

Market Comment | Risk-off sentiment drove financial markets during the week

Global Financial Markets Unit
26 Oct 2018

- **Risk-off mood in financial markets during the week** with the increasing political uncertainty in Europe and geopolitical issues between the US and Saudi Arabia. The uneventful ECB meeting had no significant impact on financial markets. In this context the appetite for safe-haven assets increased strongly, and **consequently core yields continued to move away from their recent highs, equities remained on their downward path across the board and the price of other typical safe-haven assets (JPY and gold) increased** during this week.
- **The story in Italy continued: very high volatility in Italy's sovereign yields as the flow of news continued.** Last Friday's downgrade of Italy's credit rating by Moody's but retaining a stable outlook let Italian assets recover at the beginning of the week as the odds on its losing the investment grade in the short term seem to have diminished (see) **ahead of today's S&P decision**. As the week went by, the unprecedented rejection of Italy's 2019 budget by the EU Commission hit Italian assets. **The Italian risk premium increased due to the combination of safe-haven flows and the rebound in Italy's 10Y yield**. This week, contagion to the other peripheral risk premia was very slight.
- Against this backdrop, **core yields decreased across the board**: the UST 10Y yield declined by 11 bps in the week, to below 3.10% despite today's release of **stronger-than-expected US 3Q GDP data** (see). The appetite for safe-haven yields also dragged down the 10Y Bund yield, which ended the week at 0.36% with an uneventful ECB meeting, in which there were no changes in its policy stance (see BBVA Research report).
- **Equity indices went down across the board**. US and European equity indices registered sharp drops this week on the back of surrounding uncertainty and disappointing industrials' earnings forecasts (see). In this context, volatility continued to increase (VIX rose to 27%).
- Chinese equity markets outperformed, favoured by the Chinese authorities' commitment to help its economy in a context of trade tensions (see) despite an unexpected slowdown in China's economy (see).
- **The USD and the JPY appreciated during the week, as safe-haven currencies attracted fresh flows**. Meanwhile the **EUR depreciated, breaking through the 1.14 USD/EUR level** and the GBP also depreciated strongly as there was no significant advance in Brexit negotiations.
- Regarding EM FX markets, **EM currencies depreciated across the board during the week against a strong USD**. The COP remained under pressure ahead of the Colombian Central Bank's meeting later today. **However, there were two main exceptions: the TRY and the BRL**, the former favoured by the Turkish Central Bank's expected decision to keep its interest rate unchanged at 24%, despite inflationary

pressures [\(see\)](#), and the latter ahead of this Sunday's second round of presidential elections.

- **Oil prices declined** during the week, dragged down by the release of higher-than-expected crude oil supply figures in the US [\(see\)](#) and despite potential US sanctions on Saudi Arabia.

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.79	-3.3	-11.0	2	88
US	3.08	-3.6	-11.1	3	62
GER (2-yr)	0.63	-2.1	-5.4	-13	-2
Germany	0.36	-4.3	-10.5	-17	-17
France	0.74	-2.9	-9.8	-10	-8
Spain	1.57	-1.6	-16.4	5	110
Italy	3.45	-4.2	-3.3	59	136
Portugal	1.92	-1.8	-9.6	3	-9
Greece	4.30	6.3	-4.8	26	20
Japan (2-yr)	-0.12	0.4	-9.1	-1	-2
Japan	0.11	0.4	-3.6	-1	7
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.43	-10.2	9.8	-129	17
China	4.58	-0.4	-5.5	11	6
Colombia	7.17	2.6	12.4	24	22
Mexico	8.34	-1.5	13.5	37	76
Peru	5.47	-0.9	10.0	16	69
Poland	3.14	-6.0	-12.1	-10	-17
Russia	8.73	2.5	4.7	-4	109
Turkey	17.32	-66.0	-62.0	39	396
India	7.88	0.7	-4.6	-20	49
Indonesia	8.69	6.6	2.4	46	239
Country risk (bp change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	1.4	0.7	7	9
Italy	310	0.1	7.2	76	152
Portugal	157	2.5	0.9	20	8
Spain	122	2.7	-5.9	22	7
5-yr sovereign spread vs Germany					
France	20	-0.2	0.2	3	4
Italy	179	-0.5	2.8	53	142
Portugal	50	1.4	-0.7	10	1
Spain	44	0.3	-7.8	17	17
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS*					
Brazil	208	-6.3	-7	-60	48
China	50	-0.5	1	4	1
Colombia	125	-3.3	0	10	20
Argentina	610	-21.2	-22	45	372
Mexico	132	-3.9	5	13	25
Peru	80	-0.8	0	4	8
Poland	67	0.0	0	1	18
Russia	149	0.2	-4	-4	31
Turkey	389	-8.6	0	9	224
China	70	-0.3	2	11	19
India	113	0.8	3	4	44
Indonesia	152	-0.8	6	16	67
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	27	3.0	7	14	17
VSTOXX	24	3.6	6	11	11
EM VTI Volatility Index	33	3.2	7	12	16
Dollar/euro volatility	7	0.2	0	1	1
EM FX volatility index	10	0.0	0	-1	2
Credit spread (BAA) (change in bps)	201	3.6	8	16	23
US bonds volatility index	57	-1.0	5	9	8
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5YSY)	2.32	-	-	-	1
EZ inflation expectations (5YSY)	1.66	-	-	-	4
Banking CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US	60	-0.5	3	10	18
EZ	106	-0.8	2	24	67
UK	69	-0.7	0	1	28
Large Spanish	81	-0.9	0	15	45
Medium Spanish	104	2.4	7	11	29
Corporate CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	173	-0.5	3	10	18
EZ Non-financial	95	-0.6	2	24	67
UK Non-financial	106	0.0	2	3	13
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
CONIA 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	2.51	0	4	13	81
Libor 12m	3.04	0	4	13	93
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,644	-2.3	-4.5	-9.0	-2
Dow Jones	24,863	-1.3	-3.1	-6.5	-1
Nikkei	21,185	-0.4	-6.0	-11.9	-7
FTSE 100	6,888	-1.7	-2.3	-8.3	-10
EuroStoxx 50	3,106	-1.9	-3.3	-9.5	-11
BEX	8,668	-1.3	-2.5	-9.0	-14
DAX	11,109	-1.8	-3.8	-10.3	-14
CAC	4,937	-2.3	-3.3	-10.8	-7
IBEX	18,308	-1.6	-3.0	-14.5	-15
ASE Athens	634	0.1	1.5	-9.6	-22
MSCI Latam*	86,748	0.9	-0.6	0.7	1
Ibovespa (Brazil)	63,904	0.2	0.4	6.7	8
Modol (Mexico)	45,875	-0.9	-3.3	-7.5	-8
Merval (Argentina)	28,388	0.2	2.5	-13.4	-5
MSCI EM Europe*	5,239	0.1	1.4	1.6	3
Poland	2,103	-1.8	-4.3	-8.7	-15
Micex 10 (Russia)	4,069	-2.5	-3.6	-8.5	-1
Sei 100 (Turkey)	91,779	-2.1	-6.8	-17.4	-22
MSCI EM Asia*	775	-0.8	-2.5	-10.8	-16
Shanghai Com (China)	2,599	-0.2	1.9	-7.4	-22
Jakarta (Indonesia)	5,765	1.3	1.0	1.5	9
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	129.8	-1.9	-6.6	-10.7	-13
WFC	103.4	-1.4	-4.2	-10.1	-4
CIF	63.5	-2.2	-7.8	-12.3	-15
BofA	26.1	-1.8	-7.8	-13.3	-13
MS	43.4	-2.5	-6.4	-9.0	-17
GS	210.5	-1.6	-7.2	-8.0	-18
EZ banks					
BNP	77.3	-2.1	-5.5	-16.2	-29
ING	46.6	-1.1	-4.3	-14.8	-25
Credit Agricole	11.0	-2.9	-7.2	-14.8	-21
Deutsche Bank	8.5	-3.3	-10.2	-16.7	-47
ING	10.2	-1.7	-3.5	-11.9	-34
Intesa	1.9	-1.6	-3.1	-21.0	-30
SG	32.1	-2.3	-6.7	-15.8	-26
Unicredit	10.9	-2.3	-5.6	-23.0	-31
UK banks	74.8	-2.3	-1.2	-9.0	-19
HSBC	599.1	-1.7	-3.4	-12.1	-22
RBS	224.2	-4.4	-4.8	-12.1	-19
Barclays	168.2	2.2	2.9	-4.2	-17
Lloyds	56.8	-1.7	1.1	-6.6	-16
Large Spanish banks					
Santander	61.3	-1.3	-2.9	-10.0	-28
Caixa	4.0	-1.7	-3.0	-10.8	-27
BBVA	5.1	-0.8	-2.7	-9.2	-28
Medium Spanish banks					
Casasbank	60.3	0.0	-6.3	-17.1	-21
CaixaBank	3.5	0.8	-4.8	-12.7	-12
Sabadell	1.1	4.1	-8.6	-23.3	-36
Bankinter	6.9	-2.3	-6.5	-15.4	-13
Banque	2.5	-0.9	-6.9	-21.7	-31
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1.137	0.0	-1.2	-3.1	-6
GBPUSD	1.28	0.0	-3.0	-2.7	-6
USDJPY	111.76	0.6	0.7	0.9	0
DKX	96.64	0.0	1.0	2.6	5
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)					
USDARS (Argentina)	36.65	0.3	-0.2	5.1	50
USD BRL (Brazil)	3.68	0.8	0.9	9.7	11
USD CLP (Chile)	689.20	-0.2	-1.2	-3.8	-12
USD COP (Colombia)	3184	-0.3	-3.4	-6.2	-8
USDMXN (Mexico)	19.49	0.0	-1.0	-3.3	0
USD PEN (Peru)	3.35	-0.1	-0.4	-1.3	3
ILCI	55.73	0.4	0.3	1.5	12
USD PLN (Poland)	3.79	0.0	-1.6	-4.0	9
USD RUB (Russia)	65.82	-0.3	-0.5	0.1	-13
USD TRY (Turkey)	5.63	0.1	0.3	6.6	-33
USD CNY (China)	6.95	0.0	-0.3	-1.0	-7
USD INR (India)	73.47	-0.3	-0.2	-1.2	-14
USD IDR (Indonesia)	15,217	-0.2	0.2	-2.0	-11
ADXY	103.4	-0.1	-0.4	-1.3	-6
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	76.2	-0.9	-4.4	-6	15
WTX	67	-1.1	-3.7	-7	10
Copper	273	-0.9	-1.6	-3	-16
Gold	1235	0.2	0.6	3	-6
S&P Spot commodity*	465	0.3	-2.0	-3	5
S&P Brent Spot*	654	0.9	-3.8	-8	15
S&P Metal Spot*	340	0.1	0.4	-1	-14
S&P Agrifutural*	284	-1.2	-2.2	2	0

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

Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
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Germany	0.36	-4.3	-10.5	-17	-17
France	0.74	-2.9	-9.8	-10	-8
Spain	1.57	-1.6	-16.4	5	-10
Italy	3.45	-4.2	-3.3	59	136
Portugal	1.92	-1.8	-9.6	3	-9
Greece	4.30	6.3	-4.8	26	20
Japan (2-yr)	-0.12	0.4	-0.1	-1	2
Japan	0.11	-0.4	-3.6	-1	7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	10.43	-10.2	9.8	-129	17
Chile	4.56	-0.4	-5.5	1	6
Colombia	7.17	2.6	12.4	24	72
Mexico	8.34	-1.5	13.5	37	76
Peru	5.47	0.9	10.0	16	60
Poland	3.14	-6.0	-12.1	-10	-17
Russia	8.73	2.5	4.7	-4	109
Turkey	12.32	48.0	62.0	-39	596
India	7.88	0.7	-4.6	-20	49
Indonesia	8.69	0.6	2.4	46	239
Country risk (bp, changes in bp)	level	Daily	Weekly	Monthly	YTD
Developed Markets					
10-yr sovereign spread vs Germany					
France	-39	1.4	0.7	7	9
Italy	310	0.1	7.2	76	152
Portugal	157	2.5	0.9	20	8
Spain	122	2.7	-5.9	22	7
2-yr sovereign spread vs Germany					
France	20	-0.2	0.2	3	4
Italy	179	-0.5	2.5	53	142
Portugal	50	1.4	-0.7	10	1
Spain	44	0.3	-7.8	17	17
Emerging Markets					
5-yr sovereign CDS *					
Brazil	208	-6.3	-7	-60	48
Chile	50	-0.5	1	4	1
Colombia	115	-7.3	0	10	29
Argentina	610	-21.2	-22	45	372
Mexico	132	-3.9	5	13	25
Peru	80	-0.8	0	4	9
Poland	67	0.0	0	1	18
Russia	149	0.2	-4	-4	31
Turkey	389	-8.6	0	9	224
China	70	-0.3	2	11	19
India	113	0.8	3	4	44
Indonesia	152	-0.8	6	16	67
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in bp)					
VIX	27	3.0	7	14	17
VIX CXX	24	3.6	6	11	11
EM EFT volatility Index	33	3.2	7	12	16
Dollar/euro volatility	7	0.2	0	1	1
EM FX volatility index	10	0.0	0	-1	-2
Credit spread (BAA) (change in bp)	201	3.6	8	16	23
US bonds volatility index	57	-1.0	5	9	8
Inflation expectations (bps)					
US Inflation expectations (5Y)	2.32	-	-7	-12	-
EZ Inflation expectations (5Y)	1.66	-	-1	-4	-8
Banking S&P CDS (bps) *					
US	69	0.5	3	10	18
EZ	106	0.8	2	24	67
UK	69	0.7	0	1	28
Large Spanish	81	0.9	0	15	45
Medium Spanish	104	2.4	7	11	29
Corporate S&P CDS (bps) *					
US Non-financial	173	-0.5	3	10	18
EZ Non-financial	85	0.8	2	24	67
UK Non-financial	106	0.0	2	3	13
Interbank markets (% changes in bp)	level	Daily	Weekly	Monthly	YTD
EONIA 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	2.51	0	4	13	81
Libor 12m	3.04	0	4	13	93
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main indices					
S&P500	2,844	2.3	4.5	9.0	-2
Dow Jones	24,663	1.3	3.1	6.5	-1
Nikkei	21,185	-0.4	-6.0	-11.9	-7
FTSE 100	6,888	-1.7	-2.3	-8.3	-10
EuroStoxx 50	3,106	-1.9	-3.3	-9.5	-11
IBEX	8,668	-1.3	-2.5	-9.0	-14
DAX	11,109	-1.8	-3.8	-10.3	-14
CAC	4,317	-2.3	-3.2	-10.8	-7
MI8	16,508	-1.6	-3.0	-14.5	-15
ASE Athens *	634	0.1	1.5	9.6	-22
MSCI Latam *	86,738	0.9	-0.6	0.7	1
Bovespa (Brazil)	83,904	0.2	0.4	6.7	8
Mexbol (Mexico)	45,875	-0.9	-3.3	-7.5	-8
Mercol (Argentina)	29,388	0.2	2.5	13.4	-5
MSCI EM Europe *	5,239	0.1	-1.4	-4.6	-3
Poland	2,103	-1.8	-4.3	-8.7	-15
Moon 10 (Russia)	4,069	-2.5	-3.6	-8.5	-1
Isx 100 (Turkey)	91,779	-2.1	-4.6	-7.4	-22
MSCI EM Asia *	775	-0.8	-2.5	-10.8	-16
Shanghai Com (China)	2,999	-0.2	1.9	7.4	-22
Jakarta (Indonesia)	5,385	1.3	-1.0	-1.5	-9
Banking sector					
US banks					
JPM	129.8	1.9	6.6	10.7	-13
WFC	103.4	-1.4	-4.2	-10.1	-4
CB	63.5	-2.2	-7.8	-12.3	-15
BoA	26.1	-1.8	-7.8	-13.3	-13
MS	43.4	-2.5	-6.4	-9.0	-17
GS	210.5	-1.6	-7.2	-8.0	-18
EZ banks					
BNP	77.3	-2.1	-5.5	-16.2	-29
BNP	46.8	-1.1	-4.3	-14.6	-25
Credit Agricole	11.0	-2.9	-7.3	-14.8	-21
Deutsche Bank	8.5	-3.3	-10.2	-16.7	-47
ING	10.2	-1.7	-3.5	-11.9	-34
Intesa	1.9	-1.6	-3.1	-21.0	-30
SG	32.1	-2.3	-6.7	-15.8	-26
Unicredit	10.9	-2.3	-5.6	-23.0	-31
UK banks					
HSBC	74.8	-2.3	-1.2	-9.0	-19
HSBC	599.1	-1.7	-3.4	-12.1	-22
RES	224.2	-4.4	-4.8	-12.1	-19
Barclays	168.2	2.2	2.8	4.2	-17
Lloyds	56.8	-1.7	1.1	-6.6	-16
Large Spanish banks	61.3	-1.3	-2.9	-10.0	-28
Santander	4.0	-1.7	-3.0	-10.8	-27
BBVA	5.1	-0.8	-2.7	-9.2	-28
Medium Spanish banks	60.3	0.0	-6.3	-17.1	-21
Cabotbank	3.5	0.9	-4.8	-12.7	-12
Sabadell	1.1	4.1	-8.6	-23.3	-36
Bankinter	6.9	-2.3	-6.5	-15.4	-13
Bankia	2.8	0.9	-6.9	-21.7	-31
Currencies (% ind for currency depreciation)	level	Daily	Weekly	Monthly	YTD
Developed					
EURUSD	1.137	0.0	1.2	3.1	-6
GBPUSD	1.28	0.0	2.0	2.7	-6
USD JPY	111.76	0.6	0.7	0.9	0
DKX	96.64	0.0	1.0	2.6	5
Emerging					
USDARS (Argentina)	36.65	0.3	0.3	5.1	50
USD BRL (Brazil)	3.68	0.8	0.9	9.7	-11
USD CLP (Chile)	689.20	-0.2	-1.2	-3.8	-12
USDCOP (Colombia)	318.4	0.3	-3.4	-6.2	-8
USDMXN (Mexico)	19.49	0.0	-1.0	-3.3	0
USD PEN (Peru)	3.35	-0.1	0.4	-1.3	-3
LACT	55.73	0.4	0.3	1.5	-12
USD PLN (Poland)	3.79	0.0	1.6	4.0	-9
USD RUB (Russia)	65.82	-0.3	0.5	0.1	-13
USDTRY (Turkey)	5.83	0.1	0.3	8.6	-33
USD CNY (China)	6.95	0.0	-0.3	-1.0	-7
USD INR (India)	73.47	-0.3	-0.2	-1.2	-14
USD IDR (Indonesia)	15,217	0.2	-0.2	-2.0	-11
ADXY	103.4	-0.1	-0.4	-1.3	-6
Commodities (%)	level	Daily	Weekly	Monthly	YTD
Brent					
Brent	76.2	-0.9	-4.4	-6	15
Copper	67	-1.1	-3.7	-7	10
Copper	273	-0.9	-1.6	-3	-18
Gold	1235	0.2	0.6	3	-6
S&P Spot commodity *	465	0.3	-2.0	-3	5
S&P Brent Spot *	654	0.9	-3.0	-9	15
S&P Metals Spot *	340	0.1	0.4	1	-14
S&P Agricultural *	284	-1.2	-2.2	2	0

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

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