

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

Global Financial Markets Unit
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- **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](#))

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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	25
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	22.2	37	159
Greece	7.15	23.9	7.3	4	-100
Japan (2-yr)	-0.39	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)					
Developed Markets	level	Daily	Weekly	Monthly	Year
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					
level	Daily	Weekly	Monthly	Year	
5-yr sovereign CDS *					
Brazil	249	-1	-3	-28	-245
Chile	43	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	-2915
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 (%)	level	Daily	Weekly	Monthly	Year
VIX	11	-0.1	-8	-18	-10
VSTOXX	16	0.9	8	-8	-11
EM EFT volatility index	17	2.9	0	17	-36
Dolar/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	75	-3.1	-3	6	9
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
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
Commodity 5y CDS (bps)					
level	Daily	Weekly	Monthly	Year	
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)					
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
Earlibor 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	20,883	-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
MoexBI	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
Mosc (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					
JPM	117.9	-0.5	2.5	0	28
Citi	86.5	-0.3	3.4	0	36
BoA	57.0	-0.6	1.7	-5	12
MS	23.4	-0.3	3.2	5	42
GS	43.9	-0.4	3.0	3	39
WFC	237.4	0.9	2.2	1	34
EZ banks					
BNP	103.3	-0.9	1.0	1	-2
Crédit Agricole	61.3	0.5	2.1	1	20
Deutsche Bank	12.5	-0.7	0.5	5	17
ING	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					
HSC	88.0	-0.6	1.6	3	3
RBS	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					
Santander	78.6	-0.7	3.8	3	7
BBVA	5.3	-0.4	4.0	8	21
CaixaBank	6.3	1.0	3.7	-1	-4
Mediana Spanish banks	73.5	-0.2	1.6	4	-10
Populr	3.5	-0.3	5.1	11	9
Sabadell	1.0	-1.6	-0.7	7	64
Banqueparibas	1.4	1.5	4.2	4	-14
Banque	7.5	-0.4	-1.2	2	17
Banque	1.0	-0.7	1.0	1	-6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
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
DXY	100.47	0.1	-0.3	-2.7	-2
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USDARS (Argentina)	15.89	0.2	0.1	-1.1	-20
USDBRL (Brazil)					
USDBRL (Brazil)	3.15	0.7	0.7	3.9	22
USDCLP (Chile)					
USDCLP (Chile)	650.99	-0.2	0.9	3.1	9
USDCOP (Colombia)					
USDCOP (Colombia)	2826	0.5	-0.2	0.4	9
USDMXN (Mexico)					
USDMXN (Mexico)	21.03	0.9	2.6	-1.3	-22
USDPEN (Peru)					
USDPEN (Peru)	3.29	0.4	0.2	2.0	4
USDLACI					
USDLACI	63.02	0.6	1.3	1.5	2
USDPLN (Poland)					
USDPLN (Poland)	4.05	0.5	0.8	4.3	2
USD RUB (Russia)					
USD RUB (Russia)	59.66	1.1	-0.1	1.4	18
USDTRY (Turkey)					
USDTRY (Turkey)	3.86	-0.2	-2.4	-9.0	-30
USDCNY (China)					
USDCNY (China)	6.88	0.0	-0.1	1.1	-5
USDINR (India)					
USDINR (India)	68.04	0.1	0.2	0.3	-2
USDIDR (Indonesia)					
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					
Brent	55.5	-1.2	0.1	-1	49
WTI					
WTI	53.2	-1.0	1.6	-2	45
Copper					
Copper	2.66	-0.3	1.6	7	28
Gold					
Gold	1,188	-0.1	-1.9	4	11
S&P Spot commodity *					
S&P Spot commodity *	401	0.7	0.3	0	29
S&P Brent Spot *					
S&P Brent Spot *	481	1.9	0.9	-1	50
S&P Metals Spot *					
S&P Metals Spot *	321	-1.4	0.1	6	30
S&P Agricultural *					
S&P Agricultural *	304	-0.2	-0.7	6	9

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	25
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	-9	-18
Japan	0.08	1.8	2.4	-13	-18
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
Brazil	10.81	-13.4	-11.3	-64	-560
Chile	4.21	1.6	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
India	6.40	-2.3	-6.3	-18	-132
Indonesia	7.62	-1.1	4.8	-31	-120
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	57	2.8	8.6	9	20
Italy	173	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	-0.3	0.1	-10	7
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
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	-2615
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
Indonesia	145	-1	-6	-12	-84
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	Year	
VIX					
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	75	-1.1	-3	6	9
Banking 5y 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 (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
EONIA Index					
EONIA Index	-0.35	0.00	0.0	0.0	-0.1
Eurobor 3m					
Eurobor 3m	-0.33	0.00	0.0	0.0	-0.2
Eurobor 12m					
Eurobor 12m	-0.10	0.00	0.0	0.0	-0.2
Libor 3m					
Libor 3m	1.04	0.00	0.0	0.0	0.4
Libor 12m					
Libor 12m	1.73	0.01	0.0	0.0	0.6
EZ TED spread 3m					
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					
S&P500	2,294	-0.1	1.0	2	14
Dow Jones					
Dow Jones	20,083	0.1	1.3	1	17
Nikkei					
Nikkei	19,467	0.3	1.7	0	6
FTSE 100					
FTSE 100	7,170	0.1	-0.4	1	18
Eurostoxx 50					
Eurostoxx 50	3,300	-0.6	0.0	1	4
IBEX					
IBEX	9,480	-0.3	1.1	1	2
DAX					
DAX	11,809	-0.3	1.5	3	15
CAC					
CAC	4,836	-0.6	-0.3	0	7
MBI					
MBI	19,294	0.8	-1.0	0	-7
ASE Athens					
ASE Athens	637	-3.6	-0.4	0	2
MSCI Latam *					
MSCI Latam *	77,196	-0.1	2.9	10	30
Bovespa (Brazil)					
Bovespa (Brazil)	66,160	0.0	2.5	11	57
Moodi					
Moodi	47,295	-0.7	2.1	4	12
MSCI EM Europe *					
MSCI EM Europe *	5,056	1.5	2.7	4	19
Poland					
Poland	2,006	0.3	4.0	8	16
Mircx (Russia)					
Mircx (Russia)	2,266	1.7	4.9	4	31
Ise 100 (Turkey)					
Ise 100 (Turkey)	83,827	0.0	0.9	8	19
MSCI EM Asia *					
MSCI EM Asia *	728	0.6	1.7	7	10
Shanghai Com (China)					
Shanghai Com (China)	3,159	0.0	1.2	2	-4
Jakarta (Indonesia)					
Jakarta (Indonesia)	5,313	0.4	0.3	4	16
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
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					
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					
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					
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					
Medium Spanish banks	73.5	-0.2	1.6	4	-10
Cabotbank	3.5	-0.3	5.1	11	9
Popular	1.0	-1.6	-0.7	7	-64
Sabadell	1.4	1.5	4.2	4	-14
Banquepar	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					
EURUSD	1.07	0.3	0.1	2.9	-11
GBPUSD					
GBPUSD	1.26	-0.2	1.6	2.8	-15
USDJPY					
USDJPY	115.03	-0.4	-0.4	-1.9	-4
DXY					
DXY	100.47	0.1	-0.3	2.7	2
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USDARS (Argentina)	15.89	0.2	0.1	-1.1	-20
USDBRL (Brazil)					
USDBRL (Brazil)	3.15	0.7	0.7	3.9	22
USDCLP (Chile)					
USDCLP (Chile)	650.99	-0.2	0.9	3.1	9
USDCOP (Colombia)					
USDCOP (Colombia)	292.6	0.5	-0.2	3.4	8
USDMXN (Mexico)					
USDMXN (Mexico)	21.03	0.9	2.6	-1.3	-22
USDPEN (Peru)					
USDPEN (Peru)	3.29	0.4	0.2	2.0	4
LACI					
LACI	63.02	0.6	1.3	1.5	2
USDPLN (Poland)					
USDPLN (Poland)	4.05	0.5	0.8	4.3	-2
USD RUB (Russia)					
USD RUB (Russia)	59.66	1.1	-0.1	1.4	18
USDTRY (Turkey)					
USDTRY (Turkey)	3.86	-0.2	-2.4	-9.0	-30
USDCNY (China)					
USDCNY (China)	6.88	0.0	0.1	1.1	5
USDINR (India)					
USDINR (India)	68.04	0.1	0.2	0.3	-2
USDIDR (Indonesia)					
USDIDR (Indonesia)	13,360	-0.2	0.4	0.7	4
ADXY					
ADXY	104.0	0.0	0.0	1.3	-2
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	55.5	-1.2	0.1	-1	49
WTX					
WTX	53.2	-1.0	1.6	-2	45
Copper					
Copper	266	-0.3	1.6	7	28
Gold					
Gold	1,188	-0.1	-1.9	4	11
S&P Spot commodity *					
S&P Spot commodity *	401	0.7	0.3	0	29
S&P Brent Spot *					
S&P Brent Spot *	481	1.9	0.1	-1	50
S&P Metals Spot *					
S&P Metals Spot *	321	-1.4	0.1	6	30
S&P Agricultural *					
S&P Agricultural *	304	-0.2	-0.7	6	9

Source: Bloomberg, Datastream and Haver

* With one day delay

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