

Market Comment | European peripheral risk premiums narrowed during the week

Global Financial Markets Unit
03 Nov 2017

- **Sovereign bond yields declined**, especially in the European periphery, reflecting the improving sentiment in Italy (sovereign rating upgraded by S&P to BBBu from BBB-u citing improving economy ([see](#))) and the breathing space that markets gave to Spain amid new developments in Catalonia's crisis - Spain's risk premium declined to pre-referendum levels. Moreover, the **soft inflation figures in October**, both in Germany ([see](#)) and in the EZ, well below the ECB's target, also boosted yield-hunting strategies as German yields dropped. Nonetheless, EZ 3Q GDP was higher than expected ([see](#)). On the other hand, Greece sovereign yields declined significantly as Greece plans a €30bn swap ([see](#)).
- **European stocks increased during the week** due to several positive factors. Spanish stocks rose, as investors welcomed snap elections in Catalonia ([see](#)). Spain's GDP growth also maintained its recent strong pace ([see BBVA report in Spanish](#)). Moreover, EZ economic confidence reached its highest level since 2001 ([see](#)).
- **US stocks, the USD and US Treasury yields were little changed during the week**, despite several policy releases during the week: **Tax-cut draft** ([see](#)), **next Fed Chair** (confirmed J. Powell to continue Yellen's mandate, [see](#)) and **FOMC meeting**. The FOMC statement ([see](#)) was free of surprises and left rates unchanged at 1.25%. It showed a positive view of economic activity, although the recent rise in inflation was viewed as temporary. Nonetheless concerns of persistently low inflation are unlikely to affect **the expected rate hike in December's meeting**. Today's release of non-farm payrolls (increasing but missing expectations) had a muted impact on markets, despite the upward revision of September data.
- **The Bank of England increased its bank rate after a decade by 0.25% to 0.50%** ([see](#)). The movement was widely expected by markets, but the dovish tone in the statement: "future increases in Bank Rate would be expected to be at a gradual pace and to a limited extent" contributed to add **downward pressure on the GBP and yields after the decision**.
- The JPY depreciated slightly after the **BoJ kept its monetary policy steady**, and showing lingering signs of a continuation of easing measures ([see](#)).
- **Oil prices** remained **hovering around maximum levels since early 2015** after the recent increases amid signs of growing demand and output cuts by OPEC ([see](#)). However, EM currencies showed a mixed performance during the week. On the other hand, stock prices in EM countries declined

significantly, while bond yields rose.

BBVA Research suggests the following reading list:

- Interview with Benoît Cœuré ([see](#))
- Why machines do not have to be the enemy ([see](#))

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Table 1

Debt markets (% 10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	1.63	2.5	4.5	16	42
US	2.36	1.3	-4.9	3	-6
GER (2-yr)	-0.75	0.0	1.9	-5	2
Germany	0.37	-0.4	-1.5	9	2
France	0.75	-0.6	-3.8	-15	-21
Spain	1.47	-1.1	-11.4	-31	0
Italy	1.79	-0.3	-15.6	-43	-11
Portugal	2.06	-3.5	-13.1	-35	-211
Greece	5.14	5.4	-39.9	-46	-174
Japan (2-yr)	-0.16	0.0	-1.7	-3	3
Japan	0.06	-1.8	0.0	-1	-15
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.22	20.7	46.5	45	-119
Chile	4.49	0.0	-0.3	6	17
Colombia	6.73	2.1	11.7	27	-36
Mexico	7.28	3.0	1.9	36	-36
Peru	5.08	-0.3	1.1	20	-139
Poland	3.47	-0.5	4.2	8	-24
Russia	7.68	2.5	4.0	2	-77
Turkey	11.90	33.0	28.0	116	98
India	6.86	-0.2	5.4	16	48
Indonesia	6.64	-0.5	-18.5	15	-120
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	39	-0.2	-2.3	-6	-30
Italy	143	0.1	-14.1	-35	-20
Portugal	170	-3.1	-11.6	-27	-185
Spain	110	-0.7	-9.9	-23	-5
2-yr sovereign spread vs Germany					
France	16	-0.6	-1.0	-6	5
Italy	44	-0.8	-5.9	-4	-17
Portugal	61	-0.3	-1.7	-8	-86
Spain	39	-1.9	-6.8	-7	-10
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	169	-1.1	-7	-17	-103
Chile	50	0.1	-4	-6	-32
Colombia	115	1.7	0	2	-48
Mexico	107	-0.8	-3	5	-50
Peru	71	-0.3	-6	-8	-37
Venezuela	5,663	82.1	-105.5	-303	1758
Poland	50	0.6	2	0	-25
Russia	130	0.5	0	-5	-47
Turkey	190	1.9	1	11	-83
China	54	2.2	7	-5	-62
India	71	0.4	0	-5	-56
Indonesia	95	1.6	1	-7	-61
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (%)					
VIX	10	3.0	-3	-1	-2
VSTOXX	12	-0.6	-4	-6	-5
EM EFT volatility index	17	6.2	2	8	-17
Dollar/euro volatility	6	-4.7	-11	-23	-45
EM FX volatility index	8	0.0	2	3	-28
Credit spread (BAA) (bps)	190	-1.3	-4	-10	-37
US bonds volatility index	49	-2.4	-11	-11	-36
Banking By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	49	0.2	-1	-1	-23
EZ	46	0.8	-7	-8	-62
UK	42	0.5	-5	-5	-48
Large Spanish	45	0.7	-4	-13	-72
Medium Spanish	79	0.3	-7	-10	-73
Corporate By CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	86	0.2	-1	-1	-23
EZ Non-financial	88	0.8	-7	-8	-62
UK Non-financial	74	0.2	-9	-11	-51
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.35	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	1.39	0.01	0.0	0.0	0.4
Libor 12m	1.86	0.01	0.0	0.1	0.2
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,580	0.0	0.0	2	14
Dow Jones	23,521	0.0	0.4	4	18
Nikkei	22,539	0.0	2.4	9	15
FTSE 100	7,552	0.0	0.6	1	5
EuroStoxx 50	3,684	-0.1	0.9	2	-11
BSE	10,340	-1.1	1.4	4	9
DAX	13,468	0.2	1.9	4	16
CAC	5,507	0.1	0.2	3	12
MIB	23,011	-0.2	1.5	2	17
ASE Athens	762	-0.1	3.1	2	16
MSCI Latam *	83,794	-0.2	-2.1	-3	-14
Ibovespa (Brazil)	73,334	-0.7	-3.5	-4	-19
Bovespa	43,921	-0.9	-2.6	-5	-3
MSCI EM Europe *	5,273	-0.3	2.3	2	4
Poland	2,485	-0.6	-0.1	2	24
Moscú (Russia)	2,083	0.5	0.7	0	8
lse 100 (Turkey)	111,136	-1.6	3.0	6	46
MSCI EM Asia *	919	-0.2	2.0	4	32
Shanghai Com (China)	3,372	-0.3	-1.3	1	7
Jakarta (Indonesia)	6,040	0.0	0.7	2	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	136.6	-0.8	-0.4	3	14
Cit	100.9	-0.6	-0.8	5	16
Ch	74.1	-0.9	0.3	0	21
BoA	27.7	-0.4	-0.2	8	21
MS	49.8	-1.2	-2.6	2	14
GS	244.5	-1.0	1.2	2	1
EZ banks					
BNP	112.9	-1.6	-2.9	-3	7
Crédit Agricole	65.6	-0.9	-4.2	-3	4
Crédit Agricole	14.8	-1.7	-3.2	-4	20
Deutsche Bank	14.5	-1.0	-2.3	1	-11
ING	15.7	-0.8	-1.2	1	13
Intesa	2.8	-0.8	-2.5	-3	12
SG	45.8	-4.0	-5.9	-7	-5
UK banks					
Unicredit	16.5	-1.8	-2.7	-5	17
H8C	89.0	-0.6	-1.6	-1	1
H8C	738.8	0.2	-1.3	-1	10
RBS	278.0	-1.3	-2.7	2	19
Barclays	183.0	-1.1	-0.4	-5	-22
Lloyds	67.4	-0.8	-2.2	0	4
Large Spanish banks					
Santander	87.9	2.1	0.8	2	13
Santander	5.7	-2.2	-0.1	2	13
BBVA					
BBVA	7.3	-2.0	1.6	2	13
Medium Spanish banks					
Cajabank	76.1	-1.6	1.4	3	4
Cajabank	4.0	-2.0	3.2	1	21
Sabadell	1.7	-2.5	6.4	6	23
Bankinter	7.8	-0.8	-1.6	2	3
Bankia	4.0	-1.3	-0.9	4	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.16	-0.4	0.0	-1.3	11
GBPUSD					
GBPUSD	1.31	0.1	-0.5	-1.4	6
USDJPY					
USDJPY	114.39	-0.3	-0.6	1.4	-2
DXY					
DXY	94.98	0.3	0.1	1.6	6
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)					
USDARS	17.63	-0.6	-0.1	-1.5	-10
USDBRL (Brazil)					
USDBRL	3.32	-1.6	-2.5	-5.8	-3
USDCUP (Cuba)					
USDCUP	624.30	-0.7	0.2	0.4	6
USDCOP (Colombia)					
USDCOP	3074	-1.5	-2.1	-4.6	-4
USDMXN (Mexico)					
USDMXN	19.22	-1.2	-0.5	-5.2	10
USDPEN (Peru)					
USDPEN	3.25	-0.3	-0.1	0.3	4
LKR					
LKR	63.19	-1.3	-1.1	-4.0	-3
USDPLN (Poland)					
USDPLN	3.66	-0.7	0.0	-0.1	12
USD RUB (Russia)					
USD RUB	59.16	-1.7	-1.8	-2.6	2
USDTRY (Turkey)					
USDTRY	3.87	-2.0	-2.2	-8.4	-8
USDCNY (China)					
USDCNY	6.64	0.4	0.2	0.2	4
USDINR (India)					
USDINR	64.55	0.1	0.8	0.7	5
USDIDR (Indonesia)					
USDIDR	13,498	0.4	0.8	-0.2	0
ADNY	107.7	-0.3	0.2	0.4	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	60.9	0.5	0.8	9	8
WTI					
WTI	55	0.2	1.4	9	3
Copper					
Copper	310	-1.1	0.3	5	22
Gold					
Gold	1267	-0.7	-0.6	-1	9
S&P Spot commodity *					
S&P Spot commodity *	416	0.1	0.9	6	5
S&P Brent Spot *					
S&P Brent Spot *	516	0.2	0.8	9	7
S&P Metals Spot *					
S&P Metals Spot *	379	-0.5	1.5	3	25
S&P Agricultural *					
S&P Agricultural *	279	0.7	0.1	0	-7

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Portugal	61	-0.3	-1.7	-8	-86
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level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *					
Brazil	169	-1.1	-7	-17	-103
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level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.35	0.00	0.0	0.0	0.0
Eurbor 3m	-0.33	0.00	0.0	0.0	0.0
Eurbor 12m	-0.19	0.00	0.0	0.0	-0.1
Libor 3m	1.39	0.01	0.0	0.0	0.4
Libor 12m	1.86	0.01	0.0	0.1	0.2
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,580	0.0	0.0	2	14
Dow Jones	23,523	0.0	0.4	4	18
Nikkei	22,539	0.0	2.4	9	15
FTSE 100	7,552	0.0	0.6	1	5
EuroStoxx 50	3,664	-0.1	0.9	2	11
IBEX	10,340	-1.1	1.4	4	9
DAX	13,468	0.2	1.9	4	16
CAC	5,507	-0.1	0.2	3	12
MIIB	23,011	-0.2	1.5	2	17
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Mumbai	47,021	-0.9	-2.6	-5	3
MSCI EM Europe *	5,273	-0.3	2.3	2	4
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Moscow (Russia)	2,083	0.5	0.7	0	8
Ise 100 (Turkey)	111,136	-1.6	3.0	6	46
MSCI EM Asia *	919	-0.2	2.0	4	32
Shanghai Com (China)	3,372	-0.3	-1.3	1	7
Jakarta (Indonesia)	6,040	0.0	0.2	2	14
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	100.9	-0.6	-0.8	5	16
CB	74.1	-0.9	0.3	0	21
BoA	27.7	-0.4	-0.2	8	21
MS	49.8	-1.2	-2.6	2	14
GS	244.5	-1.0	1.2	2	1
EZ banks					
BNP	65.6	-0.9	-4.2	-3	4
Credit Agricole	14.8	-1.7	-3.2	-4	20
Deutsche Bank	14.5	-1.0	2.3	1	-11
ING	15.7	-0.8	-1.2	1	13
Intesa	2.8	-0.8	-2.5	-3	12
SG	45.8	-4.0	-5.9	-7	-5
Unicredit	16.5	-1.8	2.7	-5	17
UK banks					
HSBC	738.8	0.2	-1.3	-1	10
RBS	278.0	-1.3	-2.7	-2	19
Barclays	183.0	-1.1	-0.4	-5	22
Lloyds	67.4	-0.8	-2.2	0	4
Large Spanish banks					
Santander	87.9	-2.1	0.6	2	13
Banco Sabadell	5.7	-2.2	0.1	2	13
BBVA	7.3	-2.0	1.6	2	13
Medium Spanish banks					
Cajabank	76.1	-1.6	1.4	3	4
Caja de Pensiones	4.0	-2.0	3.2	1	21
Sabadell	1.7	-2.5	6.4	6	23
Bankinter	7.8	-0.8	-1.6	2	3
Bankia	4.0	-1.3	-0.9	4	3
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.16	-0.4	0.0	-1.3	11
GBPUSD	1.31	0.1	-0.5	-1.4	6
USDJPY	114.39	-0.3	-0.6	1.4	2
USDY	94.98	0.3	0.5	-1.6	8
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	17.63	-0.6	-0.1	-1.5	-10
USD BRL (Brazil)	3.32	-1.6	-2.5	-5.8	-3
USD CUP (Cuba)	634.30	-0.7	0.2	-0.4	6
USDCOP (Colombia)	3074	-1.5	-2.1	-4.6	-4
USDMXN (Mexico)	19.22	-1.2	-0.5	-5.2	10
USD PEN (Peru)	3.25	-0.3	-0.1	0.3	4
LACI	63.19	-1.3	-1.1	-4.0	3
USD PLN (Poland)	3.66	-0.7	0.0	-0.1	12
USD RUB (Russia)	59.16	-1.7	-1.8	-2.6	2
USD TRY (Turkey)	3.87	-2.0	-2.2	-8.4	-8
USDCNY (China)	6.64	-0.4	0.2	0.2	4
USD INR (India)	64.55	0.1	0.8	0.7	5
USD IDR (Indonesia)	13,498	0.4	0.6	-0.2	0
ADXY	102.7	-0.3	0.2	0.4	4
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	60.9	0.5	0.8	9	8
WTI	55	0.2	1.4	9	3
Copper	310	-1.1	0.3	5	22
Gold	1267	-0.7	-0.6	-1	9
S&P Spot commodity *	416	0.1	0.9	6	5
S&P Brent Spot *	516	0.2	0.8	9	7
S&P Metals Spot *	379	-0.5	1.5	3	25
S&P Agricultural *	279	0.7	0.1	0	-7

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1