

# Market Comment | Volatility increased sharply this week on US political uncertainty

Global Financial Markets Unit  
19 May 2017

- Financial markets showed a **signal risk-off sentiment** after news of a potential investigation of Trump's administration ([see](#)) added more **uncertainty in US politics**, and fuelled concerns about further delays in US reflationary policies. VIX jumped from its recent subdued level and stock prices dropped strongly across the board - especially in the banking sector. However, this **risk-aversion faded as the week went by**.
- **Brazilian assets suffered sharply on policy uncertainty** triggered by bombshell news about the current president ([see](#)), according to local media that may put at risk long-awaited economic reforms. The BRL plummeted, as did the Bovespa equity index. Nonetheless, there was no significant contagion, so far, in other countries.
- The **USD reached a fresh six-month low** ([see](#)), while UST yields declined significantly and US stocks dropped moderately. Moreover, Fed rate hike bets continued to recede (June's hike is priced but expectation for end-of-year level is diminishing), thereby also playing a role in the decline of the USD and of UST yields.
- Against this backdrop, the **EUR appreciated significantly**, boosted by **encouraging economic indicators** ([see](#)). In bonds, European sovereign bond yields declined significantly, without differentiation between core and peripheral curves.
- The **ECB also published the accounts of its monetary policy meeting** ([see](#)), revealing that the ECB's Peter Praet had warned ECB members to be particularly cautious about publicly discussing plans regarding its monetary policy stance. In this regard, the ECB's Couré stressed in an interview ([see](#)) the current positive economic conditions in the Euro zone and bet on a slight change in wording to avoid an excessive gradualism that could cause a "forceful" market adjustment.
- **Oil prices rose appreciably during the week** ([see](#)) after US crude oil inventories declined for the sixth week in a row. The combination of higher oil prices, USD depreciation and lower investor risk appetite left EM currencies with a mixed performance. In line with our forecast, some central banks changed their key interest rate such as Mexico (+25bps, [see](#)) and Chile (-25bps, [see](#)).

BBVA Research suggest the following reading list:

- Adding a piece to the productivity puzzle: Management practices ([see](#))
- Emmanuel Macron and the battle for the eurozone ([see](#))
- Is Chinese Growth Overstated? ([see](#))

Update 15.45 CET 19 May, 2017

Table 1

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.27	0.6	-1.6	10	6
US	2.24	1.4	8.2	3	-20
GER (2-yr)	-0.68	1.9	-0.1	13	10
Germany	0.37	2.9	-2.3	17	9
France	0.81	0.2	-3.4	14	0
Spain	1.56	-0.3	-6.3	-11	5
Italy	2.12	-2.6	-13.0	-15	25
Portugal	3.16	-4.1	-21.1	-65	101
Greece	5.73	-2.8	4.4	-96	-116
Japan (2-yr)	-0.36	-0.4	1.6	5	3
Japan	0.04	0.2	2.9	3	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.73	-4.5	166.1	154	32
Chile	4.08	0.2	2.5	17	25
Colombia	6.31	-1.7	0.5	-7	-78
Mexico	7.21	1.5	-0.1	6	-42
Peru	5.34	-0.1	0.6	-21	84
Poland	3.34	0.0	2.3	-4	-38
Russia	7.66	-15.8	-8.6	-43	-79
Turkey	10.52	0.0	18.0	-4	-43
India	6.71	3.3	-20.2	-15	33
Indonesia	7.05	2.6	-8.7	-3	-79
Country risk (Spreads in bp)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	-44	-1.8	-1.1	-31	-9
Italy	175	-5.1	-10.7	-32	16
Portugal	279	-6.6	-18.8	-82	-83
Spain	120	-2.8	-4.0	-28	4
2-yr sovereign spread vs Germany					
France	24	-1.1	0.6	-26	13
Italy	42	-2.8	-10.7	-35	-19
Portugal	97	-4.5	-6.0	-23	-49
Spain	39	-2.7	-4.0	19	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	261	58	59	37	-11
Chile	75	0	2	4	-7
Colombia	132	0	3	-4	-31
Mexico	120	0	3	-10	-36
Peru	100	0	1	6	-8
Venezuela	3,706	29	-118	371	-200
Poland	67	-1	-1	-2	-9
Russia	160	3	7	6	-16
Turkey	214	7	10	-15	-58
China	81	1	3	-10	-35
India	97	1	1	-2	-30
Indonesia	132	1	4	-7	-24
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (%)					
VIX	13	-9.3	28	-11	1
VSTOXX	16	-6.4	15	-34	0
EM ETT volatility index	20	0.0	24	0	1
Dollar/euro volatility	8	-0.3	17	-38	-25
EM FX volatility index	9	15.6	14	-1	18
Credit spread (BAA) (bps)	224	-1.4	-2	-4	-3
US bonds volatility index	59	-5.2	4	-19	-23
Banking 5y CDS (bps) *					
US	59	1.9	5	-4	13
EZ	82	0.2	2	-34	-26
UK	64	0.2	4	-17	-26
Large Spanish	82	2.3	9	-26	-35
Medium Spanish	156	4.6	6	-8	5
Corporate 5y CDS (bps)					
US Non-financial	160	1.9	-4	-13	-13
EZ Non-financial	91	0.7	2	-34	-26
UK Non-financial	118	1.8	2	-7	-7
Interbank markets (% changes in bp)	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Earibor 12m	-0.13	0.00	0.0	0.0	0.0
Libor 3m	1.18	0.00	0.0	0.0	0.2
Libor 12m	1.73	0.00	-0.1	0.0	0.0
EZ TED spread 3m	50.9	-3.20	-4.4	4.4	-15.5
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main Indices					
S&P500	2,371	0.2	-0.8	1	4
Dow Jones	20,710	0.3	-0.9	2	4
Nikkei	19,591	0.2	-1.5	6	0
FTSE 100	7,463	0.4	0.4	5	4
EuroStoxx 50	3,578	0.4	-1.6	5	8
BEX	10,801	1.1	0.9	4	14
DAX	12,613	0.2	-1.2	5	9
CAC	5,315	0.5	-1.7	6	8
MIB	21,483	0.9	-0.4	8	9
ASE Athens	786	0.4	0.4	16	19
MSCI Latam *	74,618	-5.5	-5.6	-3	2
Ibovespa (Brazil)	62,789	1.9	8.0	-1	2
Mercol	48,322	0.0	-2.2	-1	4
MSCI EM Europe *	4,913	-0.9	-1.5	3	-3
Poland	2,320	1.1	-2.1	2	16
Mosc (Russia)	1,973	0.3	-1.1	3	13
Ise 100 (Turkey)	95,147	0.0	0.2	5	25
MSCI EM Asia *	793	0.5	-0.1	5	14
Shanghai Com (China)	3,091	0.0	0.2	-3	-2
Jakarta (Indonesia)	5,792	3.1	2.5	3	10
Banking sector					
US banks	113.9	0.0	-3.5	1	-5
JPM	84.0	0.0	-3.4	-1	-3
Cit	60.1	0.0	-1.6	4	-2
BoA	22.7	0.0	-5.3	0	-1
MS	41.3	0.0	-3.3	-2	-5
GS	215.2	0.6	-3.4	0	-12
EZ banks	114.2	1.0	-1.2	13	8
BNP	65.3	1.4	-1.9	12	4
Credit Agricole	14.2	0.4	-0.3	19	16
Deutsche Bank	16.9	0.4	-1.8	11	4
ING	15.0	0.8	-1.8	6	8
Intesa	2.8	0.8	0.7	14	11
SG	49.7	1.8	-0.1	12	3
Unicredit	16.6	1.0	-2.3	22	18
UK banks	89.4	0.1	1.5	8	2
HSC	664.0	0.0	-2.1	7	-1
RIS	264.5	0.4	2.2	12	13
Barclays	211.5	-0.4	2.7	1	-10
Lloyds	71.6	0.4	4.2	12	11
Large Spanish banks	89.2	1.3	-2.1	4	13
Santander	5.8	1.0	-3.8	3	13
BBVA	7.4	1.5	-0.5	6	13
Medium Spanish banks	82.5	1.1	-2.6	6	13
Caixabank	4.2	1.1	0.3	10	29
Populr	0.7	9.3	-4.9	4	-27
Sabadell	1.8	0.5	-1.7	10	31
Banqueparibas	0.2	0.7	-2.4	4	9
Banika	1.0	0.7	-6.2	0	1
Currencies (% red for currency depreciation)	level	Daily	Weekly	Monthly	Year
Developed					
EURUSD	112	0.5	2.4	-4.5	7
GBPUSD	130	0.6	1.0	1.9	6
USDJPY	111.37	0.1	1.8	2.3	-5
DXY	97.26	-0.6	-2.0	-2.5	5
Emerging					
USDARS (Argentina)	15.94	0.5	-3.3	-3.6	1
USDBRL (Brazil)	3.29	2.7	-5.2	-4.2	-2
USDCLP (Chile)	670.11	0.7	0.2	-3.1	0
USDCOP (Colombia)	2893	1.1	0.9	-6.8	3
USDMXN (Mexico)	18.67	0.9	0.8	0.9	13
USDPEN (Peru)	3.28	0.0	-0.1	-1.1	3
LAK	64.43	1.3	-1.7	-2.2	5
USDPOLN (Poland)	3.75	1.1	2.6	5.5	10
USDRUB (Russia)	57.00	1.0	0.2	-0.8	6
USDTRY (Turkey)	3.58	1.1	-0.4	2.5	0
USDCNY (China)	6.99	0.0	0.2	0.0	1
USDINR (India)	64.64	0.3	-0.5	-0.1	5
USDIDR (Indonesia)	13,325	0.2	0.0	0.0	1
ADXY	105.9	0.4	0.4	0.5	3
Commodities (%)	level	Daily	Weekly	Monthly	Year
Brent					
Brent	53.3	1.4	4.8	1	-6
WTI	50	1.4	4.6	-1	6
Copper	255	0.9	1.2	1	0
Gold	1254	0.5	2.1	-2	8
S&P Spot commodity *	384	-0.1	1.2	-1	-3
S&P Brent Spot *	446	0.4	3.2	-1	-7
S&P Metals Spot *	314	-0.5	0.3	0	3
S&P Agricultural *	287	-1.6	-1.3	-1	-4



Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.27	0.6	-1.6	10	6
US	2.24	1.4	8.2	3	-20
GER (2-yr)	-0.68	1.9	-0.1	13	10
Germany	0.37	2.5	-2.3	17	9
France	0.81	0.7	-3.4	-14	0
Spain	1.56	-0.3	-6.3	-11	5
Italy	2.12	-2.6	-13.0	-15	25
Portugal	3.16	-4.1	-21.1	-65	-101
Greece	5.73	-2.8	4.4	-96	-116
Japan (2-yr)	-0.16	-0.4	1.6	5	3
Japan	0.04	-0.7	2.9	-3	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.73	-4.5	166.1	154	32
Chile	4.08	0.7	2.5	12	-25
Colombia	6.31	-1.7	0.5	-7	-78
Mexico	7.21	1.5	-0.1	6	-42
Peru	5.54	-0.1	0.6	-21	-94
Poland	3.34	0.0	2.3	-4	-38
Russia	7.66	-15.8	-8.6	-43	-79
Turkey	10.57	0.0	18.0	-4	-43
India	6.71	3.3	-20.2	-15	33
Indonesia	7.05	-2.6	-8.7	-3	-79
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	44	-1.8	-1.1	-31	-9
Italy	175	-5.1	-10.7	-32	16
Portugal	279	-6.6	-18.8	-82	-83
Spain	120	-2.8	-4.0	-28	4
2-yr sovereign spread vs Germany					
France	24	-1.1	0.6	-26	13
Italy	42	-2.8	-10.7	-35	-19
Portugal	97	-4.5	-6.0	-23	-49
Spain	39	-2.7	-4.0	-19	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	261	58	59	37	-11
Chile	75	0	2	-4	-7
Colombia	132	0	3	-4	-31
Mexico	120	0	3	-10	-36
Peru	100	0	1	-5	-8
Venezuela	3,706	29	-118	321	-200
Poland	67	-1	-1	-2	-9
Russia	160	3	7	-6	-16
Turkey	214	7	10	-15	-58
China	81	1	3	-10	-35
India	97	1	1	-2	-30
Indonesia	137	1	4	-7	-24
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	YTD
VIX	13	-9.3	28	-11	1
VSTOXX	16	-6.4	15	-34	0
EM EFT volatility index	20	0.0	24	0	1
Dollar/euro volatility	8	-0.3	17	-38	-25
EM FX volatility index	9	15.6	14	-1	-18
Credit spread (BAA) (bps)	224	-1.4	-2	-4	-3
US bonds volatility index	59	-5.7	6	-19	-23
Banking by CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	1.9	5	-4	-13
EZ	82	0.7	2	-34	-26
UK	64	0.2	4	-17	-26
Large Spanish	82	2.3	9	-26	-35
Medium Spanish	156	4.6	6	-8	5
Corporate by CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	160	-1.9	5	-4	-13
EZ Non-financial	91	0.7	2	-34	-26
UK Non-financial	118	1.8	2	-7	-7
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0.00	0.0	0.0	0.0
Euribor 3m	-0.33	0.00	0.0	0.0	0.0
Euribor 12m	-0.13	0.00	0.0	0.0	0.0
Libor 3m	1.18	0.00	0.0	0.0	0.2
Libor 12m	1.73	0.00	-0.1	0.0	0.0
EZ TED spread 3m	50.9	-3.20	-4.4	4.4	-15.5
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,371	0.2	0.8	1	4
Dow Jones	20,719	0.3	0.9	2	4
Nikkei	19,591	0.2	-1.5	6	0
FTSE 100	7,463	0.4	0.4	5	4
Eurostoxx 50	3,578	0.4	1.6	5	8
IBEX	10,801	1.1	0.9	4	14
DAX	12,613	0.2	-1.2	5	9
CAC	5,315	0.5	-1.7	6	8
MBI	21,463	0.9	0.4	8	9
ASE Athens	786	0.4	0.4	16	19
MSCI Latam *	74,618	-5.5	-5.6	-3	2
Bovespa (Brazil)	62,269	-1.9	8.0	-1	2
Movexl	48,322	0.0	-2.2	-1	4
MSCI EM Europe *	4,913	-0.9	-1.5	3	-3
Poland	2,320	1.1	-2.1	2	16
Misc (Russia)	1,973	0.3	-1.1	3	-13
Ise 100 (Turkey)	95,147	0.0	0.2	5	25
MSCI EM Asia *	793	-0.5	-0.1	5	14
Shanghai Com (China)	3,091	0.0	0.2	-3	-2
Jakarta (Indonesia)	5,792	-1.1	2.5	3	10
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	113.9	0.0	-3.5	1	-5
JPM	84.0	0.0	-3.4	-1	-3
Citi	60.1	0.0	-1.6	4	-2
BoA	22.7	0.0	-5.3	0	-1
MS	41.3	0.0	-3.3	-2	-5
GS	215.2	0.0	3.4	0	-12
EZ banks	114.2	1.0	-1.2	13	8
BNP	65.3	1.4	-1.9	12	4
Credit Agricole	14.2	0.4	-0.3	19	16
Deutsche Bank	16.9	0.4	-1.8	11	4
ING	15.0	0.8	-1.8	6	8
Intesa	2.8	0.8	0.7	14	11
SG	49.7	1.8	-0.1	12	3
Unicredit	16.6	1.0	-2.3	22	18
UK banks	89.4	0.1	1.5	8	2
HSBC	664.0	0.0	-2.1	7	-1
RBS	264.5	0.4	2.2	12	13
Barclays	211.5	-0.4	2.7	1	-10
Lloyds	71.6	0.4	4.2	12	11
Large Spanish banks					
Santander	88.2	1.3	2.1	4	13
Santander	5.8	1.0	-3.8	3	13
BBVA	7.4	1.5	-0.5	6	13
Medium Spanish banks					
CajaBank	4.2	1.1	0.3	10	29
Popular	0.7	9.3	-4.9	4	-27
Sabadell	1.8	0.5	-1.7	10	31
Banque	0.2	0.7	2.4	4	9
Bankia	1.0	0.7	-6.2	0	1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.12	0.6	2.4	4.5	7
GBPUSD	1.30	0.6	1.0	1.9	6
USDJPY	111.37	0.1	1.8	2.3	-5
DX1	97.26	-0.8	-2.0	2.5	5
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)	15.94	0.5	-3.3	-3.6	1
USD BRL (Brazil)	3.29	2.7	-5.2	-4.2	-2
USD CUP (Cuba)	670.11	0.7	0.2	-3.1	0
USD COP (Colombia)	2883	-1.1	-0.8	-0.8	3
USD MXN (Mexico)	18.67	0.9	0.8	0.9	13
USD PEN (Peru)	3.28	0.0	-0.1	-1.1	3
LACI	64.43	1.3	-1.7	-2.2	5
USD PLN (Poland)	3.75	1.1	2.6	5.5	10
USD RUB (Russia)	57.00	1.0	0.2	0.8	6
USD TRY (Turkey)	3.58	3.1	-0.4	2.5	0
USD CNY (China)	6.89	0.0	0.2	0.0	1
USD INR (India)	64.64	0.3	-0.5	-0.1	5
USD IDR (Indonesia)	13,325	0.2	0.0	0.0	1
ADXY	105.9	-0.4	0.4	0.6	3
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	53.3	1.4	4.8	1	-6
WTI	50	1.4	4.6	-1	-6
Copper	255	0.9	1.2	1	0
Gold	1254	0.5	2.1	-2	8
S&P Spot commodity *	384	-0.1	1.2	-1	-3
S&P Brent Spot *	448	0.4	3.2	-1	7
S&P Metals Spot *	314	-0.5	0.3	0	3
S&P Agricultural *	287	-1.6	-1.3	-1	-4

Source: Bloomberg, Datastream and Haver

\* With one day delay

---

#### DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of

Spain with number 0182.