

Market Comment | The USD and US yields rise after Senate passes tax reform bill

Global Financial Markets Unit 04 Dec 2017

- US politics triggered market volatility in the final part of last week. Former National Security Adviser
 Flynn admitted he had lied regarding Russian inference in the presidential campaign. This could
 seriously affect Trump's political capital, as people very close to the president could be involved (see).
 Markets ended the week in very negative mood (drop of US interest yields and equity indices coupled
 with USD depreciation).
- Nonetheless, the mood in markets improved clearly as the US Senate voted to pass the US tax reform bill during the weekend(see). Now that the Senate has approved the proposal, it has to be slightly modified to reconcile differences with the House's version of the law before Trump's signature. Equity markets reacted positively across the board and sovereign yields inched up during the session. The 10-2Y US spread remained hovering around its lowest level since 2009, while financial markets are trying to estimate the potential impact of the likely tax-cut in the Fed's tightening process during next year.
- High volatility in the GBP after the lack of agreement on one of the key issues to bring the negotiations to the next stage. The situation of the Northern Ireland border after Brexit was in the spotlight and Juncker said that "it was no possible to reach a complete agreement today". Apart from this issue, there were other items to discuss before ending the first phase of negotiations, such as the role of the European Court of Justice (ECJ) after Brexit (see).
- Volatility in Brent crude prices remained as the market continued to digest the recent extension of supply cuts. In this context, emerging currencies remained almost unchanged despite the fact that the recent tailwinds are shifting, and gradually turning into headwinds (oil prices, US yields and the USD).

Update 17.35 CET 4 December 2017 Table 1



| Debt market | e (10 V % ch | annee in b | w) | | |
|--|--|--|--|--|---|
| Developed Markets US (2-yr) | 1.81 | Daily 3.6 | Week 6.8 | Month 20 | YTD 59 |
| US GER (2-yr) | 2.39 -0.71 0.34 | 2.9 -0.1 | 6.2 0.1 -0.1 | 5 4 | -5 7 |
| Germany France | 0.65 | 3.6 4.4 | -2.4 | -3 -11 | 7 -16 |
| Spain Italy | 1.41 | -0.4 -0.1 | -6.0 -6.9 | -7 -8 | -2 -15 |
| Portugal Greece | 1.90 5.38 | 1.7 -6.7 | -1.6 1.1 2.5 | -20 30 | -200 -150 |
| Japan (2-yr) Japan Emerging Markets | -0.15 0.04 | 0.6 -0.2 | -1.4 | -2 -2 | 5 -2 |
| Brazil | 10.28 4,64 | Daily -5.4 | Weekly 12.0 2.9 | Monthly 27 | -113 |
| Chile Colombia Mexico | 6.47 7.27 | 0.0 -1.9 1.8 | -8.6 5.4 | 16 -24 2 | -62 -37 |
| Peru Poland | 4.97 | -1.2 | -4.0 | -11 -15 | -150 -39 |
| Russia Turkey | 3.32 7.66 11.74 | -1.6 1.3 -3.0 | -1.8 -1.4 -35.0 | 1 17 | -78 -74 |
| India Indonesia | 7.08 6.54 | 2.4 | 2.7 | 22 -19 | 70 -131 |
| Country r | isk (bp. chang | | | | |
| Developed Markets 10-yr sovereign spread vs Germany | level | Daily | Weekly | Monthly | YTD |
| France Italy | 31 137 | 0.8 -3.7 -1.8 | -2.3 -6.8 | -8 -5 | -38 -25 |
| Portugal Spain | 156 107 | -1.8 -4.0 | -1.4 -5.9 | -17 -4 | -198 -9 |
| 2-yr so vereign spread vs Germany France | 12 | 0.8 | -0.7 | -4 | 2 |
| Italy Portugal | 36 46 | -0.1 -4.8 | -1.1 -0.9 | -9 -15 | -25 -101 |
| Spain Emerging Markets | 35 level | -1.5 Daily | -3.0 Weekly | -5 Monthly | -13 YTD |
| 5-yr sovereign CDS * Brazil | 170 | -0.3 | 4 | 0 | -102 |
| Chile Colombia | 56 113 | 0.1 | 3 | 5 -1 | -27 -50 |
| Mexico Peru | 102 72 | 0.2 | 0 | -6 1 | -54 -36 |
| Poland | 50 131 | -1.1 | -4 | - 1 | -25 |
| Russia Turkey | 200 | 4.5 1.7 | -6 | 12 | -45 -72 |
| China India | 57 72 | -0.4 0.8 | -3 1 | 5 1 | -60 -55 |
| Indonesia R | 94 isk indicators | | -4 | 1 | -62 |
| Volatilty indicators (%) VIX | level 11 | Daily -5.3 | Weekly 10 | Monthly 9 | YTD -1 |
| VSTOXX EM EFT volatility Index | 14 19 | -13.7 -3.4 | 2 | 15 20 | -3 -6 |
| Dollar/euro volatility EM FX volatility index | 7 8 | -0.4 0.5 | -4 3 | 12 | -36 -28 |
| EM FX volability index Credit spread (BAA) (bps) US bonds volatility index | 185 50 | -2.9 | -7 | -4 3 | -28 -42 -34 |
| Banking 5 y CDS (bps) * | level | 7.1 Daily | 11 Weekly | Monthly | |
| US EZ | 47 41 | 1.8 0.3 | -1 | -1 -4 | -25 -67 |
| UK Large Spanish | 46 40 | 1.1 0.9 | 1 | -5 | -45 -77 |
| Medium Spanish Corporate 5y CDS (bps) * | 78 level | 1.3 Daily | -2 Weekly | -1 Monthly | -74 YTD |
| US Non-financial EZ Non-financial | 146 64 | 1.8 0.3 | -1 | -1 -4 | -25 -67 |
| UK Non-financial Interbank m | 97 arkets (% chi | 0.1 anges in b | 0 | -2 | -27 |
| | level | Daily | Weekly | Monthly | YTD |
| EONIA Index Euribor 3 m Euribor 12 m | -0.29 -0.33 -0.19 | 0.00 | 0.1 0.0 0.0 | 0.1 0.0 0.0 | 0.1 0.0 -0.1 |
| Libor 3m | 1.49 | 0.01 | 0.0 | 0.1 | 0.5 |
| Libor 12m Sto | ck markets (| | 0.0 | 0.1 | 0.3 |
| Main indices | level | Daily 0.4 | Weekly | Monthly | YTD |
| S&P500 Dow Jones | 2,654 24,452 | 0.9 | 2.0 3.7 | 3 4 | 17 23 |
| Nikkei FTSE 100 | 22.707 7,341 | -0.5 0.6 | 0.9 -0.6 | -3 | 16 |
| EuroStoxx 50 IBEX | 3,573 10,210 | 1.3 | 0.3 1.5 | -3 -2 | 8 |
| DAX | 13,046 5,385 | 1.4 | 0.4 | -3 -2 | 13 10 |
| MIB ASE Athens | 22,322 742 | 1.0 | 0.7 | -3 -3 | 14 13 |
| MSCI Latam * Ibovespa (Brazil) | 81,455 73,298 | 0.4 1.4 | -2.1 -1.0 | -3 -1 | 11 19 |
| Mexicol MSCI EM Europe * | 47.296 5.208 | 0.1 | 0.0 | -2 -2 | 2 |
| Poland Micro (Russia) | 2.404 | 0.6 | -3.7 | -4 2 | 20 -6 |
| Ise 100 (Turkey) MSCI EM Asia * | 105,215 | 1.6 | 0.4 | | |
| Shanghai Com (China) | 001 | | | -7 | 38 |
| Shanghai Corr (Crima) | 901 3,310 | -0.4 -0.2 | -3.8 -0.4 | -2 -2 | 29 5 |
| Jakarta (Indonesia) Banking sector | 3,310 5,998 level | -0.2 0.8 Daily | -3.8 -0.4 -1.1 Weekly | -2 -2 -1 Monthly | 29 5 14 YTD |
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Source: Bloomberg, Datastream and Haver

* With one day delay

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October, 2017 Table 1