey	401	-18.2	-55	-84	237
China	59	4.4	4	1	9
India	105	6.3	4	16	36
Indonesia	133	6.3	5	19	54
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	12	0.0	0	0	2
VSTOXX	13	-0.2	-1	-1	0
EMFT volatility Index	19	-0.1	1	0	2
Dollar/euro volatility	7	0.1	0	-1	0
EM FX volatility Index	12	0.0	0	0	4
Credit spread (BAA) (change in bps)	190	0.0	2	-1	12
US bonds volatility index	49	0.6	2	0	0
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5YSY)	2.44	-	-	-	12
EZ inflation expectations (5YSY)	1.69	-	0	-2	-5
Banking Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US	49	3.0	2	4	7
EZ	83	5.2	5	-8	44
UK	64	4.9	9	-1	23
Large Spanish	67	4.7	6	-15	32
Medium Spanish	82	-7.5	-6	-9	7
Corporate Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	156	3.0	2	-4	7
EZ Non-financial	78	5.2	5	-8	44
UK Non-financial	101	3.9	3	0	8
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	0	0	0
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.17	0	0	0	2
Libor 3m	2.35	0	7	4	66
Libor 12m	2.89	0	1	8	78
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,938	0.2	1.1	2.7	9
Dow Jones	26,706	0.2	2.1	3.8	8
Nikkei	23,870	0.8	3.4	6.7	5
FTSE 100	7,483	1.6	2.4	-1.2	2
EuroStoxx 50	3,424	0.6	2.4	0.1	2
IBEX	9,573	-0.1	2.2	-0.1	5
DAX	12,391	0.5	2.2	0.0	4
CAC	5,485	0.8	2.7	1.4	4
IB35	21,483	0.4	2.9	3.8	-2
ASE Athens	696	2.2	2.1	-3.3	-15
MSCI Latam*	85,880	0.1	2.4	2.5	0
Ibovespa (Brazil)	79,239	1.4	5.1	3.0	2
Mercol (Mexico)	49,526	0.0	-0.2	-0.7	-1
Merval (Argentina)	34,514	0.0	14.4	28.6	11
MSCI EM Europe*	5,376	-0.4	1.4	2.3	0
Poland	2,284	1.1	2.3	-0.5	-7
Micex 10 (Russia)	4,426	0.6	2.3	3.9	7
Sei 100 (Turkey)	97,060	1.0	4.4	7.6	-17
MSCI EM Asia*	869	0.5	1.6	-0.5	-6
Shanghai Com (China)	2,797	2.5	4.3	3.1	16
Jakarta (Indonesia)	5,958	1.4	1.7	0.2	6
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	118.7	0.1	4.6	3.2	10
Cit	75.2	0.5	6.5	5.7	1
BofA	31.3	0.3	3.0	1.0	5
MS	49.7	-0.3	3.0	2.2	-5
GS	336.6	-0.3	3.2	1.1	7
EZ banks	92.2	0.3	5.1	4.6	-16
BNP	54.6	0.6	6.0	4.9	-12
Credit Agricole	13.0	0.2	4.8	7.1	-7
Deutsche Bank	10.4	0.0	6.0	4.1	-35
ING	11.6	0.5	4.9	-3.4	-24
Intesa	2.4	0.5	3.5	6.6	-12
SG	37.9	0.0	5.7	5.0	-12
Unicredit	14.0	-0.1	4.9	5.7	-11
UK banks	82.8	1.0	4.0	0.4	-10
HSBC	679.1	2.0	3.1	-1.5	-11
RBS	261.5	0.8	6.3	6.0	-6
Barclays	175.4	0.6	2.5	-9.3	-14
Lloyds	61.6	0.0	4.6	1.0	-9
Large Spanish banks					
Santander	4.5	-0.2	6.1	4.4	17
BBVA	5.6	-0.9	3.3	1.4	-21
Medium Spanish banks					
Casabank	73.5	-1.2	3.6	6.5	-4
Sabadell	4.0	-2.8	-0.9	4.1	2
Santander	1.4	-1.7	5.1	6.9	-14
Bankinter	8.1	-0.2	5.0	6.5	2
Banque	3.5	-0.2	6.1	10.4	-11
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1,175	-0.3	1.0	1.3	3
GBPUSD	1,131	-1.5	0.0	1.2	-4
USDJPY	112.57	-0.1	-0.5	-1.8	0
DKX	94.24	0.4	-0.7	-0.9	3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)					
USDARS (Argentina)	37.39	2.2	6.4	-19.1	-51
USDBRL (Brazil)					
USDBRL (Brazil)	4.08	0.0	2.3	-0.9	20
USDCLP (Chile)					
USDCLP (Chile)	665.91	0.5	3.2	-0.5	-9
USDCOP (Colombia)					
USDCOP (Colombia)	3905	0.0	6.6	1.5	-2
USDMXN (Mexico)					
USDMXN (Mexico)	18.88	-0.3	0.1	-0.8	4
USDPEN (Peru)					
USDPEN (Peru)	3.30	0.0	0.5	-0.3	2
USDRUB (Russia)					
USDRUB (Russia)	54.79	0.4	1.8	0.6	-14
USDPOLN (Poland)					
USDPOLN (Poland)	3.66	-0.6	1.1	0.5	-6
USDRUB (Russia)					
USDRUB (Russia)	66.73	-0.6	2.2	1.9	-14
USDTRY (Turkey)					
USDTRY (Turkey)	6.26	-1.3	-1.8	3.7	-40
USD CNY (China)					
USD CNY (China)	6.86	-0.2	0.1	-0.3	-5
USDINR (India)					
USDINR (India)	72.20	0.2	-0.5	-3.3	-12
USDIDR (Indonesia)					
USDIDR (Indonesia)	14,817	0.2	0.1	1.6	-9
ADXY	105.0	-0.1	0.4	-0.3	-5
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	79.6	1.1	1.9	6	20
WTX	71	0.5	3.1	5	18
Copper	282	3.6	7.3	6	-13
Gold	1198	-0.8	0.4	0	9
S&P Spot commodity *	471	-0.1	1.5	2	6
S&P Brent Spot *	666	-0.9	0.8	4	18
S&P Metal Spot *	337	0.2	1.2	0	-14
S&P Agrifutural *	281	1.1	0.4	-2	-1

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

Fuente: BBVA Research

Debt markets (10Y % changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
US 10-yr	2.63	0.5	3.1	22	89	
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Germany	0.46	-1.6	0.5	11	-7	
France	0.78	-1.2	0.9	9	-5	
Spain	1.50	-1.6	0.9	11	-18	
Italy	2.85	-3.1	-13.1	-21	76	
Portugal	1.87	-1.2	1.5	8	-14	
Greece	4.07	0.2	-1.9	-14	-4	
Japan (2-yr)	-0.11	-0.3	-0.1	1	3	
Japan	0.13	1.0	1.5	3	9	
Emerging Markets						
	level	Daily	Weekly	Monthly	YTD	
Brazil	11.90	-15.3	49.8	-21	165	
Chile	4.51	0.0	0.4	5	0	
Colombia	6.90	0.8	-1.2	10	46	
Mexico	8.07	0.5	4.6	28	49	
Peru	5.22	0.0	1.7	10	35	
Poland	3.23	-0.7	-0.1	8	-8	
Russia	8.82	-1.1	-13.7	11	118	
Turkey	18.11	-2.9	22.0	-280	625	
India	8.08	0.7	-4.8	25	69	
Indonesia	8.14	-2.2	-27.3	30	184	
Country risk (bp changes in bp)						
Developed Markets						
10-yr sovereign spread vs Germany						
	level	Daily	Weekly	Monthly	YTD	
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Portugal	142	0.4	1.0	-4	-7	
Spain	104	0.0	0.4	0	-11	
2-yr sovereign spread vs Germany						
France	17	0.0	0.8	-2	0	
Italy	133	-1.8	-7.5	-37	96	
Portugal	45	0.1	1.1	4	-5	
Spain	32	0.1	-0.1	7	5	
Emerging Markets						
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Colombia	113	8.2	6	3	8	
Argentina	569	-36.0	-118	-12	331	
Mexico	116	8.8	4	-1	9	
Peru	77	4.5	1	-4	6	
Poland	65	1.8	4	1	16	
Russia	157	5.0	-11	-7	39	
Turkey	401	-18.2	-55	-84	237	
China	59	-4.4	4	1	9	
India	105	6.3	4	16	36	
Indonesia	139	6.3	5	19	54	
Risk indicators						
Volatility indicators (change in bp)						
	level	Daily	Weekly	Monthly	YTD	
VIX	12	0.0	0	0	2	
VSTOXX	18	0.2	-1	-1	0	
EM EFT volatility Index	19	-0.1	-1	0	2	
Dollar/euro volatility	7	0.1	0	-1	0	
EM FX volatility index	12	0.0	0	0	4	
Credit stress (BAA) (change in bp)	190	0.0	2	-1	12	
US bonds volatility index	49	0.6	2	0	0	
Inflation expectations (%)						
	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y)	2.44	-	-	5	4	
EZ Inflation expectations (5Y)	1.69	-	0	-2	-5	
Banking S&P CDS (bps) *						
	level	Daily	Weekly	Monthly	YTD	
US	49	3.0	2	-4	7	
EZ	83	5.2	5	-8	44	
UK	64	4.9	9	-1	23	
Large Spanish	67	4.7	6	-15	32	
Medium Spanish	82	-7.5	-6	-9	7	
Corporate S&P CDS (bps) *						
	level	Daily	Weekly	Monthly	YTD	
US Non-financial	156	3.0	2	-4	7	
EZ Non-financial	78	9.2	5	-8	24	
UK Non-financial	101	3.9	3	0	8	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	0	0	0	
Euribor 3m	-0.32	0	0	0	1	
Euribor 12m	-0.17	0	0	0	2	
Libor 3m	2.38	0	2	-4	66	
Libor 12m	2.89	0	1	8	78	
Stock markets (%)						
Main indices						
	level	Daily	Weekly	Monthly	YTD	
S&P500	2,938	0.2	1.1	2.7	9	
Dow Jones	26,706	0.2	2.1	3.8	8	
Nikkei	23,870	0.8	3.4	6.7	5	
FTSE 100	7,483	1.6	2.4	-1.2	-2	
Euro Stoxx 50	3,424	0.6	2.4	0.1	-2	
IBEX	9,573	-0.1	2.2	-0.1	-5	
DAX	12,391	0.5	2.2	0.0	-4	
CAC	5,495	0.8	2.7	1.4	4	
MI8	21,483	0.4	2.9	3.8	2	
ASE Athens *	696	2.2	2.1	-3.3	-15	
MSCI Latin *	85,880	0.1	2.4	2.5	0	
Ibovespa (Brazil)	79,239	1.4	5.1	3.0	2	
Mercol (Mexico)	49,526	0.0	0.2	0.7	-1	
Mercol (Argentina)	34,514	0.0	16.4	28.6	11	
MSCI EM Europe *	5,376	0.4	1.4	2.3	0	
Poland	2,284	1.1	2.3	0.5	-7	
Moscow 10 (Russia)	4,426	0.6	2.3	3.9	7	
Isx 100 (Turkey)	97,050	1.0	2.4	7.6	-17	
MSCI EM Asia *	869	0.5	1.6	0.5	-6	
Shanghai Com (China)	2,797	2.5	4.3	3.1	-16	
Jakarta (Indonesia)	5,958	1.4	1.7	0.2	-6	
Banking sector						
	level	Daily	Weekly	Monthly	YTD	
US banks	150.7	0.0	4.1	2.2	1	
JPM	118.7	0.1	4.6	3.2	10	
CS	75.2	0.5	6.5	5.7	1	
BoA	31.3	0.3	3.0	1.0	5	
MS	49.7	0.5	3.0	2.2	-5	
GS	236.6	0.3	3.2	-1.1	7	
EZ banks	92.2	0.3	5.1	4.6	-16	
BNP	54.6	0.6	6.0	4.9	-12	
Credit Agricole	13.0	0.2	4.8	7.1	-7	
Deutsche Bank	10.4	0.0	6.0	4.1	-35	
ING	11.6	0.5	4.9	-3.4	-24	
Intesa	2.4	0.5	3.5	9.8	-12	
SG	37.9	0.0	5.7	5.0	-12	
Unicredit	14.0	-0.1	4.9	5.7	-11	
UK banks	82.8	1.0	4.0	0.4	-10	
HSBC	679.1	2.0	3.1	-1.5	-11	
RBS	261.5	0.8	6.3	6.0	-6	
Barclays	175.4	0.6	2.5	5.3	-14	
Lloyds	61.6	0.0	4.6	1.0	-9	
Large Spanish banks	68.9	-0.5	4.6	2.8	-19	
Santander	4.5	0.2	6.1	4.4	-17	
BBVA	5.6	-0.9	3.3	1.4	-21	
Medium Spanish banks	73.5	-1.2	3.6	6.5	-4	
Cabotank	4.0	-2.9	-0.9	4.1	-2	
Sabadell	1.4	-1.7	5.1	6.9	-14	
Bankinter	8.1	-0.2	5.0	6.5	2	
Bankia	3.6	0.2	6.3	10.4	-11	
Currencies (% ind for currency depreciation)						
	level	Daily	Weekly	Monthly	YTD	
Developed						
EURUSD	1.175	-0.3	1.0	1.3	-3	
GBPUSD	1.31	-1.5	0.6	1.2	-4	
USD JPY	112.57	-0.1	-0.5	-1.8	0	
DKY	94.24	0.4	0.7	0.9	3	
Emerging						
	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	37.39	2.2	6.4	-19.1	-51	
USDBRL (Brazil)	4.08	0.0	2.3	-0.9	-20	
USDCLP (Chile)	665.91	0.5	3.2	-0.5	-9	
USDCOP (Colombia)	3905	0.0	0.6	-1.5	-2	
USDMXN (Mexico)	18.88	-0.3	0.1	-0.8	-4	
USDPEN (Peru)	3.30	0.0	0.5	-0.3	-2	
LACT	54.79	0.4	1.8	-2.6	-14	
USDPLN (Poland)	3.66	0.6	1.1	0.5	-6	
USD RUB (Russia)	66.73	-0.6	2.2	1.9	-14	
USDTRY (Turkey)	6.28	-1.3	-1.8	-3.7	-40	
USD CNY (China)	6.86	-0.2	0.1	-0.3	-5	
USD INR (India)	72.20	0.2	0.5	-3.3	-12	
USDIDR (Indonesia)	14,817	0.2	-0.1	-1.6	-9	
ADXY	105.0	-0.1	0.4	-0.3	-5	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	79.6	1.1	1.9	6	20	
WTX	71	0.5	3.1	5	18	
Copper	282	3.6	7.3	6	-13	
Gold	1198	-0.8	0.4	0	-9	
S&P Spot commodity *	471	-0.1	1.5	2	6	
S&P Brent Spot *	666	-0.9	0.8	-4	18	
S&P Metals Spot *	337	0.2	1.2	0	-14	
S&P Agricultural *	281	1.1	0.4	-2	-1	

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