

Market Comment | Spanish assets underperformed during this week

Global Financial Markets Unit
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- During this week global financial markets remained at **low volatility levels**. The main exception was Spain, which suffered political uncertainty, but it affected only its domestic financial markets.
- **High volatility of Spanish assets amid political tensions between Spanish government and Catalonia region** ([see](#)). Sovereign bond yields rose appreciably, while stock prices declined sharply, amid institutional interventions: King Felipe VI ([see](#)) and Puigdemont ([see](#)). However, pressure declined as the week went by, coinciding with the change of HQ address of some companies. Main equity indices in Europe showed a positive bias this week, while other peripheral countries' sovereign risk premiums did not widen, signalling low contagion of Spanish political uncertainty.
- **US assets showed a positive performance on the back of favourable economic data**, although Non-farm payrolls missed expectations. Nonetheless, US bond yields increased and USD appreciated after the data, as the **previous employment data was revised upwards, average earnings increased above expectations and unemployment rate declined** ([see](#)). All in all there were **higher expectations of interest rate rises and fiscal stimulus**. This fuelled the equity indices, which broke their highest historical levels. US sovereign yields inched up, backed by the hawkish tone of some Fed officials. In this regard, the USD continued on its upward trend, amid talks of **a more hawkish successor to Fed Chair Janet Yellen** ([see](#)).
- The **EUR dropped - slightly dragged down by politics - in the week in which the ECB released its minutes** ([see](#)). The minutes revealed an internal debate about the QE exit strategy, a choice between a longer but lower quantity extension of the QE programme and a shorter but higher quantity extension.
- The **GBP depreciated sharply amid political uncertainty**, insufficient progress on Brexit negotiations in the EU parliament ([see](#)) and fading hawkish sentiment regarding BoE monetary [policy](#) ([see](#)), after disappointing UK September construction PMI.
- **Oil prices declined, on signs of higher output** ([see](#)) both in the US and in OPEC countries. Moreover, the combination of a higher USD and lower oil prices led to a depreciation of EM currencies. Nonetheless, investors will be watching out for a potential new OPEC deal, as Saudi Arabia and Russia could limit production through next year ([see](#)).

BBVA Research suggests the following reading list:

- [The new-Keynesian liquidity trap \(see\)](#)
- [La cumbre del FMI y las siete y media \(see\)](#)

- [Tax Cuts, Sold as Fuel for Growth, Widen Gap Between Rich and Poor \(see\)](#)

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Table 1

Debt markets (% 10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.52	3.3	3.8	22	31
US	2.40	5.1	6.5	29	4
GER (2-yr)	-0.68	1.4	1.1	5	9
Germany	0.50	4.6	3.8	16	15
France	0.78	4.0	3.2	11	-4
Spain	1.73	3.1	12.6	6	16
Italy	2.18	3.2	7.1	16	31
Portugal	2.44	3.9	5.2	-11	-174
Greece	5.62	2.0	-3.9	15	-126
Japan (2-yr)	-0.14	0.0	-1.5	1	5
Japan	0.06	-1.2	4.4	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.90	0.3	16.7	11	-151
Chile	4.48	-0.1	7.1	16	16
Colombia	6.50	2.5	-7.2	22	-59
Mexico	7.07	5.7	21.4	22	-57
Peru	4.91	4.4	4.0	23	-156
Poland	3.51	9.4	13.6	32	-21
Russia	7.72	7.8	5.1	15	-73
Turkey	10.82	8.0	14.0	35	-18
India	6.76	2.8	9.4	25	38
Indonesia	6.53	3.4	3.3	4	-131
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	27	-0.6	-0.6	-4	-19
Italy	168	-1.4	3.3	0	16
Portugal	194	-0.7	1.4	-56	-161
Spain	123	-1.5	8.8	-11	-5
2-yr sovereign spread vs Germany					
France	22	0.5	0.8	2	11
Italy	45	-1.0	-0.8	-9	-16
Portugal	68	0.3	0.6	-10	-78
Spain	44	-0.3	5.7	4	-4
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	183	-1.4	-14	-4	-89
Chile	56	0.4	-4	-1	-26
Colombia	114	0.9	-9	-5	-49
Mexico	106	2.6	-6	7	-51
Peru	79	0.0	-4	6	-29
Venezuela	6,110	161.3	-563	23	2205
Poland	48	-1.1	-6	6	-27
Russia	130	-2.8	-14	9	-46
Turkey	173	-3.3	-15	13	-100
China	59	-1.0	-5	-1	-58
India	76	-0.2	-1	-5	-51
Indonesia	100	-0.6	-5	-2	-56
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (%)					
VIX	10	3.5	0	11.0	-2
VSTOXX	12	1.7	1	-25	-4
EM EFT volatility index	16	2.3	-2	9	-22
Dollar/euro volatility	7	-0.9	-5	-17	-31
EM FX volatility index	8	0.6	2	1	-30
Credit spread (BAA) (bps)	194	-5.0	-5	-17	-33
US bonds volatility index	56	2.0	5	5	-27
Banking By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	49	-1.3	5	11.0	24
EZ	54	-0.5	1	1	-53
UK	47	0.0	0	0	-43
Large Spanish	56	-2.3	3	9	-59
Medium Spanish	89	-0.1	4	5	-62
Corporate By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	140	-1.3	-5	-10	-24
EZ Non-financial	73	-0.5	1	1	-53
UK Non-financial	106	-0.1	-1	1	-19
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	-0.17	0.00	0.0	0.0	-0.1
Libor 3m	1.35	0.00	0.0	0.0	0.3
Libor 12m	1.80	0.00	0.0	0.1	0.1
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,548	-0.2	1.1	3	12
Dow Jones	22,763	-0.1	1.6	4	14
Nikkei	20,691	0.3	1.6	7	6
FTSE 100	7,517	0.1	2.0	2	5
EuroStoxx 50	3,606	-0.2	0.3	5	9
BSE	10,175	-0.4	-2.0	0	8
DAX	12,972	0.0	1.1	6	12
CAC	5,365	-0.3	0.7	5	9
MIB	22,424	-0.6	-1.2	3	14
ASE Athens	747	0.3	-1.1	-8	14
MSCI Latam *	86,527	0.1	2.9	4	18
Ibovespa (Brazil)	75,987	-0.8	2.3	4	23
Bovespa	50,339	0.3	0.0	0	8
MSCI EM Europe *	5,184	0.3	0.8	0	3
Poland	2,475	0.5	0.9	-1	24
Moscú (Russia)	2,095	0.3	0.8	4	7
Ise 100 (Turkey)	104,015	-0.3	1.1	-5	37
MSCI EM Asia *	889	0.0	2.6	3	28
Shanghai Com (China)	3,349	0.0	0.0	-1	6
Jakarta (Indonesia)	5,905	-0.8	-1.1	1	-12
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	135.5	0.2	3.7	12	13
JPM	97.6	0.5	2.1	8	12
Cit	75.7	0.0	4.1	12	23
BoA	26.2	0.4	3.5	12	14
MS	49.9	0.6	3.6	11	14
GS	246.0	0.0	3.7	12	1
EZ banks	117.2	0.1	0.4	7	11
BNP	68.5	0.0	0.4	9	9
Crédit Agricole	15.6	0.2	1.1	7	26
Deutsche Bank	14.7	-0.1	0.4	9	-10
ING	15.8	0.6	1.0	8	13
Intesa	2.9	-0.5	-2.3	4	15
SG	48.9	-0.7	-1.3	6	1
Unicredit	17.3	-0.7	-3.9	2	23
UK banks	89.8	-0.3	0.4	5	2
HSBC	755.9	0.1	2.6	4	13
RBS	271.6	-0.9	1.2	11	16
Barclays	190.5	0.2	-1.5	3	-19
Lloyds	66.7	-0.9	-1.5	6	3
Large Spanish banks	88.4	0.5	-2.9	5	13
Santander	5.8	0.0	-2.4	9	14
BBVA	7.3	-1.0	-3.4	1	13
Medium Spanish banks	76.3	-0.6	-3.6	-1	4
Cabobank	4.1	-0.7	-3.9	1	24
Sabadell	1.7	2.2	-6.5	-6	20
Bankinter	7.8	-0.2	-2.3	1	4
Banque	4.0	0.8	-2.5	2	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.17	-0.1	-1.0	-1.9	12
GBPUSD	1.30	-0.6	-2.7	-0.1	6
USDJPY	113.38	-0.5	-0.8	3.8	-3
DKK	94.16	0.2	1.2	2.0	8
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.53	-0.8	-1.3	-1.9	-9
USD BRL (Brazil)	3.17	-0.5	-0.2	-2.2	2
USDCUP (Cuba)	634.85	-1.0	-0.7	2.6	5
USDCOP (Colombia)	2945	-0.6	-0.2	-1.1	1
USDMXN (Mexico)	18.60	-0.6	-1.9	-4.6	13
USDPEN (Peru)	3.27	-0.2	-0.1	-1.0	3
LKR	65.07	-0.5	-0.6	-2.7	6
USDPLN (Poland)	3.69	-0.4	-1.1	-3.5	11
USD RUB (Russia)	58.17	-0.8	-1.1	-1.4	4
USDTRY (Turkey)	3.63	-1.2	-1.8	-5.9	-2
USDCNY (China)	6.65	0.0	0.0	2.0	4
USDINR (India)	65.37	-0.4	-0.1	-2.0	4
USDIDR (Indonesia)	13,519	-0.4	-0.3	-1.4	-1
ADNY	107.0	-0.2	-0.3	-1.3	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	55.9	-2.0	-2.9	3	-1
WTI	49	-2.7	-4.4	1	-7
Copper	301	-0.8	2.4	4	18
Gold	1261	-0.5	-1.5	5	8
S&P Spot commodity *	399	1.3	-0.2	2	1
S&P Brent Spot *	485	-2.2	0.4	5	1
S&P Metals Spot *	372	1.2	3.4	1	22
S&P Agricultural *	279	0.4	-0.7	-2	-7

Source: Bloomberg, Datastream and Haver

* With one day delay

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