

Market Comment | Italian politics remain in the spotlight

Global Financial Markets Unit
02 Oct 2018

- Yesterday's optimism in financial markets due to the US-Canada agreement faded significantly today as political tensions in Italy continued in the forefront and hampered sensitive assets
- In fact, the issue of **Italy's budget seems to have been discussed in the Eurogroup meeting**, despite not being on the agenda. According to sources, Italy's finance minister said that the budget proposal was still under discussion ([see](#)), but the market's reaction seems to regard the proposal as a closed issue, backed on Italian government's position ([see](#)). **Against this backdrop, Italy's borrowing cost surged to its highest level since 2014 and the risk premium surpassed 300 bps**
- **Safe-haven flows contributed to holding German Bund yields below the 0.5% threshold**, and equity indices dropped across European markets, with Italian stocks and the banking sector performing particularly poorly. On the other hand, the volatility in **Italian bonds did not spill over significantly to other peripheral countries' bonds**
- In this context, US yields also decreased today, while equity indices continued on their upward trend, remaining around their highest historical levels.
- **The euro continued to suffer from the uncertainty in Italy** and stood at its lowest level in one month against the USD, close to passing the 1.15 threshold. The GBP also suffered from the USD's strength after the NAFTA renewal deal and from uncertainty regarding Brexit as the deadline approaches. ([see](#)).
- EM currencies suffered from the USD's strength and posted mixed performances, with oil prices hovering around 85 USD/b. The ARS recovered some ground after last week's sharp fall, as did the **Brazilian real**.([see](#))

Table 1

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Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US 10-yr	2.81	1.2	3.2	10	89
US	3.05	-3.4	-4.6	19	59
GER (2-yr)	-0.56	-2.1	-6.6	4	5
Germany	0.42	-3.1	-12.3	9	-10
France	0.79	-4.1	-7.1	10	-4
Spain	1.54	0.9	1.3	7	-13
Italy	3.46	15.2	57.8	22	136
Portugal	1.90	-0.1	0.9	-2	-11
Greece	4.31	8.7	23.5	-10	20
Japan(2-yr)	-0.11	0.0	-0.9	0	-2
Japan	0.13	-0.6	-0.2	-2	8
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.34	-25.2	-49.8	-85	109
Chile	4.52	0.3	0.9	12	1
Colombia	6.91	0.5	-1.9	8	47
Mexico	7.92	0.3	-10.9	1	34
Peru	5.30	-0.5	-1.5	18	42
Poland	3.24	1.7	-3.7	5	-8
Russia	8.59	-0.7	-15.7	-21	95
Turkey	17.53	36.0	32.0	-316	617
India	7.99	0.0	-13.8	4	60
Indonesia	8.15	13.4	-10.0	-6	185
Country risk (bp change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	37	1.0	5.2	1	6
Italy	304	20.8	70.1	13	146
Portugal	148	5.0	13.2	-12	0
Spain	112	6.0	13.6	-3	-3
2-yr sovereign spread vs Germany					
France	19	0.5	1.1	2	3
Italy	205	19.0	71.0	-2	168
Portugal	48	1.9	8.1	-1	-1
Spain	39	1.2	12.4	5	12
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS*					
Brazil	264	3.0	-2	-36	103
Chile	44	-0.1	-1	-11	-5
Colombia	110	0.0	-5	-2	4
Argentina	592	6.4	38	-167	354
Mexico	110	2.4	-8	-8	4
Peru	73	-0.1	-3	-9	2
Poland	65	0.0	-1	2	16
Russia	141	2.2	14	-22	23
Turkey	377	4.4	11	-167	213
China	55	-1.2	-3	-4	5
India	105	0.5	-3	17	36
Indonesia	128	1.5	-5	6	43
Risk indicators					
Volatility indicators (change in sp)					
level	Daily	Weekly	Monthly	YTD	
VIX	12	-0.1	-1	-1	-2
VSTOXX	15	1.2	2	0	2
EM EFT volatility Index	20	0.4	0	0	4
Dollar Euro volatility	7	0.3	0	0	1
EMFX volatility Index	10	-0.2	-2	-2	2
Credit spread (GAA) (change in bps)	187	3.3	4	5	9
US bonds volatility index	44	-1.0	-0.5	-0.5	-5
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y)	2.44	-	-4	5	13
EZ Inflation expectations (5Y)	1.68	-	-2	3	5
Banking (YCCS - bps)					
level	Daily	Weekly	Monthly	YTD	
US	48	-1.3	-3	-4	6
EZ	88	0.2	3	-8	49
UK	71	0.2	3	4	30
Large Spanish	70	1.2	2	-13	34
Medium Spanish	94	1.0	2	2	19
Corporate (YCCS - bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	155	-1.3	-3	-4	5
EZ Non-financial	78	0.2	3	-8	49
UK Non-financial	101	1.2	-1	1	8
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	0	-2	1
Euribor 3m	-0.32	0	0	-2	1
Euribor 12m	-0.16	0	1	1	3
Libor 3m	2.40	0	2	8	70
Libor 12m	2.93	1	2	8	62
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,926	0.0	0.4	0.9	9
Dow Jones	26,777	0.5	1.1	3.1	8
Nikkei	24,271	-0.1	1.4	6.1	7
FTSE 100	7,475	-0.2	-0.4	0.6	-2
Euro Stoxx 50	3,390	-0.7	-0.9	-0.1	-3
BSE	9,317	-1.0	-1.8	-0.9	-8
DAX	12,288	-0.4	-0.7	-0.6	5
CAC	5,468	-0.7	-0.2	1.1	3
MB	20,362	-0.2	-5.1	1.4	6
ASE Athens	681	-1.5	-2.7	-6.6	-17
MSO Latam*	86,246	0.1	0.6	1.9	1
Bovespa (Brazil)	81,169	3.2	3.2	5.9	4
Bovespa (Mexico)	49,440	0.8	-0.4	-0.2	-1
Merval (Argentina)	32,880	0.9	-3.4	12.2	6
MSO EM Europe*	5,548	-0.3	1.7	3.6	3
Poland	2,280	-0.2	0.4	-2.5	-7
Micex 10 (Russia)	4,435	-0.8	-0.9	3.9	8
Nse 100 (Turkey)	98,161	-0.8	-1.1	5.9	-16
MSO EM Asia*	671	0.0	0.2	-2.2	-6
Shanghai Com (China)	2,821	0.0	1.4	3.5	-16
Jakarta (Indonesia)	5,876	-1.2	-0.1	-2.4	-8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	113.4	-0.1	-2.5	-1.0	5
C	71.3	-0.8	-3.0	0.1	-4
BoA	29.4	-0.9	-4.2	-5.0	-2
MS	46.2	-0.9	-4.2	-5.3	-11
GS	224.8	-0.2	-3.3	-5.4	-12
EZ banks	86.1	-0.2	-7.1	0.7	-21
BNP	52.0	0.0	4.9	2.8	-16
Credit Agricole	12.2	0.6	-5.2	3.6	-13
Deutsche Bank	9.6	-1.1	-7.5	-1.0	-40
ING	11.1	-0.3	-4.2	-4.8	-27
Intesa	2.1	0.3	-14.7	-0.9	-29
SG	36.5	-0.2	-4.0	3.7	-15
Unicredit	12.4	-1.8	-13.3	-0.1	-21
UK banks	79.3	1.2	-3.1	-1.3	-14
HSBC	663.5	-0.9	-1.8	-0.8	-13
RBS	246.0	-1.0	-4.1	1.9	-11
Barclays	170.3	1.2	2.8	3.1	-16
Lloyds	57.5	-1.8	-5.6	-3.1	-15
Large Spanish banks					
Santander	65.1	-1.8	-4.4	-0.3	-23
BBVA	4.3	-0.7	-4.8	0.7	-22
CaixaBank	5.4	-2.6	-4.1	0.0	-24
Medium Spanish banks					
Celabank	69.8	0.9	4.0	1.9	-9
Sabadell	3.8	0.9	5.0	0.6	-3
Bankia	1.3	-2.4	-8.3	-1.7	-23
Bankinter	8.0	0.6	-1.7	4.9	-1
Banco	3.4	-0.1	-7.3	3.6	-17
Commodities (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,156	-0.2	-1.8	-0.4	-4
GBPUSD	1,300	-0.5	-1.5	0.2	-4
USDJPY	113.63	0.3	-0.6	-2.3	-1
DX	95.43	0.1	1.4	0.3	-2
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	38.09	3.7	0.3	-3.2	-52
USDBRL (Brazil)	3.92	2.4	3.8	3.3	-17
USDCLP (Chile)	659.80	0.1	1.8	4.1	-7
USDCOP (Colombia)	3003	-0.1	6.0	1.5	-2
USDMXN (Mexico)	18.74	-0.1	1.3	1.0	4
USDPEN (Peru)	3.31	-0.1	-0.1	-0.7	-2
LACI	55.62	1.2	1.9	1.7	-13
USDPLN (Poland)	3.71	-0.3	-1.8	-0.4	-7
USD RUB (Russia)	65.31	0.5	0.7	3.3	-12
USDTRY (Turkey)	5.99	-0.8	2.9	9.2	-37
USD CNY (China)	6.87	0.0	0.0	-0.5	-5
USDIDR (Indonesia)	72.91	0.0	-0.3	-2.6	-13
USDIDR (Indonesia)	15,043	-0.9	-0.8	-2.2	-10
ADXY	104.5	-0.1	-0.2	-0.6	-5
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	85.1	0.2	4.0	10	28
WTX	75	0.1	4.2	8	25
Copper	281	1.2	0.2	6	-14
Gold	1,205	1.4	0.3	0	-9
S&P Spot commodity *	496	2.0	2.8	6	12
S&P Brent Spot *	723	2.7	4.6	9	28
S&P Metals Spot *	347	0.4	0.4	2	-12
S&P Agriculture*	281	1.3	-0.1	-2	-1

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

Fuente: BBVA Research

Debt markets (10y, % changes in bps)					
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Mexico	110	2.4	6	-8	4
Peru	73	-0.1	-3	-9	2
Poland	65	0.0	-1	2	16
Russia	141	-2.2	-14	-22	23
Turkey	377	4.4	11	-167	213
China	55	-1.2	-3	-4	5
India	105	0.5	-3	17	36
Indonesia	128	-1.5	-5	6	43
Risk indicators					
Volatility indicators (change in pp)					
VIX	12	-0.1	-1	0	7
VSTOXX	15	1.2	2	0	2
EM EFT volatility index	20	0.4	0	0	4
Dollar Euro volatility	7	0.3	0	0	1
EM FX volatility index	10	-0.3	-2	-2	2
Credit spread (BAA) (change in bps)	187	3.3	4	-5	9
US bonds volatility index	44	-1.5	-5	6	-5
Inflation expectations (%)					
US Inflation expectations (5Y5Y)	2.44	-	-4	5	13
EZ Inflation expectations (5Y5Y)	1.68	-	-2	3	-5
Banking 5Y CDS (bps) *					
US	48	-1.3	-3	-4	6
EZ	88	0.2	3	-8	49
UK	71	0.2	3	4	20
Large Spanish	70	1.2	2	-13	34
Medium Spanish	94	1.0	2	2	19
Corporate 5Y CDS (bps) *					
US Non-financial	155	-1.3	-3	-	6
EZ Non-financial	78	0.2	3	-8	49
UK Non-financial	101	1.2	-1	1	8
Interbank markets (% changes in bp)					
EONIA Index					
EONIA Index	-0.36	0	0	-2	1
Eurobor 3m					
Eurobor 3m	-0.32	0	0	0	1
Eurobor 12m					
Eurobor 12m	-0.16	0	1	1	3
Eurobor 3m					
Eurobor 3m	2.40	0	2	8	70
Eurobor 12m					
Eurobor 12m	2.93	1	2	8	82
Stock markets (%)					
Index indices					
S&P500	2,226	0.0	0.4	0.0	9
Dow Jones	26,777	0.5	1.1	3.1	8
Nikkei	24,271	0.1	1.4	6.1	7
FTSE 100	7,475	0.3	0.4	0.6	2
EuroStoxx 50	3,390	-0.7	-0.9	-0.1	-3
IBEX	9,317	-1.0	-1.9	-0.9	-8
DAAX	12,288	-0.4	-0.7	-0.6	-5
CAC	5,468	-0.7	-0.2	1.1	3
MBI	20,562	-0.2	-5.1	1.4	-6
ASE Athens	681	-1.5	-2.7	-8.6	-17
MSCI Latam *	86,245	-0.1	0.6	1.9	1
Ibovexa (Brazil)	81,169	3.2	3.2	5.9	4
Merval (Mexico)	49,440	-0.8	-0.4	-0.2	-1
Merval (Argentina)	32,880	0.9	3.4	12.2	6
MSCI EM Europe *	5,548	-0.3	1.7	3.6	3
Poland	2,280	-0.2	0.4	-2.5	-7
Mosc 10 (Russia)	4,435	-0.8	-0.9	3.9	8
Ise 100 (Turkey)	98,161	-0.4	-1.1	5.9	-16
MSCI EM Asia *	8,71	0.0	0.3	-2.2	-6
Shanghai Com (China)	2,821	0.0	1.4	3.5	-16
Jakarta (Indonesia)	5,876	-1.7	-0.1	-2.4	8
Banking sector					
US banks	142.5	-0.6	-3.1	-3.2	-4
JPM	113.4	0.1	2.5	1.0	5
Cit	71.3	-0.9	-3.0	0.1	-4
BoA	29.4	-0.9	-4.2	-5.0	-2
MS	46.2	-0.9	-4.2	-5.3	-11
GS	224.9	-0.2	-3.3	-5.4	-12
EZ banks	86.1	-0.2	-7.1	0.7	-21
BNP	59.0	0.0	-4.9	2.8	-16
Credit Agricole	12.2	0.6	-5.2	3.6	-13
Deutsche Bank	9.6	-1.1	-7.5	-1.0	-40
ING	11.1	-0.3	-4.2	-4.8	-27
Intesa	2.1	-0.3	-14.7	-0.9	-23
SG	36.5	-0.2	-4.0	3.7	-15
Unicredit	12.4	-1.8	-13.3	-0.1	-21
UK banks	79.3	-1.2	-3.4	-1.3	-14
HSBC	663.5	0.9	-1.8	-0.8	-13
RBS	245.0	-1.0	-4.1	1.9	-11
Barclays	170.3	-1.2	-2.8	-3.1	-16
Lloyds	57.5	-1.8	-5.6	-3.1	-15
Large Spanish banks	65.1	-1.8	-4.4	-0.3	-23
Santander	4.3	-0.7	-4.8	0.7	-22
BBVA	5.4	-2.6	-4.1	0.0	-24
Median Spanish banks	69.8	-0.9	-4.9	1.8	-9
Casabank	3.8	-0.9	-5.0	0.6	-3
Sabadell	1.3	-2.4	-8.3	-1.7	-23
Bankinter	8.0	-0.6	-1.7	4.9	1
Banque	3.4	-0.1	-2.3	3.6	-17
Commodities (%)					
Developed					
EURUSD	1,156	-0.2	-1.3	-0.4	-4
GBPUSD	1,30	-0.5	-1.5	0.2	-4
USDJPY	113.63	0.3	-0.6	-2.3	-1
DX	95.43	0.1	1.4	0.3	4
Emerging					
USDARS (Argentina)	38.09	3.7	0.3	-3.2	-52
USD/BRL (Brazil)	3.92	2.4	3.8	3.3	-17
USD/COP (Colombia)	655.80	0.1	1.8	4.1	-7
USD/COP (Colombia)	3003	-0.1	0.0	1.5	-2
USD/MXN (Mexico)	18.74	-0.1	1.3	1.8	4
USD/PEN (Peru)	3.31	-0.1	-0.1	-0.7	-2
LACI	55.62	1.2	1.9	1.7	-13
USD/PLN (Poland)	3.71	-0.3	-1.8	-0.4	-7
USD/RUB (Russia)	65.31	-0.5	0.7	3.3	-12
USDTRY (Turkey)	5.99	0.8	2.9	3.2	-37
USD/CNY (China)	6.87	0.0	0.0	-0.5	-5
USD/INR (India)	72.91	0.0	0.3	-2.6	-13
USD/IDR (Indonesia)	15,043	-0.8	0.8	-2.2	-10
ADXY	104.5	-0.1	0.2	0.6	5
Commodities (%)					
Brent	85.1	0.2	4.0	10	28
WTX	75	0.1	4.2	8	25
Copper	281	1.2	0.2	6	-14
Gold	1205	1.4	0.3	0	-9
S&P Spot commodity *	495	2.0	2.8	6	12
S&P Brent Spot *	723	2.7	4.6	9	20
S&P Metals Spot *	347	0.4	0.4	2	-12
S&P Agricultural *	281	1.3	-0.1	-2	-1

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

Fuente: BBVA Research

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