

Market Comment | Risk-off mood in global financial markets surged sharply

Global Financial Markets Unit
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- **Riskoff mood in global financial markets surged sharply**, as global concerns such as DM banks' normalization process and US-China trade tensions finally weighed on equity indices and risk perception. Against this background, **market risk measures such as implied volatility in US equity and bond markets consolidated higher levels (VIX 24 +9, Move 56 +1)**. Besides, **equity indices tumbled in major markets**, led by cyclical sectors, while defensive sectors outperformed, suggesting an increase in the cyclical risk premium.
- **As for safe haven yields, the US 10Y yield retreated slightly on flight to quality flows but consolidating levels above 3.1%** even after the lower-than-expected inflation data (see). Along the same lines, the German 10Y yield remains above the 0.5% level reached last week, underpinned by the increase in the US yield, despite concerns about Italy's fiscal policy and recent safe haven flows. Regarding this, the Italian Deputy Prime Minister, Mr. Salvini, continued with his rhetoric against fiscal consolidation (see), dragging down Italy's bond market with the **Italian risk premium widening to more than 300 bps**, and its equity market declining, led by the banking sector. Contagion to Spanish and Portuguese risk premiums remains limited.
- **US-China trade frictions remain very much alive**, with the US threatening to block trade talks with China at next month's G-20 summit if China does not produce a list of trade concessions. In addition, US officials are concerned about the yuan's slide, especially after **China loosened its monetary policy, cutting the RRR. Against this background, the RMB has been hovering around the Rmb7 per USD psychological level**. Nonetheless the 12M non-deliverable forward is already above this threshold, increasing concerns about the RMB's trend.
- **Developed countries' Central banks continue with their monetary policy normalization process**. The Fed's Kaplan commented that interest rates should move towards neutral, suggesting three rate hikes through June 2019, while the Fed's Bullard said interest rate increases would be linked to incoming data, and added "things are looking good today". Meanwhile the ECB's discourse on the monetary policy normalization process remains unchanged. The Dutch central bank governor, Klaas Knot, said that the ECB would end APP this year and would then start discussing the timing of the bank's interest rate lift-off.
- **Concerns about global growth came to the forefront as the IMF cut its forecast for global growth** for both this year and next (2018 3.7%, -0.2 bps; 2019 3.7, -0.2 bps). Apart from a downward revision in its EM growth forecast, the IMF also intensified the expected growth moderation in 2019, in the US (to 2.5, -0.2) and China (to 6.2%; -0.2p), and revised Germany's growth downwards for 2018 (to 1.9 -0.3p) and 2019 (to 1.9 -0.2p) (see.)
- **Pressure on EM FX has continued, albeit less so on those most penalized in recent months.** In

particular, the Brazilian real, the Argentinian peso and the Turkish lira have appreciated during the week.

- **In Brazil, the victory of the right-wing candidate Bolsonaro** in the first round of the presidential elections (to face left-wing candidate Haddad in the second round) led to a short-term rally in Brazilian assets, which lost some ground however at the end of the week.

Table 1

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Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.85	0.6	-2.0	10	93
US	3.16	0.4	-2.0	10	70
GER (2-yr)	0.54	-1.5	-2.2	0	7
Germany	0.52	-1.5	-1.4	9	-1
France	0.88	-2.2	0.6	14	6
Spain	1.64	2.8	7.8	17	-3
Italy	3.56	5.8	23.5	62	147
Portugal	2.02	5.5	10.5	12	1
Greece	4.50	2.7	0.0	41	39
Japan (2-yr)	0.12	-0.2	-1.1	-1	2
Japan	0.15	-1.0	-1.3	3	10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.66	2.4	3.35	160	61
China	4.55	0.3	0.1	5	4
Colombia	7.01	3.1	4.3	6	57
Mexico	8.15	-1.7	13.3	7	57
Peru	5.35	1.1	0.7	16	48
Poland	3.27	-5.5	-4.4	0	-4
Russia	9.02	3.9	19.3	-4	139
Turkey	19.15	0.0	-36.0	-31	779
India	7.99	-4.5	-17.1	-19	60
Indonesia	8.21	16.1	25.0	13	241
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	36	1.3	2.0	6	6
Italy	305	9.3	24.9	53	147
Portugal	150	9.0	11.9	4	1
Spain	112	6.3	9.2	9	-3
2-yr sovereign spread vs Germany					
France	18	0.0	-1.1	2	1
Italy	202	9.3	30.6	71	166
Portugal	44	1.6	2.0	2	6
Spain	40	2.5	5.2	11	13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	231	12.1	-11	-48	70
China	48	1.7	6	-10	-1
Colombia	124	5.5	16	8	19
Argentina	652	26.6	71	-85	414
Mexico	123	4.8	16	-1	16
Peru	81	2.7	9	-4	9
Poland	65	-1.5	-2	1	-16
Russia	156	2.4	20	-24	38
Turkey	416	-2.0	17	-107	251
China	65	0.5	8	6	14
India	110	0.2	6	10	-11
Indonesia	146	0.6	14	3	61
Risk indicators					
Volatility indicators (change in pps)					
VIX	24	0.7	9	10	14
VSTOXX	21	2.8	5	5	8
EM EFT volatility index	28	0.7	4	6	11
Dobrienski volatility	7	-0.2	0	0	1
EM FX volatility index	11	0.1	0	-2	3
Credit spread (BAA) (change in bp)	192	0.4	8	2	14
US bonds volatility index	56	2.3	1	8	27
Inflation expectations (%)					
US Inflation expectations (5YSY)	2.40	-	-2	0	9
EZ Inflation expectations (5YSY)	1.68	-	-2	-2	-6
Banking (5y CDS (bps) *)					
US	53	1.7	5	2	11
EZ	97	0.0	7	14	58
UK	65	-3.9	-4	8	25
Large Spanish	78	0.8	5	9	43
Medium Spanish	95	0.5	5	4	20
Corporate 5y CDS (bps) *					
US Non-financial	162	1.7	7	2	11
EZ Non-financial	80	0.0	7	14	58
UK Non-financial	102	0.1	1	3	9
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
ONIA Index	-0.37	0	0	0	0
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.16	0	0	1	3
Libor 3m	2.43	0	2	4	-3
Libor 12m	2.97	1	4	11	86
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main Indices					
S&P500	2,757	-1.0	-5.0	-4.5	2
Dow Jones	25,416	-0.7	-4.6	-2.1	2
Nikkei	22,591	-3.9	-5.9	-0.3	-1
FTSE 100	7,007	-1.9	-5.5	-3.7	-8
EuroStoxx 50	3,213	-1.6	-4.8	-3.0	-8
IBEX	9,018	-1.6	-3.2	-2.9	-11
DAX	11,553	-1.4	-5.6	-3.5	-10
CAC	5,113	-1.8	-5.5	-3.2	-3
MIB	19,369	-1.8	-6.0	-7.1	-11
ASE Athens	627	-0.2	-7.3	-9.4	-23
MSCI Latam *	87,851	-2.0	-0.8	4.6	2
Bovespa (Brazil)	83,118	-0.7	0.2	11.3	7
Mercol (Mexico)	47,667	-1.0	2.1	-2.5	5
Merval (Argentina)	27,816	-2.6	-10.1	-4.6	-11
MSCI EM Europe *	5,354	-1.5	-3.6	1.3	-1
Poland	21,160	-1.7	5.1	3.9	-2
Mircx 10 (Russia)	4,245	-1.6	-4.2	0.7	3
Ise 100 (Turkey)	94,748	0.3	0.3	2.6	-19
MSCI EM Asia *	815	-0.6	-4.9	-4.4	-12
Shanghai Com (China)	2,583	-5.2	-8.4	-3.1	-23
Jakarta (Indonesia)	5,703	-1.6	-2.8	-2.2	-10
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	137.5	-1.3	-5.5	-5.3	-8
Citi	109.4	-1.8	-5.1	-4.4	1
Chf	69.4	-0.8	-4.4	0.0	-7
BoA	28.8	-1.5	-5.3	-6.6	-4
MS	43.8	-1.8	-7.3	-6.4	-16
GS	213.8	-0.5	-6.0	-7.1	-16
EZ banks					
BNP	84.3	-1.8	-3.6	-3.0	-23
Crédit Agricole	50.3	-2.4	-3.9	-0.7	-19
Deutsche Bank	12.3	-2.0	-3.3	0.8	-12
ING	9.5	-1.3	-3.0	-1.7	-41
ING	10.8	-1.3	-2.4	-1.6	-29
Intesa	2.0	-2.4	-6.0	-12.6	-36
SG	36.1	-1.5	-2.4	1.5	-16
Unicredit	12.0	-1.5	-5.0	-10.5	-24
UK banks					
RBS	77.7	-2.6	-3.8	-2.7	-16
HSBC	629.9	-3.6	-6.1	-3.2	-18
Barclays	244.2	-1.9	-2.0	-0.9	-12
Lloyds	167.8	-2.3	-3.8	-4.0	-17
Large Spanish banks	57.9	-2.1	-1.8	-2.3	-15
Santander	64.6	-1.2	-1.1	1.0	-24
BBVA	4.3	-2.3	-2.0	0.5	-22
Median Spanish banks	5.3	-0.2	-0.3	1.4	-25
CaixaBank	69.1	-1.6	-2.5	-1.6	-10
Sabadell	3.9	-1.0	-1.5	-3.9	-3
Bankinter	1.3	0.9	-1.4	-4.5	-24
Bankia	8.0	-1.3	-2.9	2.8	0
Bankia	3.2	-3.5	-4.7	-3.3	-20
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,157	0.4	0.4	0.4	-4
GBPUSD	1,32	0.0	1.4	1.3	-3
USDJPY	112.23	0.0	1.5	0.5	0
DXF	95.27	-0.3	0.5	0.0	4
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	36.96	0.7	3.7	2.7	-50
USDBRL (Brazil)	3.76	-0.7	3.0	10.4	-3
USDCJP (China)	683.88	0.3	-1.2	1.9	-11
USDCOP (Colombia)	3094	0.0	-1.9	0.3	-5
USDMXN (Mexico)	19.03	0.7	0.4	0.8	-3
USDRIN (Peru)	3.33	0.1	0.0	0.3	-3
LACI	55.89	0.2	1.1	3.8	-12
USDPLN (Poland)	3.73	0.4	0.4	-0.6	-7
USD RUB (Russia)	66.33	0.8	0.5	4.6	-13
USDTRY (Turkey)	6.00	1.3	2.8	7.2	-37
USD CNY (China)	6.89	0.5	-0.3	-0.2	-6
USDINR (India)	74.13	0.1	-0.7	-1.9	-14
USDIDR (Indonesia)	15,235	-0.2	-0.4	-2.5	-11
ADXY	104.0	0.5	0.0	-0.6	-6
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	80.9	-2.6	-4.3	2	22
WTX	71	-2.5	-4.0	3	18
Copper	279	0.8	0.9	7	-14
Gold	1221	2.2	1.7	2	-7
S&P Spot commodity *	488	-1.6	-1.4	5	10
S&P Brent Spot *	704	-2.3	-2.4	5	24
S&P Metal Spot *	343	-1.0	-2.6	5	-13
S&P Agricultural *	285	-0.7	0.1	1	0

* With one day delay

Fuente: BBVA Research

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Italy	3.56	5.0	23.5	62	147	
Portugal	2.02	5.5	10.5	12	1	
Greece	4.50	2.7	0.0	41	39	
Japan (2-yr)	-0.72	-0.2	-1.1	-1	2	
Japan	0.15	-1.0	-1.3	3	10	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	10.86	2.4	-33.6	-160	61	
Chile	4.55	0.3	0.1	5	4	
Colombia	7.01	3.1	4.3	6	57	
Mexico	8.15	-1.7	13.8	7	57	
Peru	5.35	1.1	0.7	16	48	
Poland	3.27	-5.5	-4.4	0	-4	
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VSTOXX	21	2.8	5	5	8	
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Dollar Euro volatility	7	-0.2	0	0	1	
EM FX volatility Index	11	0.1	0	-2	3	
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US Inflation expectations (5Y5Y)	2.40	-	-2	0	9	
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Banking CDS (bps)						
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EZ	97	0.0	7	14	58	
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Interbank markets (% changes in bp)						
level	Daily	Weekly	Monthly	YTD		
EOIA Index	0.37	0	0	0	0	
Euribor 3m	-0.32	0	0	0	1	
Euribor 12m	-0.16	0	0	1	3	
Libor 3m	2.43	0	2	9	73	
Libor 12m	2.97	1	4	11	86	
Stock markets (%)						
level	Daily	Weekly	Monthly	YTD		
Main indices						
S&P500	2,757	-1.0	-5.0	-4.5	2	
Dow Jones	25,416	-0.7	-4.6	-2.1	2	
Nikkei	22,551	-3.9	-5.8	0.3	-1	
FTSE 100	7,007	-1.9	-5.5	-3.7	8	
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Merval (Mexico)	47,667	-1.0	-2.1	2.5	-5	
Merval (Argentina)	27,816	-2.6	-10.1	-4.6	-11	
MSCI EM Europe *	5,354	-1.5	-3.6	1.3	-1	
Poland	2,160	-1.7	-6.1	3.9	-12	
Moor 10 (Russia)	4,245	-1.6	-4.2	0.7	3	
Ise 100 (Turkey)	94,748	0.3	0.3	2.6	-19	
MSCI EM Asia *	815	-0.6	-4.9	-4.4	-12	
Shanghai Com (China)	2,583	-5.2	-4.4	-3.1	-23	
Jakarta (Indonesia)	5,703	-1.6	-2.8	-2.2	-10	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	137.5	-1.3	-5.5	-5.3	-8	
JPM	109.4	-1.8	-5.1	-4.4	1	
Citi	69.4	-0.8	-4.4	0.0	-7	
BoA	28.8	-1.5	-5.3	-6.6	-4	
MS	43.6	-1.8	-7.3	6.4	-16	
GS	213.8	-0.5	-6.0	-7.1	-16	
EZ banks	84.3	-1.8	-3.6	-3.0	-23	
BNP	50.2	-2.4	-3.9	-0.7	-19	
Crédit Agricole	12.3	-2.0	-3.3	0.8	-12	
Deutsche Bank	9.5	-1.3	-3.0	-1.7	-41	
ING	10.8	-1.3	-2.4	-1.6	-29	
Intesa	2.0	-2.4	-6.0	-12.6	-26	
SG	36.1	-1.5	-2.4	1.5	-16	
Unicredit	12.0	-1.5	-5.0	-10.5	-24	
UK banks	77.7	-2.6	-3.8	-2.7	-16	
HSC	629.9	-3.6	-6.1	-3.2	-18	
RBS	244.2	-1.9	-2.0	-0.9	-12	
Barclays	167.8	-2.3	-3.8	-4.9	-17	
Lloyds	57.9	-2.1	-1.8	-2.3	-15	
Large Spanish banks	64.6	-1.2	-1.1	1.0	-24	
Santander	4.3	-2.3	-2.0	0.5	-22	
BBVA	5.3	-0.2	-0.3	1.4	-25	
Medium Spanish banks	69.1	-1.6	-2.5	-1.6	-10	
Cajabank	3.9	-1.0	-1.5	-3.9	-3	
Sabadell	1.3	-0.9	-1.4	-4.5	-24	
Bankinter	8.0	-1.3	-2.9	2.8	0	
Banque	3.2	-3.5	-4.7	-3.3	-20	
Currencies (% not for currency depreciation)						
level	Daily	Weekly	Monthly	YTD		
Developed						
EURUSD	1,157	0.4	0.4	-0.4	-4	
GBPUSD	1,32	0.0	1.4	1.3	-3	
USDJPY	112.23	0.0	1.5	0.5	0	
DXF	95.27	-0.3	-0.5	0.0	4	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	36.96	0.7	3.7	2.7	-50	
USD BRL (Brazil)	3.76	-0.1	0.0	10.4	-13	
USDCLP (Chile)	683.88	0.3	-1.2	1.9	-11	
USDCOP (Colombia)	3094	0.0	-1.9	-0.3	-5	
USD MXN (Mexico)	19.03	0.7	0.4	0.8	3	
USD PEN (Peru)	3.33	0.1	0.0	0.3	-2	
LACI	55.89	0.2	1.1	3.8	-12	
USD PLN (Poland)	3.73	0.4	0.4	-0.6	-7	
USD RUB (Russia)	66.33	0.8	0.9	4.6	-13	
USD TRY (Turkey)	6.00	1.3	2.8	7.2	-37	
USD CNY (China)	6.89	0.5	-0.3	-0.2	-6	
USD INR (India)	74.13	0.1	-0.7	-1.9	-14	
USD IDR (Indonesia)	15,235	-0.2	-0.4	-2.5	-11	
ADXY	104.0	0.5	0.0	0.6	-6	
Commodities (%)						
level	Daily	Weekly	Monthly	YTD		
Brent	80.9	-2.6	-4.3	2	22	
WTI	71	2.5	-4.0	3	18	
Copper	279	0.0	0.9	7	-14	
Gold	1221	2.2	1.7	2	-7	
S&P Spot commodity *	488	-1.6	-1.4	5	10	
S&P Brent Spot *	704	-2.3	-2.2	5	24	
S&P Metals Spot *	343	-1.0	-2.6	5	-13	
S&P Agricultural *	285	-0.7	0.1	1	0	

* With one day delay

Fuente: BBVA Research

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