

# Market Comment | Cautious tone remains in an eventful week. ECB meeting preview

Global Financial Markets Unit  
22 Oct 2018

- **Cautious sentiment in financial markets despite support signals from the Chinese authorities and the latest developments on Italy's budget.** Moreover, **an eventful week will come:** the ECB, Turkey's and Colombia's Central Bank meetings (we do not expect any change in any of them), while investors' focus will remain on Brexit talks and the S&P sovereign credit rating for Italy at the end of this week.
- **Core yields remained broadly steady:** the UST 10Y yield continued close to the 3.20% level, while the 10Y Bund yield inched up but still remained below 0.50% ahead of **next Thursday's ECB meeting in which markets do not expect any change** (see ECB preview below).
- **Very high volatility in Italy's sovereign yields as the flow of news continued.** Italy's risk premium narrowed to less than 310 bps from its recent high of around 370 bps, despite Friday's downgrade of Italy's credit rating by Moody's. As Italy retains a stable outlook, the odds on its losing the investment grade in the short term seem to have diminished according to market reaction (see). **Today's response from Italy, rejecting the EU's demands and sticking to its budget proposal** caused a new spike, but it stayed well below its recent highest level (see). Portugal and Spain also benefited from the narrowing of Italy's risk premium.
- **Chinese equity markets outperformed, favoured by the China's authorities commitment to helping its economy** in a context of trade tensions (see) despite an unexpected slowdown in China's economy (see). The sharp rebound of Chinese markets was not enough to boost developed equity indices, and both US and European decreased today.
- **The USD appreciated slightly against its main peers,** and the euro continued close to but below the 1.15 USD/EUR level. The GBP continued to suffer as Brexit negotiations remained in the spotlight. Meanwhile, EM FX markets were mixed: The COP and the MXN depreciated, the former ahead of its Central Bank meeting this Friday and the latter due to the cut in Pemex' rating outlook by Fitch (see). The TRY depreciated ahead of a central bank decision this Thursday. The BRL and ARS outperformed other Latam currencies today.
- **Crude prices remained hovering around \$80 per barrel** as cautious tone in this market remained due to potential US sanctions on Saudi Arabia.

## ECB Preview

The ECB is expected to leave monetary policy unchanged at its October meeting. It will confirm its expectation of ending QE by December and maintaining interest rates at their current level through

**the summer of 2019.**

The habitually cautious tone can be reinforced on the back of growing risk due to lingering concerns about protectionism, recent stock market correction and renewed bond sell-off in Italy. In this regard, we do not expect the strategy on QE to be altered at all.

On monetary policy, it should give some clues about how the reinvestment framework will be instrumented as the APP will end in December. While moving forward, the focus will turn to the pace at which interest rates will rise. So far, the ECB seems comfortable with market expectations.

Economic indicators over the last month and a half point to **the euro zone economy having broadly stabilised at lower levels** (0.4% QoQ) in the third quarter. **The decline in confidence seen in the early part of this year seems to have halted in recent months** and is consistent with still resilient but more moderate growth. In addition, hard data in August improved slightly, partly reversing previous falls, and suggest that **domestic demand should remain supportive**, while net exports could continue to weigh on growth. The **recent rise in oil prices could keep inflation at around 2% for the remainder of the year, but core inflation remains broadly stable at low levels**, despite incipient signs of inflationary pressures stemming from input prices and a tighter labour market. All in all, **incoming data so far are broadly in line with the ECB's macro view in September, but domestic uncertainty has intensified recently**, especially in Italy, with potential spillover to other peripherals, in addition to increasing protectionism and stress in emerging markets, **which could lead the ECB to reassess the balance of risks to the downside and reinforce its cautious mode going forward.**

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.90	-0.4	-4.5	10	98
US	3.19	-0.6	3.1	12	72
GER (2-yr)	0.59	-1.0	-2.4	-6	2
Germany	0.45	-1.3	-5.6	-2	-8
France	0.82	-2.0	-4.9	3	0
Spain	1.70	-4.0	-1.6	16	2
Italy	3.49	0.9	-5.4	61	140
Portugal	2.01	-0.7	1.1	13	0
Greece	4.33	-1.9	-5.6	26	23
Japan (2-yr)	0.11	0.2	0.1	-1	2
Japan	0.15	0.5	1.0	3	11
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.19	-13.4	-37.3	-186	6
China	4.59	-4.1	3.2	8	8
Colombia	7.04	0.3	3.2	15	60
Mexico	8.34	13.7	25.8	28	77
Peru	5.40	2.9	3.5	10	53
Poland	3.26	0.1	2.2	2	-5
Russia	8.60	-7.8	-17.0	-23	96
Turkey	19.28	34.0	48.0	10	692
India	7.93	0.8	0.7	-14	54
Indonesia	8.64	-2.1	-23.5	42	235
Country risk (bp change in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	37	-0.7	0.7	6	7
Italy	305	2.2	0.2	63	147
Portugal	157	0.6	6.7	15	8
Spain	125	-2.7	7.2	21	10
5-yr sovereign spread vs Germany					
France	20	-0.6	1.8	3	4
Italy	175	-1.6	-27.7	40	138
Portugal	50	-1.5	2.7	5	0
Spain	47	-4.8	3.5	16	20
Emerging Markets					
5-yr sovereign CDS*					
level	Daily	Weekly	Monthly	YTD	
Brazil	212	-3.3	-10	-63	52
China	49	0.2	2	4	0
Colombia	125	-0.4	4	20	20
Argentina	627	-4.8	13	21	389
Mexico	129	1.2	8	22	22
Peru	80	-0.7	0	7	8
Poland	67	0.0	0	4	18
Russia	152	-0.6	-1	1	34
Turkey	391	2.6	-6	-28	226
China	68	0.6	4	13	18
India	111	0.7	0	12	42
Indonesia	143	1.3	4	15	62
Risk indicators					
Volatility indicators (change in ppt)					
level	Daily	Weekly	Monthly	YTD	
VIX	20	0.1	-1	8	10
VSTOXX	19	0.6	0	6	6
EM VTI volatility index	26	-0.1	0	7	9
Dollar/euro volatility	7	0.1	0	0	0
EM FX volatility index	10	0.3	0	-2	2
Credit spread (BAA) (change in bps)	193	0.6	4	8	16
US bonds volatility index	52	-0.6	1	3	3
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5YSY)	2.39	-	-	-	-
EZ inflation expectations (5YSY)	1.68	-	0	-1	-6
Banking Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US	57	0.2	2	11	15
EZ	103	-1.2	0	25	64
UK	70	0.8	2	11	29
Large Spanish	80	-0.5	-2	17	44
Medium Spanish	94	-2.0	-1	5	19
Corporate Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	166	0.2	2	11	15
EZ Non-financial	94	-1.2	0	25	64
UK Non-financial	104	1.2	2	8	12
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	-0.15	0	1	2	4
Libor 3m	2.48	1	4	12	78
Libor 12m	3.02	2	6	13	91
Stock markets (%)					
Main indices					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,759	-0.3	0.3	-5.8	2
Dow Jones	25,273	-0.7	0.1	-5.2	2
Nikkei	22,615	0.4	1.5	-4.5	-1
FTSE 100	7,043	-0.1	0.2	-4.4	-8
EuroStoxx 50	3,190	-0.6	-0.6	-6.3	-9
BEX	8,807	-1.0	-1.3	-8.1	-13
DAX	11,524	-0.3	-0.8	-6.5	-10
CAC	9,053	-0.6	-0.8	-7.3	-4
IBEX	18,966	-0.6	-1.7	-11.3	-13
ASE Athens	627	0.3	-1.2	-8.0	-23
MSCI Latam*	87,644	0.5	0.8	-2.2	2
Bovespa (Brazil)	65,397	1.4	2.4	-3.3	10
Mercol (Mexico)	47,031	-0.9	-1.5	-5.0	-6
Merval (Argentina)	26,533	-0.5	-3.6	-17.3	-8
MSCI EM Europe*	5,280	0.6	1.1	-2.2	-2
Poland	2,193	-0.2	1.1	-2.9	-11
Micex 10 (Russia)	4,148	-1.7	-2.9	-5.7	-1
ISE 100 (Turkey)	94,682	-1.8	-0.0	-1.5	-19
MSCI EM Asia*	796	0.1	-1.3	-7.9	-14
Shanghai Com (China)	2,655	4.1	3.4	-2.7	-21
Jakarta (Indonesia)	5,840	-0.1	1.5	0.6	-8
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	136.7	-1.6	1.0	-9.2	8
JPM	106.9	-1.0	0.5	-9.9	-1
Cit	67.5	-2.0	-2.5	-9.8	9
BofA	27.8	-1.8	-0.4	-10.9	-7
MS	45.6	-1.8	4.9	-6.6	-13
GS	223.5	-1.5	3.8	-9.9	-13
EZ banks	80.9	-1.2	-3.2	-12.0	-26
BNP	48.3	-0.9	-2.4	-11.1	-22
Credit Agricole	11.9	-1.1	-2.9	-9.0	-16
Deutsche Bank	9.4	-1.1	-1.3	-9.4	-41
ING	10.4	-1.6	-3.8	-9.8	-32
Intesa	2.0	-0.8	-3.6	-18.5	-29
SG	34.1	-1.0	-3.5	-10.0	-21
Unicredit	11.3	-1.9	-5.1	-19.5	-28
UK banks	76.1	0.5	-1.2	-7.2	-17
HSC	624.1	0.6	-0.7	-6.2	-18
RBS	235.0	-0.2	-3.3	-9.4	-15
Barclays	165.3	1.2	1.2	-5.1	-19
Lloyds	56.4	0.5	-2.3	-8.4	-17
Large Spanish banks	62.2	-1.4	-3.7	-10.1	-27
Santander	4.1	-0.6	-3.1	-9.9	-25
BBVA	5.1	-2.1	-4.2	-10.3	-28
Medium Spanish banks	62.3	-3.3	-6.7	-16.3	-19
CaixaBank	3.5	-3.6	-7.8	-15.3	-11
Sabadell	1.1	-5.4	-11.8	-24.3	-34
Bankinter	7.3	-1.4	-6.9	-10.4	-8
Banque	2.5	-4.8	-11.0	-21.4	-30
Currencies (% net for currency depreciation)					
Developed					
level	Daily	Weekly	Monthly	YTD	
EURUSD	1,147	-0.4	-1.0	-2.6	5
GBPUSD	1,30	-0.8	-1.3	-2.2	5
USDJPY	112.77	-0.2	-0.9	-0.2	0
DKX	96.02	0.3	1.0	2.2	5
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	38.48	0.2	0.6	4.7	50
USDBRL (Brazil)	3.69	0.7	1.4	10.6	-12
USDCLP (Chile)	681.64	-0.1	-0.7	-1.8	-11
USDCOP (Colombia)	3090	-0.3	0.2	-0.8	-5
USDMXN (Mexico)	19.38	-0.5	-2.8	-2.9	1
USDPEN (Peru)	3.33	-0.1	0.1	-1.1	3
ILCI	56.01	0.2	-0.4	0.6	-12
USDPN (Poland)	3.74	-0.3	0.9	-2.6	8
USDRUB (Russia)	65.14	0.5	0.8	1.8	-12
USDTRY (Turkey)	5.60	-0.8	1.8	8.1	-34
USD CNY (China)	6.95	-0.3	-0.4	-1.4	-7
USDINR (India)	73.56	-0.3	0.4	-1.6	-14
USDIDR (Indonesia)	15,187	0.0	0.2	-2.2	-11
ADXY	103.6	-0.2	-0.2	-1.3	-6
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	79.7	-0.1	-1.3	1	20
WTX	69	-0.1	-3.8	-3	14
Copper	281	1.6	1.1	3	-14
Gold	1221	-0.4	-0.5	1	-7
S&P Spot commodity *	475	0.4	-1.9	1	7
S&P Brent Spot *	675	0.6	-1.5	1	19
S&P Metal Spot *	341	0.0	-1.1	1	-13
S&P Agricultural *	291	-0.3	-1.8	4	2

\* 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 10Y	2.90	0.4	4.3	10	93
US	3.19	-0.6	3.1	12	72
GER 10Y	-0.59	-1.0	-2.4	-6	-2
Germany	0.45	-1.3	-5.6	-2	-8
France	0.82	-2.0	-4.9	3	0
Spain	1.70	-4.0	1.6	18	2
Italy	3.49	0.9	-5.4	61	140
Portugal	2.01	-0.7	1.1	13	0
Greece	4.33	1.9	-5.6	26	23
Japan (2-yr)	-0.11	0.2	0.1	-1	2
Japan	0.15	0.5	1.0	3	11
Emerging Markets					
Brazil	10.19	-13.4	-37.3	-186	-6
Chile	4.59	-4.1	3.2	8	6
Colombia	7.04	0.3	-3.2	15	60
Mexico	8.34	13.7	25.8	28	77
Peru	5.40	2.9	3.5	18	53
Poland	3.26	0.1	2.2	2	-5
Russia	8.60	-7.8	-17.0	-23	96
Turkey	18.28	34.0	48.0	19	602
India	7.93	0.8	0.7	-14	54
Indonesia	8.64	-2.1	-23.5	42	235
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	37	0.7	0.7	6	7
Italy	305	2.2	0.2	63	147
Portugal	157	0.6	6.7	15	8
Spain	125	-2.7	7.2	21	10
2-yr sovereign spread vs Germany					
France	20	-0.6	1.8	3	4
Italy	175	-1.6	-27.7	40	138
Portugal	50	1.5	2.7	5	0
Spain	47	-4.8	3.5	16	20
Emerging Markets					
5-yr sovereign CDS *					
Brazil	212	-3.3	-10	-63	52
Chile	49	0.2	2	4	0
Colombia	115	0.4	4	20	20
Argentina	627	-4.8	13	21	389
Mexico	129	1.2	8	22	22
Peru	89	0.7	0	7	9
Poland	67	0.0	0	4	18
Russia	152	-0.6	-1	1	34
Turkey	391	2.6	-6	-28	226
China	68	0.6	4	13	18
India	111	0.7	0	12	42
Indonesia	148	1.3	4	15	62
Risk indicators					
Volatility indicators (change in bp)					
VIX	20	0.1	-1	8	10
VIX CRIX	19	0.6	0	6	6
EMFT volatility Index	25	-0.1	0	7	9
Dollar/euro volatility	7	0.1	0	0	0
EM FX volatility index	10	0.3	0	-2	2
Credit stress (BAA) (change in bp)	193	0.6	4	8	16
US bonds volatility index	52	-0.6	1	3	3
Inflation expectations (%)					
US Inflation expectations (CY5Y)					
US	2.39	-	-3	-2	-
EZ Inflation expectations (CY5Y)					
EZ	1.68	-	0	-1	-6
Banking 5y CDS (bps) *					
US	57	0.2	2	11	15
EZ	103	-1.2	0	25	64
UK	70	0.8	2	11	29
Large Spanish	60	0.5	-2	17	44
Medium Spanish	94	-2.0	-1	5	19
Corporate 5y CDS (bps) *					
US Non-financial	166	0.2	2	11	15
EZ Non-financial	84	-1.2	0	25	64
UK Non-financial	104	1.2	2	8	12
Interbank markets (% changes in bp)					
EOANA Index	-0.37	0	0	0	0
Eurobor 3m	-0.32	0	0	0	1
Eurobor 12m	-0.15	0	1	2	4
Libor 3m	2.48	1	4	12	78
Libor 12m	3.02	2	6	13	91
Stock markets (%)					
Main indices					
S&P500	2,759	-0.3	0.3	-5.8	-2
Dow Jones	25,273	-0.7	0.1	-5.2	-2
Nikkei	22,615	0.4	1.5	-4.5	-1
FTSE 100	7,943	-0.1	0.2	-4.4	-8
Euro Stoxx 50	3,190	-0.6	-0.6	-6.3	-9
IBEX	8,807	-1.0	-1.3	-8.1	-13
DAX	11,524	-0.3	-0.8	-6.5	-10
CAC	5,953	-0.6	-0.8	-7.3	-4
MI8	18,986	-0.6	-1.2	-11.3	-13
ASE Athens *	627	0.3	-1.2	-8.0	-23
MSCI Latin *	87,644	0.5	0.8	2.2	2
Ibovespa (Brazil)	85,397	1.4	2.4	9.3	10
Mercol (Mexico)	47,031	-0.9	-1.5	-5.0	-6
Mercol (Argentina)	28,533	-0.5	-3.4	-17.3	-8
MSCI EM Europe *	5,290	0.6	-1.1	-2.2	-2
Poland	2,193	-0.2	1.1	-2.9	-11
Moex 10 (Russia)	4,148	-1.7	-2.9	-5.7	-1
Isx 100 (Turkey)	94,892	-1.8	-4.0	-1.5	-19
MSCI EM Asia *	796	0.1	-1.3	-7.9	-14
Shanghai Com (China)	2,655	-1.1	3.4	2.7	-21
Jakarta (Indonesia)	5,840	-0.1	1.5	-0.6	-6
Banking sector					
US banks					
JPM	136.7	1.6	1.0	9.2	-8
WFC	106.9	-1.0	0.5	9.9	-1
CS	67.5	-2.0	-2.5	-9.8	-9
BoA	27.8	-1.8	-0.4	-10.9	-7
MS	49.6	-1.8	-4.9	-8.6	-13
GS	223.9	-1.9	3.8	-5.9	-13
EZ banks					
BNP	80.9	-1.2	-3.2	-12.0	-26
BNP	48.3	-0.9	-2.4	-11.1	-22
Credit Agricole	11.8	-1.1	-2.9	-9.0	-16
Deutsche Bank	9.4	-1.1	-1.3	-9.4	-41
ING	10.4	-1.6	-3.8	-9.8	-32
Intesa	2.0	-0.8	-3.6	-18.5	-29
SG	34.1	-1.0	-3.5	-10.0	-21
Unicredit	11.3	-1.9	-5.1	-19.5	-28
UK banks					
HSBC	624.1	0.6	-0.7	-6.2	-18
RBS	235.0	-0.2	-3.3	-9.4	-15
Barclays	165.3	1.2	1.2	5.1	-19
Lloyds	56.4	0.5	-2.3	-8.4	-17
Large Spanish banks					
Santander	62.2	-1.4	-3.7	-10.1	-27
Banque	4.1	-0.6	-3.1	-9.9	-25
BBVA					
Banque	5.1	-2.1	-4.2	-10.3	-28
Medium Spanish banks					
Cajabank	62.3	-3.3	-8.7	-16.3	-19
Cajabank	3.5	-3.6	-7.8	-15.3	-11
Sabadell	1.1	-5.4	-11.8	-24.3	-34
Bankinter	7.3	-1.4	-6.9	-10.4	-8
Bankia	2.8	-4.8	-11.0	-21.4	-30
Currencies (% ind for currency depreciation)					
Developed					
EURUSD	1,147	-0.4	-1.0	-2.6	-5
GBPUSD	1,130	-0.8	-1.3	-2.2	-8
USD JPY	112.77	-0.2	-0.9	-0.2	0
DXF	96.02	0.3	1.0	2.2	5
Emerging					
USDARS (Argentina)	36.48	0.2	0.6	4.7	50
USD BRL (Brazil)	3.69	0.7	1.4	10.6	-12
USD CLP (Chile)	681.84	-0.1	-0.7	-1.8	-11
USDCOP (Colombia)	399.0	-0.3	0.2	-2.8	-5
USDMXN (Mexico)	19.38	-0.5	-2.8	-2.9	1
USD PEN (Peru)	3.33	-0.1	0.1	-1.1	-3
LACT	56.01	0.2	0.4	2.6	-12
USD PLN (Poland)	3.74	0.3	0.9	2.6	-8
USD RUB (Russia)	65.14	0.5	0.8	1.8	-12
USDTRY (Turkey)	5.99	0.8	1.8	9.1	-34
USD CNY (China)	6.95	-0.3	-0.4	-1.4	-7
USD INR (India)	73.56	-0.3	0.4	-1.6	-14
USD IDR (Indonesia)	15,157	0.0	0.2	-2.2	-11
ADXY	103.6	-0.2	-0.2	-1.3	-6
Commodities (%)					
Brent	79.7	-0.1	-1.3	-1	20
WTX	69	-0.1	-3.8	-3	14
Copper	2.81	1.6	1.1	3	-14
Gold	1,221	-0.4	0.5	1	-7
S&P Spot commodity *	475	0.4	-1.9	1	7
S&P Brent Spot *	675	0.6	-1.5	1	19
S&P Metals Spot *	341	0.0	-1.1	1	13
S&P Agricultural *	291	-0.3	-1.8	4	2

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

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