

Market Comment | US yields surge on strong economic data and hawkish Fed

Global Financial Markets Unit
05 Oct 2018

- **US yields increased sharply, with the 10Y yield reaching a 7-year high of 3.2%, spurring higher government yields across the board**, on the back of strong economic data in the US, and hawkish comments from the Fed's chairman, which showed a sanguine view about the US economic outlook. A solid labour report ([see](#)) and services confidence figures ([see](#)) reaffirmed the Fed's positive view of the US economic outlook. Moreover, Mr. Powell considers that interest rates are "a long way from neutral", giving some margin of manoeuvre for increasing rates in the medium term ([see](#)).
- **The German 10Y yield surpassed 0.50%**, underpinned by the increase in the US yield, even though concerns about Italy's budget plan remain despite the cut in the deficit target ([see](#)). Italy's risk premium widened sharply (by 16 bps to 284 bps), with limited impact on Spanish and Portuguese risk premia.
- **The sharp increase in yields weighed on equity markets across the board**, due to the valuation effect. Markets' implied risk measures such as implied volatility climbed above 15 (+3 bps). However, the US banking sector outperformed, easing concerns about a potential impact on the cycle. On the other hand, Italy's equity markets were the worst performers, led by a sharp decline in the banking sector, reflecting the concerns about the fiscal consolidation path.
- **The US dollar appreciated on the back of higher yields and safe-haven flows from ongoing US-China trade and political concerns**. Moreover, worries about **Italy's fiscal spending plan and Brexit depressed the euro**. **EM currencies declined across the board, as global funding conditions tightened further**. **Idiosyncratic factors weighed especially on the TRY**, which depreciated sharply after the higher-than-expected inflation data ([see](#)). The COP depreciated after the central bank announced a programme to accumulate reserves (ahead of a possible reduction in its \$11.4 bn Flexible Credit Line with the IMF from 2020). Even the MXN depreciated despite the hawkish tone of Banxico and the new NAFTA agreement. Concerns on trade measures and high oil prices weighed on Asian currencies (despite markets being closed in China). The INR declined sharply after the Central Bank left interest rates unchanged. On the other hand, the Argentine peso, returned to below 40 pesos/USD (one week after the new FX and monetary policy regime agreed with the IMF) and the Brazilian peso surged ahead of this weekend's first-round presidential elections.
- **Supply concerns continued to boost oil prices**, with Brent breaching \$85 b/b.

Table 1

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Debt markets (% changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.69	2.3	7.2	24	97
US (10-yr)	3.22	3.1	15.6	32	75
GER (2-yr)	0.52	0.0	0.6	4	9
Germany	0.56	3.1	9.2	10	4
France	0.89	2.0	9.0	18	7
Spain	1.57	1.0	7.3	12	-10
Italy	3.43	6.4	26.6	48	132
Portugal	1.94	2.3	5.8	6	-7
Greece	4.51	1.4	32.6	-4	40
Japan (2-yr)	0.12	-1.1	0.6	-1	2
Japan	0.16	-0.4	2.5	4	11

Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.29	9.5	46.3	130	104
Chile	4.56	0.6	1.3	11	4
Colombia	6.97	0.5	8.2	11	53
Mexico	8.07	5.8	14.1	4	49
Peru	5.34	-0.2	0.4	21	47
Poland	3.32	-0.1	7.2	7	0
Russia	8.86	2.9	17.1	-16	122
Turkey	19.64	13.0	246.0	-14	828
India	8.03	-13.2	0.1	-3	64
Indonesia	8.38	-7.9	26.3	-24	208

Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	33	-1.1	-0.2	-1	3
Italy	285	5.3	17.4	30	128
Portugal	137	-0.8	-3.4	12	-11
Spain	101	-2.1	-1.9	6	-14
2-yr sovereign spread vs Germany					
France	18	-0.7	1.2	2	2
Italy	185	13.6	29.8	26	149
Portugal	42	-0.1	-1.8	-2	-8
Spain	24	-0.5	0.4	5	7

Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	246	4.6	-7	-61	86
Chile	46	3	3	-12	3
Colombia	116	7.7	6	1	11
Argentina	618	37.2	88	-224	380
Mexico	116	6.4	4	-10	9
Peru	77	5.2	3	-9	5
Poland	67	-0.5	1	3	18
Russia	151	14.4	7	-17	33
Turkey	419	20.0	50	-164	254
China	60	2.8	3	-2	9
India	107	2.5	2	17	38
Indonesia	139	6.9	6	-3	84

Risk indicators					
Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0.0	3	1	5
VSTOXX	17	0.5	2	-1	3
EM EFT volatility index	23	0.2	4	1	7
Dollar/Euro volatility	7	-0.2	0	0	1
EM EA volatility index	11	0.5	0	-2	-3
Credit spread (BAA) (change in bps)	181	-2.9	-1	-13	4
US bonds volatility index	55	4.0	0	7	6

Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5Y5Y)	2.44	-	-1	3	12
EZ inflation expectations (5Y5Y)	1.60	-	1	-1	-5

Banking 5Y CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US	49	1.0	0	-5	7
EZ	91	1.2	10	-3	52
UK	70	0.2	1	4	29
Large Spanish	76	2.5	12	-7	40
Medium Spanish	93	2.8	0	-1	18

Corporate 5Y CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	156	1.0	0	-5	7
EZ Non-financial	77	1.2	10	-3	52
UK Non-financial	99	-0.9	-2	-1	7

Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	-1	-1	1
EURibor 3m	-0.32	0	0	0	1
EURibor 12m	-0.16	0	0	1	3
Libor 3m	2.41	0	1	9	72
Libor 12m	2.96	3	4	11	85

Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,894	-0.3	-0.7	0.2	7
Dow Jones	26,482	-0.5	-0.1	2.0	7
Nikkei	23,784	-0.8	-1.4	5.3	4
FTSE 100	7,332	-1.2	-2.4	-0.7	-4
EuroStoxx 50	3,247	-0.8	-1.5	1.0	4
IBEX	9,244	-0.8	-1.5	-0.6	8
DAX	12,115	-1.1	-1.1	0.6	6
CAC	5,363	-0.9	-2.4	2.0	1
MIB	20,350	-1.3	-1.7	-1.1	7
ASE Athens	659	2.6	4.7	-5.3	19
MSCI Latam *	88,075	-0.5	1.4	6.1	3
Bovespa (Brazil)	82,388	-0.8	3.7	0.6	6
Mexbol (Mexico)	48,586	-0.2	-1.9	0.0	-3
Merval (Argentina)	30,528	-1.3	-8.8	6.1	2
MSCI EM Europe *	5,462	-1.3	1.6	3.2	2
Poland	2,264	-0.5	-0.9	-1.4	-8
Mxsc10 (Russia)	4,415	-0.4	-1.5	-4.1	7
Ise100 (Turkey)	94,883	0.4	-1.1	2.3	19
MSCI EM Asia *	840	-2.0	-3.8	-4.7	-9
Shanghai Com (China)	2,821	0.0	0.0	-4.3	16
Jakarta (Indonesia)	5,732	-2.3	-3.3	2.9	10

Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	114.9	-0.3	1.9	0.3	6
C	72.6	-0.1	1.2	2.0	2
BoA	30.3	-0.3	3.0	-2.7	1
MS	47.0	-0.5	1.0	-3.5	10
GS	276.0	-0.7	0.8	-4.9	12
EZ banks					
BNP	51.9	-0.7	-1.5	1.6	16
Credit Agricole	12.6	-0.8	1.4	2.4	10
Deutsche Bank	9.7	-0.5	-1.2	-1.7	39
ING	11.0	-0.6	-1.5	-4.6	28
Intesa	2.1	-2.9	-4.5	-9.8	24
SG	36.7	-0.9	-0.8	1.5	15
Unicredit	12.4	-1.5	-4.3	-6.2	21
UK banks					
HSBC	60.4	-0.4	-0.2	-1.6	-13
RBS	662.9	-1.2	1.0	-1.1	-13
RBS	249.7	0.2	-0.1	-0.3	-10
Barclays	173.8	-0.3	1.2	-2.4	-14
Lloyds	59.0	0.1	-0.5	-0.7	-13
Large Spanish banks					
Santander	64.7	-1.0	-2.6	-0.8	-24
Banco Sabadell	4.3	-1.1	-0.8	0.7	-21
BBVA					
BBVA	5.3	-0.8	-4.3	-2.1	-26
Medium Spanish banks					
Cajabank	70.2	-1.0	-0.4	-1.2	-9
Cajabank	3.9	-1.1	-1.5	-4.6	2
Sabadell	1.3	-1.2	-4.0	-5.6	23
Bankinter	8.1	-0.9	2.5	4.3	2
Bankia	3.4	-0.9	-0.4	-1.6	17

Currencies (% not for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EUR/USD	1,151	0.0	-0.8	-1.0	-5
GBP/USD	1,31	0.5	0.4	1.4	-4
USD/JPY	113.69	0.2	0.0	-1.9	-1
DXF	95.21	0.0	0.6	0.5	4

Emerging					
level	Daily	Weekly	Monthly	YTD	
USD/ARS (Argentina)	37.93	1.1	8.9	1.5	51
USD/BRL (Brazil)	3.98	0.0	-6.8	0.0	-16
USD/CLP (Chile)	671.90	0.6	-2.2	2.4	-10
USD/COP (Colombia)	3033	0.1	-2.3	2.0	-3
USD/MXN (Mexico)	18.93	1.0	-1.1	2.1	3
USD/PEN (Peru)	3.32	0.3	-0.4	0.0	-3
LACI	55.48	0.4	1.7	3.3	13
USD/RN (Poland)	3.74	0.1	-1.4	-0.5	6
USD/RUB (Russia)	66.60	0.5	-1.6	2.4	-14
USD/TRY (Turkey)	6.12	0.7	-1.1	7.9	38
USD/CNY (China)	6.67	0.0	0.0	-0.6	5
USD/INR (India)	73.77	-0.2	-1.7	-2.7	-14
USD/IDR (Indonesia)	15,183	0.0	-1.8	-1.6	-11
ADXY	102.9	-5.1	-0.9	-0.9	-6

Commodity (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	84.7	0.1	2.3	10	27
WTX	75	0.5	2.0	9	24
Copper	276	0.0	-0.8	7	-15
Gold	1203	0.2	0.9	0	-9
S&P Spot commodity *	495	-1.5	1.8	7	12
S&P Brent Spot *	720	-2.0	2.2	9	27
S&P Metals Spot *	353	-0.6	2.0	6	10
S&P Agricultural *	285	0.4	2.7	1	0

* With one day delay

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.89	2.3	7.2	24	92
US	3.22	3.1	15.6	32	79
GER (2-yr)	-0.52	0.0	0.6	4	9
Germany	0.56	3.1	9.2	18	4
France	0.89	2.0	9.0	18	7
Spain	1.57	1.0	7.3	12	-10
Italy	3.41	0.4	26.6	48	132
Portugal	1.94	2.3	5.8	6	-7
Greece	4.51	1.4	32.6	4	40
Japan (2-yr)	-0.32	-1.1	-0.6	-1	2
Japan	0.16	-0.4	2.5	4	11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
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Colombia	6.97	0.5	8.2	11	53
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Peru	5.34	-0.2	0.4	21	47
Poland	3.32	-0.1	7.2	7	0
Russia	8.86	2.9	17.1	-16	122
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India	8.02	-13.2	0.1	-3	64
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China	60	2.6	3	-2	9
India	107	2.5	2	17	38
Indonesia	139	6.9	8	-3	54

Risk indicators					
Volatility indicators (change in ppt)					
	level	Daily	Weekly	Monthly	YTD
VIX	15	0.3	3	1	5
VSTOXX	17	0.5	2	-1	3
EM EFT volatility Index	23	0.2	4	1	7
Dollar Euro volatility	7	-0.2	0	0	1
EM FX volatility Index	11	0.5	0	-2	3
Credit spread (BAA) (change in bps)	181	2.9	-1	-13	4
US bonds volatility index	55	4.9	0	7	6
Deflator expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.44	-	-1	3	12
EZ Inflation expectations (5Y5Y)	1.69	-	-1	-1	-5
Banking 5y CDS (bps)	level	Daily	Weekly	Monthly	YTD
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Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EOIA Index	-0.35	0	-1	-1	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.16	0	0	1	3
Libor 3m	2.41	0	1	9	72
Libor 12m	2.96	3	4	11	85

Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,894	-0.3	-0.7	0.2	7
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Nikkei	23,784	-0.8	-1.4	5.3	4
FTSE 100	7,332	-1.2	-2.4	-0.7	4
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IBEX	9,244	-0.8	-1.5	0.6	8
DAX	12,115	-1.1	-1.1	0.6	-6
CAC	5,363	-0.9	-2.4	2.0	1
MIB	20,350	-1.3	-1.7	-1.1	-7
ASE Athens	658	-2.6	-4.7	-6.3	-19
MSCI Latam *	88,075	0.5	1.4	6.1	3
Ibovespa (Brazil)	82,308	-0.8	3.7	9.6	6
Merval (Mexico)	48,596	-0.2	-1.9	0.0	-3
Merval (Argentina)	30,528	-1.3	-8.8	6.1	-2
MSCI EM Europe *	5,482	-1.3	-1.6	3.2	2
Poland	2,264	-0.5	-0.9	-1.4	8
Moor 10 (Russia)	4,415	-0.4	-1.5	-1.1	7
Ise 100 (Turkey)	94,883	0.4	-5.1	2.3	-19
MSCI EM Asia *	840	2.0	-3.8	-4.7	9
Shanghai Com (China)	2,821	0.0	-0.7	4.3	-16
Jakarta (Indonesia)	5,732	-2.3	-3.3	-2.9	-10

Banking sector					
	level	Daily	Weekly	Monthly	YTD
US banks	145.0	-0.4	1.7	-1.6	-2
JPM	114.9	-0.3	1.9	0.3	6
Citi	72.6	-0.1	1.2	2.0	-2
BoA	30.3	-0.3	3.0	2.7	1
MS	47.0	-0.5	1.0	3.5	-10
GS	226.0	-0.7	0.8	-4.9	-12
EZ banks	86.5	-1.1	-1.5	-2.0	-21
BNP	51.9	-0.7	-1.5	1.6	-16
Crédit Agricole	12.6	-0.8	1.4	2.4	-10
Deutsche Bank	9.7	-0.5	-1.2	-1.7	-39
ING	11.0	-0.6	-1.5	-4.6	-28
Intesa	2.1	-2.9	-4.5	-8.8	-24
SG	36.7	-0.9	-0.8	1.5	-15
Unicredit	12.4	-1.5	-4.3	-6.2	-21
UK banks	80.4	-0.4	-0.2	-1.6	-13
HSC	662.9	-1.2	-1.0	-1.1	-13
RES	249.7	0.2	-0.1	-0.3	-10
Barclays	173.8	-0.3	1.2	2.4	-14
Lloyds	59.0	0.1	0.5	-2.7	-13
Large Spanish banks	64.7	-1.0	-3.6	-0.8	-24
Santander	4.3	-1.1	-0.8	0.7	-21
BBVA	5.3	-0.8	4.5	2.1	-26
Medium Spanish banks	70.2	-1.0	-0.4	-1.2	-9
Cajabank	3.9	-1.1	-1.5	-4.6	-2
Sabadel	1.3	-1.2	-4.0	-5.8	-23
Bankinter	8.1	-0.9	2.5	4.3	2
Banco	3.4	-0.9	-0.4	-1.6	-17

Currencies (% not for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,151	0.0	-0.8	-1.0	-5
GBPUSD	1.31	0.5	0.4	1.4	-4
USDJPY	113.69	0.2	0.0	1.9	-1
DX1	95.71	0.0	0.6	0.5	4
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	37.93	1.1	8.9	1.5	-51
USDBRL (Brazil)	3.88	0.3	-0.5	7.0	-16
USDCLP (Chile)	671.90	0.6	-2.2	2.4	-10
USDCOP (Colombia)	3033	0.1	-2.3	2.0	-3
USDMXN (Mexico)	18.93	1.0	-1.1	2.2	3
USDNIN (Peru)	3.32	0.3	0.4	0.0	-1
LACI	55.48	0.4	1.7	3.3	-13
USDPLN (Poland)	3.74	0.1	-1.4	-0.5	-8
USDHRB (Russia)	66.60	0.5	-1.6	2.4	-14
USDTRY (Turkey)	6.12	0.7	-1.1	7.9	-38
USDCNY (China)	6.87	0.0	0.0	-0.6	-5
USDINR (India)	73.77	-0.2	-1.7	2.7	-14
USDIDR (Indonesia)	15,183	0.0	-1.8	-1.6	-11
ADXY	103.9	-0.1	-0.9	0.9	-6

Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	84.7	0.1	2.3	10	27
WTX	75	0.5	2.0	9	24
Copper	276	0.0	-0.8	7	-15
Gold	1203	0.2	0.9	0	-9
S&P Spot commodity *	495	-1.5	1.8	7	12
S&P Brent Spot *	729	-2.0	2.2	9	27
S&P Metals Spot *	383	-0.6	2.0	6	-10
S&P Agricultural *	285	0.4	2.7	1	0

* With one day delay

Fuente: BBVA Research

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