

# Market Comment | Italy's 2019 budget and the FOMC minutes drove markets this week

Global Financial Markets Unit  
19 Oct 2018

- **Peripheral risk premia widened across the board after fresh news from the European Commission on the issue of Italy's 2019 budget**([see](#)). The Italian risk premium suffered the most during the week and Italy's 10Y yield reached 3.58%, with its sovereign risk premium well above 310 bps. Today Italy's risk premium went down after Moscovici said he wants to reduce the tensions ([see](#)). In this context, the volatility in Italian assets is expected to continue amid increasing flow of news next week.
- **The main difference from other recent spikes in Italian yields was that other peripheral premiums also rose** abruptly this week (+13 bps for Spain's risk premium and +6 bps for Portugal's, offset partially by the credit rating upgrade by Moody's ([see](#)) last Friday).
- In this context, other European assets also remained under heavy pressure: **German yields fell below their 0.5% threshold ahead of next week's ECB meeting**, while the EUR dropped to 1.14 against the USD.
- **The release of September FOMC minutes**, which reaffirmed its commitment to further policy normalization and a potential willingness to overshoot neutral levels of interest rates, **boosted the US 10Y Treasury yield and the US Dollar**. However, recent volatility in markets triggered a defensive movement, and the UST 10Y yield inched down, although it remained stable during the week, hovering around the 3.20% level.
- **The escalation of tensions both in Europe and on the trade front prevented equity indices from recovering from last week's falls**. In fact, most of them remained almost flat. The Italian indices (due to the above-mentioned issue) and the Spanish indices dragged down by volatility in the financial sector, which were the worst performers this week.
- **Uncertainty about a Brexit deal continued to weigh**, as the UK failed to reach agreement with the EU during this week's Brexit summit. Against this backdrop, the **GBP resumed its downward path and depreciated further** against its main peers ([see](#)).
- **Most LatAm currencies appreciated during the week despite the recent worsening of global funding conditions**. However concerns shown by Banxico about inflation dragged down the MXN ([see](#)), while other countries' currencies were not hit by volatility in commodity prices during the week. **The BRL outperformed this week and appreciated ahead of the second round of presidential elections later this month**. Crude oil prices remained unchanged despite of higher-than-expected US stockpiles data ([see](#)).
- **The Turkish lira outperformed other EM currencies** during the week: it continued to digest the

decreased chances of new sanctions from the US after the release of Brunson ([see](#)).

- **Chinese assets continued under pressure amid trade tensions with the US.** In this context, the Shanghai equity index sharply underperformed other Asian equity markets (around -2%) and the CNY ended the week slightly depreciated after the US Treasury's refraining from labelling China as a currency manipulator ([see](#)).

Table 1

Update 16:40 CET October 19

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.99	1.3	3.4	1.0	97
US	3.19	1.2	2.9	1.3	73
GER (2-yr)	0.61	0.0	-4.8	8	0
Germany	0.43	1.3	-6.9	6	-9
France	0.82	2.2	-4.8	2	0
Spain	1.74	1.2	6.4	21	7
Italy	3.58	-10.3	0.6	73	149
Portugal	2.04	0.5	-0.7	14	3
Greece	4.38	-5.5	2.8	27	27
Japan (2-yr)	-0.12	-0.1	-0.3	-2	-2
Japan	0.15	-0.3	-0.1	3	10
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.36	-9.3	-47.0	-177	10
China	4.63	-0.5	7.5	13	12
Colombia	7.04	-1.0	-3.2	13	60
Mexico	8.17	3.0	5.5	13	60
Peru	5.37	-0.1	1.8	16	59
Poland	3.26	5.4	2.0	4	-5
Russia	8.67	-4.4	-23.7	-17	103
Turkey	17.64	43.0	-29.0	9	68
India	7.92	1.3	-6.1	-15	54
Indonesia	8.65	8.2	-9.8	40	237
Country risk (bp change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	29	0.9	2.1	0	9
Italy	315	-11.6	7.5	79	158
Portugal	161	-0.8	6.2	20	12
Spain	131	-0.1	13.3	27	16
<b>5-yr sovereign spread vs Germany</b>					
France	21	2.1	2.1	4	5
Italy	195	-18.5	-9.7	69	159
Portugal	54	2.2	7.4	11	5
Spain	54	4.8	10.2	21	27
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
<b>5-yr sovereign CDS*</b>					
Brazil	216	7.4	-11	-62	55
China	49	3.4	1	3	0
Colombia	125	6.7	3	20	20
Argentina	632	18.8	-9	-10	394
Mexico	127	9.3	5	21	21
Peru	81	3.6	0	6	9
Poland	67	0.0	0	5	18
Russia	153	4.7	-6	-4	35
Turkey	388	5.9	-12	-50	224
China	67	2.0	0	11	17
India	110	-0.1	0	11	41
Indonesia	140	3.6	-3	13	61
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
<b>Volatility indicators (change in ppt)</b>					
VIX	19	-1.3	-3	7	9
VIX DXX	19	0.8	-1	5	6
EM FT volatility Index	25	-2.7	-1	5	8
Dollar/euro volatility	7	-0.2	0	0	0
EM FX volatility Index	10	0.3	-1	-2	2
Credit spread (BAA) (change in bps)	188	-1.2	1	-2	10
US bonds volatility index	53	3.6	-2	4	3
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
<b>US inflation expectations (5YSY)</b>					
US	2.49	-	-	-	8
<b>EZ inflation expectations (5YSY)</b>					
level	1.68	-	-1	-1	6
Banking Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US	57	1.6	2	10	15
EZ	104	4.4	2	26	65
UK	69	2.6	1	15	28
Large Spanish	80	4.8	-2	17	44
Medium Spanish	96	-0.4	2	13	21
Corporate Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	165	1.6	2	10	15
EZ Non-financial	92	4.4	2	26	65
UK Non-financial	103	1.3	0	6	10
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
<b>ONIA Index</b>					
ONIA Index	-0.37	0	0	-1	0
<b>Euribor 3m</b>					
Euribor 3m	-0.32	0	0	0	1
<b>Euribor 12m</b>					
Euribor 12m	-0.15	0	0	1	3
<b>Libor 3m</b>					
Libor 3m	2.45	0	1	11	76
<b>Libor 12m</b>					
Libor 12m	2.97	0	1	9	86
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Main indices</b>					
S&P500	2,790	0.8	0.8	-4.0	4
Dow Jones	25,543	0.6	0.8	-3.3	3
Nikkei	22,532	-0.6	-0.7	-4.8	-1
FTSE 100	7,054	0.4	0.8	-3.8	8
EuroStoxx 50	3,211	0.0	0.5	-4.7	8
IBEX	8,899	0.1	0.0	-6.2	-12
DAX	11,548	-0.4	0.2	-5.5	-10
CAC	5,086	-0.6	-0.2	-5.7	-4
IBV	19,063	0.0	-0.9	-10.3	-13
ASE Athens	625	-1.1	-0.6	-9.4	-24
MSCI Latam*	87,242	-2.0	0.3	1.6	2
Ibovespa (Brazil)	64,404	0.7	1.8	8.0	8
MOEX (Moscow)	47,402	0.8	-0.1	-4.4	-5
Merval (Argentina)	28,831	1.6	-2.6	-12.9	-7
MSCI EM Europe*	5,313	-1.3	1.0	1.0	-1
Poland	2,195	0.3	0.4	-2.9	-11
Micex 10 (Russia)	4,229	-0.7	-1.2	-4.0	3
ISEQ 100 (Turkey)	95,641	-0.8	0.0	0.0	-18
MSCI EM Asia*	795	-0.8	1.3	-6.9	-14
Shanghai Com (China)	2,550	2.6	-2.2	-6.6	-24
Jakarta (Indonesia)	5,827	-0.5	-1.4	-0.4	-6
Banking sector					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
JPM	139.3	0.6	2.2	-6.6	6
WFC	108.8	0.7	1.8	-7.5	1
Citi	69.0	0.6	-1.2	-6.4	-7
BofA	28.3	0.2	-0.5	-8.6	-5
MS	46.4	0.7	6.8	-5.6	-11
GS	226.9	0.9	6.1	3.7	11
<b>EZ banks</b>					
BNP	48.7	-1.0	-2.4	-8.0	-22
Credit Agricole	11.9	-2.4	-2.7	-6.8	-15
Deutsche Bank	9.5	-1.1	1.1	-7.1	-40
ING	10.5	-0.6	-2.6	-6.1	-31
Intesa	2.0	0.4	-1.9	-18.2	-28
SG	34.3	-1.6	-3.7	-7.6	-20
Unicredit	11.5	-1.4	-3.7	-17.5	-27
<b>UK banks</b>					
HSBC	75.9	-0.4	-1.9	-5.5	-18
RBS	621.3	0.5	-1.2	-6.2	-19
Lloyds	235.8	-0.7	-3.4	-8.2	-15
Barclays	163.9	0.6	-0.6	-5.3	-19
<b>Large Spanish banks</b>					
Santander	63.2	0.4	-1.6	-7.3	-25
BBVA	4.1	-0.1	-2.1	-1.6	24
<b>Medium Spanish banks</b>					
Casasnovas	5.2	0.9	-1.2	-7.0	-27
Sabadell	64.5	0.6	-5.5	-12.7	-16
CaixaBank	3.7	0.9	-4.3	-12.4	-8
Santander	1.2	-0.3	-7.6	-18.5	-30
Bankinter	7.4	0.7	-5.7	-8.8	-7
Banque	3.0	0.0	-3.3	-15.2	-26
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>					
EURUSD	1,148	0.2	-0.7	-1.6	5
<b>GBPUSD</b>					
GBPUSD	1,30	0.2	-0.9	-0.6	4
<b>USDJPY</b>					
USDJPY	112.50	-0.3	-0.3	-0.2	0
DX	95.85	-0.1	0.7	1.4	4
Emerging					
level	Daily	Weekly	Monthly	YTD	
<b>USDARS (Argentina)</b>					
USDARS (Argentina)	36.66	-0.2	0.1	7.2	-50
<b>USDBRL (Brazil)</b>					
USDBRL (Brazil)	3.71	0.4	1.9	11.3	-12
<b>USDCLP (Chile)</b>					
USDCLP (Chile)	677.44	0.0	0.3	0.3	-10
<b>USDCOP (Colombia)</b>					
USDCOP (Colombia)	3981	0.4	0.5	1.7	5
<b>USDMXN (Mexico)</b>					
USDMXN (Mexico)	19.15	0.0	-1.5	-2.0	2
<b>USDPEN (Peru)</b>					
USDPEN (Peru)	3.35	0.2	0.2	-0.8	3
<b>LKCI</b>					
LKCI	56.14	0.1	-0.2	3.4	-12
<b>USDPLN (Poland)</b>					
USDPLN (Poland)	3.74	0.4	0.7	-1.9	8
<b>USD RUB (Russia)</b>					
USD RUB (Russia)	65.54	0.4	0.8	1.8	-12
<b>USDTRY (Turkey)</b>					
USDTRY (Turkey)	5.66	-0.5	3.7	10.3	-34
<b>USD CNY (China)</b>					
USD CNY (China)	6.93	0.1	-0.1	-1.2	-6
<b>USDINR (India)</b>					
USDINR (India)	73.33	0.4	0.3	-1.3	-13
<b>USDIDR (Indonesia)</b>					
USDIDR (Indonesia)	15.187	0.1	0.1	-2.1	-11
ADXY	103.9	0.3	0.1	-0.9	6
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>					
Brent	80.6	1.6	0.2	1	21
WTX	70	1.4	-2.4	-2	15
Copper	277	1.2	-0.8	2	-15
Gold	1227	0.1	0.8	2	-7
S&P Spot commodity *	473	-1.1	-1.6	0	7
S&P Brent Spot *	670	-1.1	-1.6	0	18
S&P Metal Spot *	342	-0.6	-1.4	2	-13
S&P Agricultural *	292	-0.9	0.2	5	3

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

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Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.69	1.3	3.4	10	27
US	3.19	1.2	2.9	13	73
GER (2-yr)	-0.61	0.8	-4.8	-8	0
Germany	0.43	1.3	-6.9	-6	-9
France	0.82	2.2	-4.8	2	0
Spain	1.74	1.2	6.4	21	7
Italy	3.58	-10.3	0.6	73	149
Portugal	2.04	0.5	-0.7	14	3
Greece	4.38	9.5	-2.8	27	27
Japan (2-yr)	-0.12	-0.1	-0.3	-2	2
Japan	0.15	-0.3	-0.1	3	10
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.36	9.3	47.0	-177	10
Chile	4.63	-0.5	7.5	13	12
Colombia	7.04	-1.0	-3.2	13	60
Mexico	8.17	3.0	5.5	13	60
Peru	5.37	-0.1	1.8	16	50
Poland	3.26	5.4	2.0	4	-5
Russia	8.67	-4.4	-23.7	-17	103
Turkey	12.94	43.0	29.0	9	658
India	7.92	1.3	-6.1	-15	54
Indonesia	8.86	8.2	-9.8	40	237
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	-39	0.9	2.1	8	9
Italy	315	-11.6	7.5	79	158
Portugal	161	-0.8	6.2	20	12
Spain	131	-0.1	13.3	27	16
<b>2-yr sovereign spread vs Germany</b>					
France	21	2.1	2.1	4	5
Italy	195	-18.5	-8.7	69	159
Portugal	54	2.2	7.4	11	5
Spain	54	4.8	10.2	21	27
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
<b>5-yr sovereign CDS *</b>					
Brazil	216	7.4	-11	-62	55
Chile	49	3.4	1	3	0
Colombia	115	8.7	3	20	20
Argentina	632	18.8	-9	-10	394
Mexico	127	9.3	5	21	21
Peru	81	3.6	0	6	9
Poland	67	0.0	0	5	18
Russia	153	4.7	-6	-4	35
Turkey	388	5.9	-12	-50	224
China	67	2.0	0	11	17
India	110	-0.1	0	11	41
Indonesia	146	3.6	-3	13	61
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	19	-1.3	-3	7	9
VST OAX	19	0.8	-1	5	6
EM EFT volatility Index	25	-2.7	-1	5	9
Dollar/euro volatility	7	-0.2	0	0	0
EM FX volatility index	10	0.3	-1	-2	2
Credit stress (BAA) (change in bps)	188	-1.2	1	-2	10
US bonds volatility index	53	3.6	-2	4	3
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
<b>US Inflation expectations (5Y)</b>					
US	2.40	-	-1	-5	-
<b>EZ Inflation expectations (5Y)</b>					
EZ	1.68	-	-1	-1	-6
Banking by CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
<b>US</b>					
US	57	1.6	2	10	15
EZ	104	4.4	2	26	65
UK	69	2.6	1	15	28
Large Spanish	60	4.8	-2	17	44
Medium Spanish	96	-0.4	2	13	21
<b>Corporate by CDS (bps) *</b>					
level	Daily	Weekly	Monthly	YTD	
<b>US Non-financial</b>					
US Non-financial	165	1.6	2	10	15
EZ Non-financial	82	4.4	2	26	65
UK Non-financial	103	1.3	0	6	10
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
<b>EONIA Index</b>					
EONIA Index	-0.37	0	0	-1	0
<b>Euribor 3m</b>					
Euribor 3m	-0.32	0	0	0	1
<b>Euribor 12m</b>					
Euribor 12m	-0.15	0	0	1	3
<b>Libor 3m</b>					
Libor 3m	2.46	0	1	11	76
<b>Libor 12m</b>					
Libor 12m	2.97	0	1	9	86
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,790	0.8	0.8	-4.0	-4
Dow Jones	25,943	0.6	0.6	-3.3	-3
Nikkei	22,532	0.6	0.7	-4.8	-1
FTSE 100	7,954	0.4	0.8	-3.8	-8
Euro Stoxx 50	3,211	0.0	0.5	-4.7	-8
IBEX	8,899	0.1	0.0	-6.2	-12
DAX	11,548	-0.4	0.2	-5.5	-10
CAC	5,986	-0.6	-0.2	-3.7	-4
MI8	19,083	0.0	-0.9	-10.3	-13
ASE Athens *	625	-1.1	0.6	-9.4	-24
MSCI Latin *	87,242	-2.0	0.3	1.6	2
Ibovespa (Brazil)	84,424	0.7	1.8	8.0	8
Imbol (Mexico)	47,402	0.8	-0.1	-4.4	-5
Mercol (Argentina)	28,831	1.6	-2.6	-12.9	-7
MSCI EM Europe *	5,313	1.3	1.0	-1.0	-1
Poland	2,195	0.3	0.4	-2.9	-11
Mosx 10 (Russia)	4,229	-0.7	-1.2	-4.0	-3
Isx 100 (Turkey)	96,641	0.8	0.0	-0.0	-18
MSCI EM Asia *	795	-0.8	1.3	-6.9	-14
Shanghai Com (China)	2,550	2.6	-2.2	6.6	-24
Jakarta (Indonesia)	5,837	0.5	2.4	0.4	-9
Banking sector					
level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>					
JPM	139.3	0.6	2.2	-6.6	-6
WFC	108.8	0.7	1.8	-7.5	-1
CS	69.0	0.6	-1.2	-6.4	-7
BoA	28.3	0.2	0.5	-8.6	-5
MS	46.4	0.7	6.8	-5.6	-11
GS	226.0	0.9	6.1	-3.7	-11
<b>EZ banks</b>					
BNP	81.7	-1.2	-2.5	-9.7	-25
BNP	48.7	-1.0	-2.4	-8.0	-22
Credit Agricole	11.8	-2.4	-2.7	-6.8	-15
Deutsche Bank	9.5	-1.1	1.1	-7.1	-40
ING	10.5	-0.6	-2.6	-6.1	-31
Intesa	2.0	0.4	-1.0	-18.2	-28
SG	34.3	-1.6	-3.7	-7.6	-20
Unicredit	11.5	-1.4	3.7	-17.5	-27
<b>UK banks</b>					
HSBC	75.9	0.4	-1.9	-6.5	-18
HSBC	621.3	0.5	-1.2	-6.2	-19
RES	235.8	-0.7	-3.4	-8.2	-15
Barclays	163.9	0.6	0.6	5.3	-19
Lloyds	56.4	-1.0	-3.0	-6.8	-17
<b>Large Spanish banks</b>					
Santander	63.2	0.4	-1.6	-7.3	-25
Santander	4.1	0.1	2.1	-7.6	-24
<b>BBVA</b>					
BBVA	5.2	0.9	-1.2	-7.0	-27
<b>Medium Spanish banks</b>					
Cajabank	64.5	0.6	-5.5	-12.7	-16
Cajabank	3.7	0.9	-4.3	-12.4	-8
Sabadell	1.2	-0.3	-7.6	-18.5	-30
Bankinter	7.4	0.7	-5.7	-8.8	-7
Bankia	3.0	0.8	-5.3	-15.2	-26
Currencies (% rd for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>					
EURUSD	1.148	0.2	0.7	-1.6	-5
<b>GBPUSD</b>					
GBPUSD	1.30	0.2	0.9	-0.8	-4
<b>USDJPY</b>					
USDJPY	112.50	-0.3	-0.3	-0.2	0
<b>DX1</b>					
DX1	95.85	0.1	0.7	1.4	-4
Emerging					
level	Daily	Weekly	Monthly	YTD	
<b>USDARS (Argentina)</b>					
USDARS (Argentina)	36.66	0.2	0.1	7.2	50
<b>USDBRL (Brazil)</b>					
USDBRL (Brazil)	3.71	0.4	1.9	11.3	-12
<b>USDCLP (Chile)</b>					
USDCLP (Chile)	67.44	0.0	0.3	0.3	-10
<b>USDCOP (Colombia)</b>					
USDCOP (Colombia)	3981	0.4	0.5	-1.7	-5
<b>USDMXN (Mexico)</b>					
USDMXN (Mexico)	19.15	0.0	-1.5	-2.0	2
<b>USDPEN (Peru)</b>					
USDPEN (Peru)	3.33	0.2	0.2	-0.8	-3
<b>USDRPL (Poland)</b>					
USDRPL (Poland)	56.14	0.1	-0.2	3.4	-12
<b>USDPLN (Poland)</b>					
USDPLN (Poland)	3.74	0.4	0.7	-1.9	-8
<b>USD RUB (Russia)</b>					
USD RUB (Russia)	65.54	0.4	0.8	1.8	-12
<b>USDTRY (Turkey)</b>					
USDTRY (Turkey)	5.66	0.6	3.7	10.3	-24
<b>USDCNY (China)</b>					
USDCNY (China)	6.93	0.1	-0.1	-1.2	-6
<b>USDINR (India)</b>					
USDINR (India)	73.33	0.4	0.3	-1.3	-13
<b>USDIDR (Indonesia)</b>					
USDIDR (Indonesia)	15.187	0.1	0.1	2.1	-11
<b>ADXY</b>					
ADXY	103.9	0.3	0.1	-0.9	-6
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>					
Brent	80.6	1.6	0.2	1	21
<b>WTX</b>					
WTX	70	1.4	-2.4	-2	15
<b>Copper</b>					
Copper	277	1.2	-0.8	2	-15
<b>Gold</b>					
Gold	1227	0.1	0.8	2	-7
<b>S&amp;P Spot commodity *</b>					
S&P Spot commodity *	473	-1.1	-1.6	0	7
<b>S&amp;P Brent Spot *</b>					
S&P Brent Spot *	670	-1.1	-1.6	0	18
<b>S&amp;P Metals Spot *</b>					
S&P Metals Spot *	342	-0.6	-1.4	2	-13
<b>S&amp;P Agricultural *</b>					
S&P Agricultural *	292	-0.9	0.2	5	3

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

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