

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

Global Financial Markets Unit
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- **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).

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Table 1

D&M markets (10Y % changes in bp)					
	level	Daily	Weekly	Monthly	YTD
Developed Markets					
US (2-yr)	1.01	3.6	6.8	20	59
US	2.39	2.9	6.2	5	5
GER (2-yr)	-0.71	-0.1	0.1	4	7
Germany	0.34	3.6	-0.1	-3	7
France	0.63	4.4	-2.4	-11	-16
Spain	1.41	-0.4	-6.0	-7	-2
Italy	1.72	-0.1	-6.9	-9	-15
Portugal	1.90	1.7	-1.6	-20	-200
Greece	5.38	-6.7	1.1	30	-150
Japan (2-yr)	-0.15	0.6	2.5	2	5
Japan	0.04	-0.2	-1.4	-2	-2
Emerging Markets					
Brazil	10.28	-5.4	12.0	27	-113
Chile	4.64	0.0	2.9	16	32
Colombia	6.47	-1.9	-8.6	-24	-62
Mexico	7.27	1.8	5.4	-2	-37
Peru	4.97	-1.2	-4.0	-11	-190
Poland	3.32	-1.6	-1.8	-15	-39
Russia	7.66	1.3	-1.4	1	-78
Turkey	11.74	-3.0	-35.0	17	74
India	7.08	2.4	2.7	22	70
Indonesia	6.54	1.8	-5.6	-19	-131
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	31	0.8	2.3	-8	-38
Italy	137	-3.7	6.8	-5	25
Portugal	156	-1.8	-1.4	-17	-198
Spain	107	-4.0	-5.9	-4	-9
2-yr sovereign spread vs Germany					
France	12	0.8	-0.7	-4	2
Italy	36	-0.1	-1.1	-9	-25
Portugal	46	-4.8	-0.9	-15	-101
Spain	35	-1.5	-3.0	-5	-13
Emerging Markets					
5-yr sovereign CDS *					
Brazil	170	-0.3	4	0	-102
Chile	56	0.1	3	5	27
Colombia	113	-0.2	2	-1	-50
Mexico	102	0.2	0	-6	-54
Peru	72	0.0	2	1	-36
Poland	50	-1.1	-1	1	-25
Russia	131	4.5	1	2	-45
Turkey	200	1.7	-6	12	-72
China	57	0.4	-3	5	60
India	72	0.8	1	1	-55
Indonesia	94	0.7	-4	1	-62
Risk indicators					
Volatility indicators (v)					
VIX	11	-5.3	10	9	-1
VST OXX	14	-13.7	2	15	-3
EM EFT volatility index	19	-3.4	7	20	-6
Dobrosrta volatility	7	0.4	-4	12	36
EM FX volatility index	8	0.5	3	0	-28
Credit spread (BAA) (bps)	185	-2.9	-7	-4	-42
US bonds volatility index	50	2.1	13	3	24
Banking 5y CDS (bps) *					
US	47	1.8	-1	-1	-25
EZ	41	0.3	1	-4	-67
UK	46	1.1	2	4	-45
Large Spanish	40	0.9	1	-5	-77
Medium Spanish	78	1.3	-2	-1	-74
Corporate 5y CDS (bps) *					
US Non-financial	146	0.8	1	-1	-25
EZ Non-financial	64	0.3	1	-4	-67
UK Non-financial	97	0.1	0	-2	-27
Interbank markets (% changes in bp)					
EONIA Index	-0.29	0.00	0.1	0.1	0.1
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	1.49	0.01	0.0	0.1	0.5
Libor 12m	1.96	0.01	0.0	0.1	0.3
Stock markets (%)					
Main indices					
S&P500	2,654	0.4	2.0	3	17
Dow Jones	24,452	0.9	3.7	4	23
Nikkei	22,707	-0.5	0.9	1	16
FTSE 100	7,341	0.6	-0.6	-3	2
EuroStoxx 50	3,573	1.3	0.3	-3	8
IBEX	10,210	1.2	1.5	-2	8
DAX	13,046	1.4	0.4	-3	13
CAC	5,385	1.3	0.5	-2	10
MIB	22,322	1.0	0.7	-3	14
ASE Athens	742	-0.9	2.4	-3	13
MSCI Latam *	81,455	0.4	-2.1	-3	11
Ibovespa (Brazil)	73,298	1.4	-1.0	-1	19
Moexv	47,296	0.1	0.0	-2	2
MSCI EM Europe *	5,208	0.1	-2.2	2	3
Poland	2,404	0.6	-3.7	-4	20
Micos (Russia)	2,119	0.6	-1.2	2	-6
Ise 100 (Turkey)	105,215	1.6	0.4	-7	38
MSCI EM Asia *	901	-0.4	-3.8	-2	29
Shanghai Com (China)	3,310	-0.2	-0.4	-2	5
Jakarta (Indonesia)	5,998	0.8	-1.1	-1	14
Banking sector					
US banks					
JPM	107.1	2.2	9.3	5	23
Citi	77.1	2.1	8.0	3	26
BofA	29.1	3.4	9.3	4	27
MS	52.9	1.9	8.0	5	21
GS	251.5	1.0	7.0	2	3
EZ banks					
BNP	111.1	1.7	1.3	-3	5
Crédit Agricole	64.1	2.0	1.5	-3	2
Deutsche Bank	14.3	1.7	1.7	-5	16
ING	16.1	2.1	2.5	10	-1
Intesa	19.2	1.5	0.1	-4	9
SG	2.8	1.5	1.6	-2	11
Ungarnto	43.0	2.4	0.2	-10	-11
Ungarnto	17.0	0.4	0.2	1	21
UK banks					
HSBC	89.1	1.3	1.2	-1	1
RBS	734.3	0.6	-0.2	0	10
Barclays	274.4	1.6	2.5	-3	17
Lloyds	194.3	0.6	3.6	5	17
Large Spanish banks	65.4	0.9	-0.2	-4	1
Santander	86.1	1.3	0.7	-4	10
BBVA	5.6	1.3	0.0	-4	10
Medium Spanish banks	7.2	1.3	1.3	-4	10
CaixaBank	76.8	0.8	2.2	-1	5
Sabadell	3.9	1.0	0.3	-3	19
Bankinter	1.7	0.8	2.1	-3	22
Bankinter	8.0	0.9	3.1	2	7
Banque	4.1	0.6	3.5	0	-1
Currencies (% ind for currency depreciation)					
Developed					
EURUSD	1.19	-0.3	-0.3	1.7	13
GBPUSD	1.35	0.0	1.1	3.2	9
USDJPY	112.76	-0.5	1.5	-1.2	4
DOY	93.22	0.4	0.3	1.5	9
Emerging					
USDARS (Argentina)	17.29	-0.4	0.1	1.3	8
USDBRL (Brazil)	3.35	0.3	0.7	0.5	-1
USDCLP (Chile)	648.45	-0.2	-1.6	-2.9	3
USDCOP (Colombia)	2994	0.2	0.4	1.2	-1
USDMXN (Mexico)	18.65	-0.1	0.4	1.8	13
USDPEN (Peru)	3.23	0.0	0.1	0.1	4
LACI	64.35	0.0	-0.5	0.6	4
USDPLN (Poland)	3.55	-0.1	0.3	2.4	15
USD RUB (Russia)	58.85	0.1	-0.6	-1.1	3
USDTRY (Turkey)	3.88	0.9	0.7	-2.2	9
USDCNY (China)	6.62	-0.1	-0.3	-0.2	5
USDINR (India)	64.38	0.1	0.2	0.4	5
USDIDR (Indonesia)	13,527	0.0	-0.1	0.2	-1
ADXY	108.6	-0.1	-0.1	0.6	5
Commodities (%)					
Brent					
WTX	58	-1.3	-0.8	6	8
Copper	306	-0.1	-2.2	-2	20
Gold	1274	0.9	1.6	0	10
S&P Spot commodity *	429	1.2	0.0	3	8
S&P Brent Spot *	542	1.8	0.6	5	13
S&P Metals Spot *	379	1.6	-1.3	-2	21
S&P Agricultural *	286	0.7	1.0	2	-5

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1