

Market Comment | Peripheral debt rally

Global Financial Markets Unit
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- European stocks increased today due to several positive factors. On the one hand, **Spanish stocks rose significantly, leading the increase in European equity markets**, as investors welcomed snap elections in Catalonia, and the absence of tension in the street following the triggering of Article 155 of the Spanish Constitution ([see](#)). **Spain's GDP** also maintained its recent strong pace ([see BBVA report in Spanish](#)). Moreover, **EZ economic confidence reached its highest level since 2001** ([see](#)). The banking sector outperformed, as the EBA announced a later than expected date for stress test results ([see](#)).
- **Sovereign bond yields declined, especially in the European periphery**, reflecting the improving sentiment towards **Spain** - Spain's risk premium declined to pre-referendum levels - and the **Italian sovereign rating upgraded by S&P** (to BBB from BBB-) citing improving economy ([see](#)). Moreover, soft German inflation ([see](#)), below the ECB's target, also spurred the hunt for yield strategies. As a result Italian, Portuguese and Spanish sovereign bond yields declined significantly, with the spread between Spain and Italy narrowing slightly.
- In the US, stocks declined despite an outperforming technological sector. Nonetheless, in **vestors still remained cautious** as they assessed the potential probe into possible Russian interference in the 2016 US presidential election ([see](#)), which may distract the US administration from the expected US tax reform. Moreover, investors are also waiting for the **upcoming announcement of the next Fed Chair**, after signs that Trump may be **leaning towards Powell** ([see](#)).
- US yields and the USD remained little changed, ahead of this Wednesday's FOMC meeting (see preview below). Moreover, **crude oil prices inched up amid optimism that the OPEC may extend its supply cut plan**. Against this backdrop, EM currencies remained weaker during the session.

FOMC preview

- The FOMC, at its upcoming meeting on October 31-November 1, will reinforce its intention to raise rates in December. As the first meeting since the start of Balance Sheet Normalization, the discussion will focus on the committee's preliminary assessment of the first month of operation. With long-term interest rates edging up since the start of normalization, signalling slightly less accommodative financial conditions, the committee will view this as a positive development given how depressed the term premium and inflation expectations have been in 2017. These developments will also downplay some members' comments about worryingly low and persistent actual and expected inflation, as these

concerns skew more towards structural rather than cyclical headwinds. As a result, conditions remain appropriate for raising the Fed Funds rate by 25 bps again in December to 1.5%, notwithstanding a substantial drop in actual inflation.

Update 18.00 CET 30 October 2017

Debt markets (10Y, % changes in bps)					
	level	Daily	Weekly	Monthly	YTD
Developed Markets					
US (2-yr)	1.57	-1.6	0.7	12	36
US	2.37	-3.4	0.6	6	-7
GER (2-yr)	0.75	1.6	-2.6	-6	2
Germany	0.37	-1.6	-6.5	-11	2
France	0.76	0.28	-7.5	-16	-20
Spain	1.50	-9.1	-13.2	-13	2
Italy	1.85	-10.2	-15.7	-30	-5
Portugal	2.10	-9.9	-15.3	-32	-208
Greece	5.56	1.7	0.0	-15	-133
Japan (2-yr)	0.16	-1.1	-2.1	-5	4
Japan	0.07	0.1	-0.4	3	1
Emerging Markets					
Brazil	9.77	1.4	6.6	0	-164
Chile	4.49	0.0	4.0	14	17
Colombia	6.58	-3.0	8.3	-1	-51
Mexico	7.26	0.3	9.6	39	-38
Peru	5.07	0.8	10.2	17	-140
Poland	3.44	1.1	6.1	8	-28
Russia	7.61	-2.9	2.3	-9	84
Turkey	11.54	-7.0	22.0	84	54
India	6.89	8.0	8.9	24	50
Indonesia	6.83	0.4	11.3	28	-101
Country risk (bp, changes in bps)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	40	-1.2	-1.0	-5	-29
Italy	148	-8.6	9.2	-19	-14
Portugal	173	-0.3	-12.8	-21	-182
Spain	113	-7.5	6.7	-2	-3
2-yr sovereign spread vs Germany					
France	16	-0.7	-3.9	-5	6
Italy	48	-2.7	0.2	-1	-14
Portugal	62	-0.1	-2.2	-10	85
Spain	42	-3.0	-2.8	4	-6
Emerging Markets					
5-yr sovereign CDS*					
Brazil	171	-4.5	3	-29	-100
Chile	51	-2.9	-3	-10	-31
Colombia	111	-4.4	-1	-16	-53
Mexico	107	-2.7	2	-6	-49
Peru	73	-3.9	-3	-12	-35
Venezuela	5,890	-827.6	-831	-589	1,985
Poland	49	0.0	-1	-7	27
Russia	127	-1.8	-2	-19	-49
Turkey	187	-1.5	15	-3	85
China	49	1.5	-4	-15	-68
India	71	0.1	-4	-7	56
Indonesia	94	-0.1	-1	-12	63
Risk indicators					
Volatility indicators (%)					
VIX	11	0.4	-4	11	-1
VSTOXX	13	2.7	2	6	-4
EM EFT volatility Index	18	9.9	10	11	-10
Dollar/euro volatility	6	-0.7	8	-18	-39
EM FX volatility index	6	1.6	1	3	25
Credit spread (BAA) (bps)	198	3.4	2	-11	-29
US bonds volatility Index	55	-4.7	1	5	28
Banking by CDS (bps)*					
US	49	-1.0	1	1	23
EZ	50	-2.1	-4	-3	-57
UK	45	-1.6	-5	-1	-45
Large Spanish	51	1.9	-2	-3	-66
Medium Spanish	84	-0.8	-4	0	-67
Corporate by CDS (bps)*					
US Non-financial	137	-1.0	1	-4	-23
EZ Non-financial	68	-2.1	-4	-3	-57
UK Non-financial	101	-1.9	-3	-6	-24
Interbank markets (% changes in bps)					
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	-0.19	0.00	0.0	0.0	-0.1
Libor 3m	1.38	0.00	0.0	0.0	0.4
Libor 12m	1.85	0.00	0.0	0.1	0.2
Stock markets (%)					
Main indices					
S&P500	2,572	-0.4	0.3	2	13
Dow Jones	23,360	-0.3	0.4	4	17
Nikkei	22,012	0.0	1.5	8	12
FTSE 100	7,488	-0.2	0.5	2	4
Eurostoxx 50	3,652	0.3	1.5	3	10
IEX	10,446	2.4	2.8	1	10
DAX	13,230	0.1	1.7	4	14
CAC	5,494	0.0	2.0	4	12
MIIB	22,353	0.4	1.7	1	16
ASE Athens	744	0.6	1.2	-1	13
MSCI Latam*	85,653	0.1	-0.8	2	17
Ibovexa (Brazil)	74,880	-1.7	-1.0	2	21
MOEX	49,041	0.3	-1.0	-2	5
MSCI EM Europe*	5,196	0.8	-0.2	1	3
Poland	2,517	1.1	1.8	4	26
Mosc (Russia)	2,065	-0.2	0.1	0	9
Ise 100 (Turkey)	108,467	0.5	1.1	6	42
MSCI EM Asia*	905	0.4	-0.2	4	30
Shanghai Com (China)	3,390	-0.8	0.3	2	7
Jakarta (Indonesia)	5,974	-0.4	0.8	2	13
Banking sector					
US banks	136.1	-0.8	0.2	4	13
JPM	101.1	-0.6	1.8	6	16
Ch	73.7	-0.3	0.2	1	20
BoA	27.6	-0.8	1.5	8	20
MS	50.3	-1.7	-0.6	4	15
GS	240.9	-0.4	0.5	2	3
EZ banks	116.0	0.2	0.5	-1	10
BNP	68.9	0.6	1.4	2	10
Crédit Agricole	15.2	-0.2	0.6	-1	24
Deutsche Bank	14.0	-1.5	-2.0	-3	-14
ING	15.9	0.1	1.0	3	14
Intesa	2.9	-0.1	1.5	-2	15
SG	48.5	-0.3	0.4	-1	0
Unicredit	16.7	-1.2	2.4	-7	19
UK banks	89.6	-1.0	-0.9	1	2
HSBC	737.0	-1.5	0.9	1	10
RBS	284.2	-0.6	1.7	7	21
Barclays	183.5	-0.2	-6.1	5	-22
Lloyds	68.1	-1.2	1.6	1	5
Large Spanish banks	89.5	2.7	4.1	-1	15
Santander	5.8	2.2	5.2	-1	15
BBVA	7.4	3.0	3.2	0	14
Medium Spanish banks	77.8	3.6	3.6	-2	6
Cabotbank	4.0	-4.2	4.4	-6	22
Sabadell	1.7	5.7	5.4	-5	22
Bankinter	8.2	3.0	3.4	2	8
Banque	4.1	2.2	1.8	2	0
Currencies (% red for currency depreciation)					
Developed					
EURUSD	1.16	0.3	0.9	-1.3	11
GBPUSD	1.32	0.6	0.1	-1.7	7
USD JPY	113.14	0.5	0.3	0.7	-4
DKK	94.52	0.4	0.6	-1.5	8
Emerging					
USDARS (Argentina)	17.66	-0.3	-1.4	-0.9	-10
USD BRL (Brazil)	3.27	-0.9	-0.9	-2.6	-1
USD CIP (Chile)	638.82	-0.5	-1.1	-0.3	5
USD COP (Colombia)	3020	-0.3	-2.3	-2.6	-2
USD MXN (Mexico)	19.28	-0.7	-1.0	-6.1	10
USD PEN (Peru)	3.25	-0.1	-0.3	0.5	4
LTCI	63.46	-0.7	-1.1	-3.1	3
USD PLN (Poland)	3.65	0.2	-1.5	0.3	12
USD RUB (Russia)	57.90	0.3	-0.6	0.0	4
USD TRY (Turkey)	3.79	0.0	-1.9	-6.4	-6
USD CNY (China)	6.65	0.1	0.1	0.2	4
USD INR (India)	64.85	0.3	0.3	1.0	5
USD IDR (Indonesia)	13,582	0.2	0.3	-0.5	-1
ADY	107.5	0.1	0.1	0.4	4
Commodities (%)					
Brent	60.5	0.0	5.4	5	7
Wti	54	0.3	4.2	5	2
Copper	310	0.2	-2.3	5	22
Gold	1278	0.3	-0.3	-1	10
S&P Spot commodity*	412	0.9	2.3	3	4
S&P Brent Spot*	512	1.8	5.0	5	7
S&P Metals Spot*	374	-1.8	-0.8	3	23
S&P Agricultural*	279	0.2	0.3	-1	-7

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1