

Market Comment | Trump increases uncertainties ahead of next week's FOMC meeting

Global Financial Markets Unit
27 Jan 2017

- **The new measures of the incoming US administration and disputes between the US and Mexico were among the most important drivers in financial markets**, in the wake of the US presidential inauguration speech, stressing his protectionist stance and repeating the proposal of a “border tax” ([see](#)). This risk could intensify given the **today’s 4Q US economic growth releases, that disappointed** (1.9% QoQ annualized, consensus 2.2%) on the back of higher imports while domestic conditions remained solid ([see](#)).
- Equity indices rose in the week, with the **Dow Jones Index breaching the 20,000 points** for the first time ever, supported by optimism generated by additional measures approved by the US president seeking to reduce regulation ([see](#)) and foster infrastructure ([see](#)). Equities were also supported by positive corporate earnings reports, especially in the banking sector. **The mood in the EZ also was positive** on the back of supportive economic indicators, despite the PMI flash ([see](#)) and IFO halting their significant recent improvement. Bond yields increased across the board, especially in France and Italy, underscoring political uncertainty in these two countries ([see](#)).
- **The US president signed an executive order to build a physical wall on the US border** ____ ([see](#)). Disputes between Mexico and the US regarding who is going to pay for the wall caused the cancellation of the scheduled meeting between the Mexican president, Peña Nieto, and Trump. After that, Trump threatened to impose a 20% tax on Mexican imports ([see](#)) but the US administration said that it was an option still under consideration.
- **The GBP appreciated significantly following a barrage of events related to Brexit**. The UK Supreme Court ruled on the Brexit case ([see](#)), declaring that parliamentary approval will be necessary before triggering Article 50. Meanwhile the UK government gave in to the opposition’s demands that it publish a “white paper” outlining the plans for Brexit ([see](#)).
- Greek sovereign bond yields declined significantly during most of the week amid reports that the long-awaited relief measures for **short-term Greek debt had been approved by the ESM** (European Stability Mechanism). These measures are expected to improve Greek debt sustainability ([see](#)). However, yields rebounded sharply at the end of the week, as there is still no agreement on the next tranche.
- **The debate about inflation in the euro zone is still alive**, with ECB board member Sabine Lautenschläger stating that the preconditions for a stable upward trend in inflation are in place ([see](#)).

Fed preview

- Although labor market fundamentals are in line with Fed targets and inflation is firming up, we expect the

Fed to pause in its normalization cycle at its February 1st meeting, leaving the target rate at 0.75%. Moving too quickly after the renormalization in December would be a departure from their strategy of measured approach, which could destabilize financial markets at a time when policy uncertainty remains high. Furthermore, when they meet, the Trump administration will have only been at the wheel for less than two weeks, meaning that the committee will have little more insight into the likelihood and magnitude of the fiscal policy agenda. As a result, the Fed, like most market participants, will remain cautious until greater clarity on the impact of the policies from the new administration

- Further, most of the current tax and infrastructure proposals are ambitious, but the likelihood of the mix and magnitude being circulated by the GOP and the White House happening is at best a coin flip. With this in mind we see risks to any major overshooting of the inflation target in the short-run as being balance which implies two rate increases in 2017. However, given that the slack in the labor market is moderate by historical standards, any major effort to boost job creation above its current trend could produce significant wage pressures and major overshooting of the inflationary target, leading to an accelerated pace of normalization. Although possible, the likelihood remains low, implying a path of two rate hikes per year through 2020

BBVA suggest the following reading list:

- Low inflation in the euro area: Causes and consequences ([see](#))
- Plans for Renegotiation of NAFTA: Five Ways to Improve the Agreement ([see](#))
- Shrinking the Fed's balance sheet ([see](#))
- Re-evaluating the result that the costs of 'leaning against the wind' exceed the benefits ([see](#))
- Sterling's future under a 'clean' Brexit ([see](#))

Update 17.00 CET 27 January, 2017

Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	1.22	-0.8	2.8	-4	18
US	2.50	0.9	2.9	1	23
GER (2-yr)	-0.66	-1.6	0.7	14	-31
Germany	0.47	-1.5	4.8	27	-10
France	1.04	1.3	13.4	37	10
Spain	1.61	3.4	10.0	26	-11
Italy	2.25	1.2	22.3	43	70
Portugal	4.14	2.4	27.2	37	159
Greece	7.15	23.9	7.3	4	-100
Japan (2-yr)	-0.19	1.2	4.0	-3	-18
Japan	0.08	1.8	2.4	-18	-18
Emerging Markets	level	Daily	Weekly	Monthly	Year
Brazil	10.81	13.4	-11.8	-64	-560
Chile	4.21	1.6	0.1	16	-44
Colombia	6.78	1.3	-15.5	-33	-195
Mexico	7.96	-1.3	-6.9	-3	134
Peru	6.04	-2.9	-9.6	34	-146
Poland	3.91	-3.6	16.7	42	75
Russia	8.28	-20.5	0.2	-20	-123
Turkey	10.99	-3.0	3.0	-12	22
India	6.40	-2.3	-6.3	-18	-132
Indonesia	7.62	1.1	4.8	-31	-120
Country risk (Spreads in bp)	level	Daily	Weekly	Monthly	Year
Developed Markets					
10-yr sovereign spread vs Germany					
France	57	2.8	8.6	9	20
Italy	178	2.7	17.5	16	79
Portugal	368	3.9	22.4	10	169
Spain	114	4.9	5.2	-1	-2
2-yr sovereign spread vs Germany					
France	18	0.7	3.9	4	15
Italy	67	3.6	8.9	5	32
Portugal	75	-2.5	-0.4	-26	31
Spain	40	-0.2	0.1	-10	7
Emerging Markets					
5-yr sovereign CDS *					
Brazil	249	-1	-3	-28	-245
Chile	83	2	-1	-1	-47
Colombia	152	1	-1	-13	-89
Mexico	164	-3	-13	8	-8
Peru	108	0	-2	0	-79
Venezuela	3,144	-27	-327	-530	-3915
Poland	71	-1	0	-10	-2
Russia	182	0	-2	0	-122
Turkey	289	-1	-11	7	5
China	108	0	-5	-10	0
India	114	0	-4	-13	-36
Indonesia	145	-1	6	-12	-84
Risk indicators					
Volatility indicators (%)					
VIX	11	-0.1	-8	-18	-10
VSTOXX	16	0.9	8	-8	-11
EM EFT volatility index	17	2.9	0	17	36
Dollar/euro volatility	8	-2.3	-7	-26	-21
EM FX volatility index	11	0.5	-3	-7	-9
Credit spread (BAA) (bps)	224	0.9	2	-3	-99
US bonds volatility index	73	-3.1	-3	6	9
Banking 5y CDS (bps) *					
US	70	0.9	-3	-3	-5
EZ	107	3.2	0	-5	23
UK	82	0.3	-9	-11	5
Large Spanish	105	0.8	-12	-17	-32
Medium Spanish	149	0.6	-7	2	-11
Corporate 5y CDS (bps)					
US Non-financial	148	-0.9	3	-2	-5
EZ Non-financial	98	3.7	0	-5	23
UK Non-financial	120	0.2	-2	6	-74
Interbank markets (% change in bp)					
EONIA Index	-0.35	0.00	0.0	0.0	-0.1
Euribor 3m	-0.33	0.00	0.0	0.0	-0.2
Earibor 12m	-0.10	0.00	0.0	0.0	-0.2
Libor 3m	1.04	0.00	0.0	0.0	0.4
Libor 12m	1.73	0.01	0.0	0.0	0.6
EZ TED spread 3m	51.8	0.00	-0.2	-13.8	6.4
Stock markets (%)					
Main Indices	level	Daily	Weekly	Monthly	Year
S&P500	2,294	-0.1	1.0	2	14
Dow Jones	20,083	-0.1	1.3	1	17
Nikkei	19,467	0.3	1.7	0	6
FTSE 100	7,170	0.1	0.4	1	18
EuroStoxx 50	3,300	0.6	0.0	1	4
BEX	9,480	0.3	1.1	1	2
DAX	11,809	-0.3	1.5	3	15
CAC	4,836	0.6	0.3	0	7
MIB	19,284	-0.8	-1.0	0	-7
ASE Athens	637	-3.6	-0.4	0	2
MSCI Latam *	77,196	-0.1	2.9	10	30
Ibovespa (Brazil)	66,160	0.0	2.5	11	57
Mercol	47,295	-0.7	2.1	4	12
MSCI EM Europe *	5,056	1.5	2.7	4	19
Poland	2,086	0.3	4.0	8	16
Moscú (Russia)	2,266	1.7	4.9	4	31
Ise 100 (Turkey)	83,827	0.0	0.9	8	19
MSCI EM Asia *	728	0.6	1.7	7	10
Shanghai Com (China)	3,159	0.0	1.2	2	4
Jakarta (Indonesia)	5,313	0.4	0.3	4	16
Banking sector	level	Daily	Weekly	Monthly	Year
US banks	117.9	-0.5	2.5	0	28
JPM	86.5	-0.3	3.4	0	36
Citi	57.0	-0.6	1.7	-5	12
BoA	23.4	-0.3	3.2	5	42
MS	43.9	-0.4	3.0	3	39
GS	237.4	-0.8	2.2	1	34
EZ banks	103.3	-0.9	1.0	1	-2
BNP	61.3	0.5	2.1	1	20
Credit Agricole	12.5	-0.7	0.5	5	17
Deutsche Bank	19.2	-1.4	6.1	9	11
ING	13.6	-0.4	2.1	1	12
Intesa	2.3	0.3	8.7	7	24
SG	47.3	-0.9	3.3	1	14
Unicredit	27.6	-5.5	2.6	-1	45
UK banks	88.0	-0.6	1.6	3	3
HSC	685.2	0.2	1.0	5	32
RIS	231.6	-0.6	4.8	3	-21
Barclays	229.6	-1.2	0.9	2	7
Lloyds	65.6	-0.8	0.9	3	-8
Large Spanish banks	78.6	-0.7	3.8	3	7
Santander	5.3	-0.4	4.0	8	21
BBVA	6.3	1.0	3.7	-1	-4
Medium Spanish banks	73.5	-0.2	1.6	4	-10
Caixabank	3.5	-0.3	5.1	11	9
Populr	1.0	-1.6	-0.7	7	64
Sabadell	1.4	1.5	4.2	4	-14
Bankinter	7.5	-0.4	-1.2	2	17
Bankia	1.0	-0.7	1.0	1	-6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.07	0.5	0.1	2.9	-1
GBPUSD	1.26	-0.2	1.6	2.8	-15
USDJPY	115.03	-0.4	-0.4	-1.9	-4
DX	100.47	0.1	-0.3	-2.7	-2
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.89	0.2	0.1	-1.1	-20
USDBRL (Brazil)	3.15	0.7	0.7	3.9	22
USDCLP (Chile)	650.99	-0.2	0.9	3.1	9
USDCOP (Colombia)	2826	0.5	-0.2	0.4	9
USDMXN (Mexico)	21.03	0.9	2.6	-1.3	-22
USDPEN (Peru)	3.29	0.4	0.2	2.0	4
ILS	63.02	0.6	1.3	1.5	2
USDPLN (Poland)	4.05	0.5	0.8	4.3	2
USDRUB (Russia)	59.66	1.1	-0.1	1.4	18
USDTRY (Turkey)	3.86	-0.2	-2.4	-9.0	-30
USDCNY (China)	6.98	0.0	0.1	1.1	-5
USDINR (India)	68.04	0.1	0.2	0.3	-2
USDIDR (Indonesia)	13,360	-0.2	0.4	0.7	4
ADXY	104.0	0.0	0.0	1.3	-2
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	55.5	-1.2	0.1	-1	49
WTI	53.2	-1.0	1.6	-2	45
Copper	266	-0.3	1.6	7	28
Gold	1,188	-0.1	-1.9	4	11
S&P Spot commodity *	401	0.7	-0.3	0	29
S&P Brent Spot *	481	1.9	0.9	-1	50
S&P Metals Spot *	321	-1.4	0.1	6	30
S&P Agricultural *	304	-0.2	-0.7	6	9

Debt markets (10Y % changes in bp)					
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Germany	0.47	-1.5	4.8	27	-10
France	1.04	-1.3	13.4	37	10
Spain	1.61	3.4	10.0	26	-11
Italy	2.25	1.2	22.3	43	70
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Chile	4.21	3.6	0.1	16	-44
Colombia	6.78	1.3	-15.5	-33	-195
Mexico	7.56	-1.3	-6.9	-9	134
Peru	6.04	-2.9	9.6	-34	-148
Poland	3.91	-3.6	16.7	42	75
Russia	8.28	-20.5	0.2	-20	-123
Turkey	10.99	-3.0	3.8	12	22
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Portugal	368	3.9	22.4	10	169
Spain	114	4.9	5.2	-1	-2
2-yr sovereign spread vs Germany					
France	18	0.7	3.9	4	15
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Spain	40	-0.3	0.1	-10	7
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5-yr sovereign CDS *					
Brazil	249	-1	-3	-28	-245
Chile	83	2	-1	-1	-47
Colombia	152	1	-1	-13	-89
Mexico	164	-3	-13	8	-8
Peru	108	0	-2	0	-79
Venezuela	3,344	-27	-127	-530	-2815
Poland	71	-1	0	-10	-2
Russia	182	0	2	0	-122
Turkey	269	-1	-11	-7	-5
China	108	0	-5	-10	0
India	114	0	-4	-13	-36
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Risk indicators					
Volatility indicators (%)					
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Banking by CDS (bps) *					
	level	Daily	Weekly	Monthly	Year
US	70	-0.9	-3	-3	-5
EZ	107	3.7	0	-5	23
UK	82	3.3	9	-11	5
Large Spanish	105	0.8	-12	-17	-32
Medium Spanish	149	-0.6	7	2	-11
Deposits by CDS (bps) *					
	level	Daily	Weekly	Monthly	Year
US Non-financial	148	-0.9	-3	-3	5
EZ Non-financial	98	3.7	0	-5	23
UK Non-financial	120	0.2	-2	6	-74
Interbank markets (% change in bp)					
	level	Daily	Weekly	Monthly	Year
EONIA Index	-0.35	0.00	0.0	0.0	-0.1
Euribor 3m	-0.33	0.00	0.0	0.0	-0.2
Euribor 12m	-0.10	0.00	0.0	0.0	-0.2
Libor 3m	1.04	0.00	0.0	0.0	0.4
Libor 12m	1.73	0.01	0.0	0.0	0.6
EZ TED spread 3m	51.8	0.00	-0.2	-13.8	6.4
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	Year
S&P500	2,294	-0.1	1.0	2	14
Dow Jones	20,083	0.1	1.3	1	17
Nikkei	19,467	0.3	1.7	0	6
FTSE 100	7,170	0.1	-0.4	1	18
Euro Stoxx 50	3,300	-0.6	0.0	1	4
IBEX	9,480	-0.3	1.1	1	2
DAX	11,809	-0.3	1.5	3	15
CAC	4,836	-0.6	-0.3	0	7
MBI	19,294	0.8	-1.0	0	-7
ASE Athens	637	-3.6	-0.4	0	2
MSCI Latam *	77,196	-0.1	2.9	10	30
Bovespa (Brazil)	66,160	0.0	2.5	11	57
Moodi	47,295	-0.7	2.1	4	12
MSCI EM Europe *	5,056	1.5	2.7	4	19
Poland	2,006	0.3	4.0	8	16
Misc (Russia)	2,266	1.7	4.9	4	31
Ise 100 (Turkey)	83,827	0.0	0.9	8	19
MSCI EM Asia *	728	0.6	1.7	7	10
Shanghai Com (China)	3,159	0.0	1.2	2	-4
Jakarta (Indonesia)	5,313	0.4	0.3	4	16
Banking sector					
	level	Daily	Weekly	Monthly	Year
US banks	117.9	-0.5	2.5	0	28
JPM	86.5	-0.3	3.4	0	36
Citi	57.0	-0.6	1.7	-5	12
BoA	23.4	-0.3	3.2	5	42
MS	43.9	-0.4	3.0	3	39
GS	237.4	0.9	2.2	-1	34
EZ banks	103.3	-0.9	1.0	1	-2
BNP	61.3	-0.5	2.1	1	20
Credit Agricole	12.5	-0.7	0.5	5	17
Deutsche Bank	19.2	-1.4	6.1	9	-11
ING	13.6	-0.4	2.1	1	12
Intesa	2.3	0.3	8.7	-7	-24
SG	47.3	-0.5	3.3	1	14
Unicredit	27.6	-5.5	2.6	-1	-45
UK banks	88.0	-0.6	1.6	3	3
HSBC	685.2	0.2	1.0	5	32
RBS	231.6	-0.6	4.8	3	-21
Barclays	229.6	-1.2	0.9	2	7
Lloyds	65.6	-0.8	0.9	3	-8
Large Spanish banks	78.6	-0.7	3.8	3	7
Santander	5.3	-0.4	4.0	8	21
BBVA	6.3	-1.0	3.7	-1	-4
Medium Spanish banks	73.5	-0.2	1.6	4	-10
CaixaBank	3.5	-0.3	5.1	11	9
Popubir	1.0	-1.6	-0.7	7	-64
Sabadell	1.4	1.5	4.2	4	-14
Bankinter	7.5	-0.4	-1.2	2	17
Bankia	1.0	-0.7	1.0	1	-6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.07	0.3	0.1	2.9	-11
GBPUSD	1.26	-0.2	1.6	2.8	-15
USDJPY	115.03	-0.4	-0.4	-1.9	-4
DKY	100.47	0.1	-0.3	2.7	2
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.89	0.2	0.1	-1.1	-20
USD BRL (Brazil)	3.15	0.7	0.7	3.9	22
USD CUP (Cuba)	650.99	-0.2	0.9	3.1	9
USDCOP (Colombia)	2926	0.5	-0.2	3.4	8
USDMXN (Mexico)	21.03	0.9	2.6	-1.3	-22
USD PEN (Peru)	3.29	0.4	0.2	2.0	4
LACI	63.02	0.6	1.3	1.5	2
USD PLN (Poland)	4.05	0.5	0.8	4.3	-2
USD RUB (Russia)	59.66	1.1	-0.1	1.4	18
USD TRY (Turkey)	3.86	-0.2	-2.4	-9.0	-30
USD CNY (China)	6.88	0.0	0.1	1.1	5
USD INR (India)	68.04	0.1	0.2	0.3	-2
USD IDR (Indonesia)	13,360	-0.2	0.4	0.7	4
ADXY	104.0	0.0	0.0	1.3	-2
Commodities (%)					
	level	Daily	Weekly	Monthly	Year
Brent	55.5	-1.2	0.1	-1	49
WTX	53.2	-1.0	1.6	-2	45
Copper	266	-0.3	1.6	7	28
Gold	1,188	-0.1	-1.9	4	11
S&P Spot commodity *	481	0.7	0.3	0	29
S&P Brent Spot *	481	1.9	-0.1	-1	50
S&P Metals Spot *	321	-1.4	0.1	6	30
S&P Agricultural *	304	-0.2	-0.7	6	9

Source: Bloomberg, Datastream and Haver

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