

Market Comment | A bullish week for the EUR

Global Financial Markets Unit
26 Jan 2018

- As expected, the **ECB maintained its monetary policy stance** ([see statement](#)), although the GC showed concerns over the recent EUR strength ([see BBVA ECB watch](#)). **Mr Draghi criticised the strategy of targeting the currency followed by other countries** ([see](#)). After the meeting, the EUR breached the level of US\$1.25. **Draghi's comments on the recent inflation path** ([see](#)) supported this move.
- **A deluge of appreciatory factors for the EUR concurred this week, sending the EUR to nearly its 3-year highest level.** The EUR started on the front foot amid (i) positive news on **German coalition talks** ([see](#)) and continued with (ii) the **US administration's rhetoric backing a weaker USD**, saying that it is good for trade, breaking with tradition ([see](#)). (iii) higher than expected preliminary **PMI data** ([see](#)) and especially (iv) the **ECB meeting outcome**, which also supported this trend at the end of the week.
- **European bond yields increased after the ECB meeting.** Meanwhile, the Spanish risk premium remained below the 80 bps level after positive demand for its syndicated bond issue ([see](#)) and following the **upward rating revision by Fitch rating agency to A- from BBB+** ([see](#)).
- On the other hand, **the BoJ maintained its monetary policy stance and both inflation and growth forecasts** ([see statement](#)). The BoJ's Governor said that the **BoJ is not ready to reduce monetary stimulus**. Bond yields declined across the board after the announcement ([see](#)). In addition, Japanese stock prices rose notably ([see](#)).
- **FX markets seem to have played a role in stock markets**, as European stocks inched down as the EUR's strength weighed on them somewhat. Meanwhile, US stocks rose amid a higher USD, positive corporate earnings reports and the avoidance of the US government shutdown at least until mid-February ([see](#)).
- **A positive week for emerging markets' assets. EM stocks rose and currencies** reached record highs (EM currency index) on the back of higher commodity prices. The only **exception was the ARS**, which dropped notably after the central bank surprisingly cut policy rates ([see](#)). **Oil prices rose** after the IMF raised world economic growth prospects, while OPEC continued to give reassurances on oil production cuts ([see](#)).

BBVA Research suggests the following reading list:

- [Credit Growth and Economic Recovery in Europe after the Global Financial Crisis \(see\)](#)
- [The Current Economic Sweet Spot is not the “New Normal” \(see\)](#)
- [Comparability of Basel risk weights in the EU banking sector is questionable \(see\)](#)

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	2.10	2.0	3.9	21	89
UK	2.63	1.9	-2.9	22	19
GER (2-yr)	-0.56	1.1	4.5	9	22
Germany	0.62	0.4	4.8	23	27
France	0.90	1.2	5.4	18	9
Spain	1.42	1.1	-2.2	-5	-1
Italy	1.99	2.6	2.6	7	12
Portugal	1.93	2.6	-4.6	-14	-219
Greece	3.67	-3.1	-17.1	-44	-321
Japan (2-yr)	-0.13	0.1	0.4	1	6
Japan	0.08	-0.2	2.2	1	1
Emerging Markets	level	Daily	Weekly	Monthly	Year
Brazil	9.68	-5.2	-20.0	-64	-173
Chile	4.96	0.0	2.0	11	24
Colombia	6.38	-0.4	-6.4	-10	-72
Mexico	7.52	0.4	-4.7	-23	-12
Peru	4.40	-0.9	-5.2	-48	-207
Poland	3.54	15.2	21.5	24	-18
Russia	7.48	-0.3	0.8	-19	-97
Turkey	13.55	4.0	-22.0	-5	95
India	7.31	0.0	1.2	9	93
Indonesia	6.22	0.1	2.1	-14	-162
Country risk bp (Changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	28	0.8	0.6	-5	-18
Italy	137	2.2	-2.2	-16	-15
Portugal	132	2.4	-9.4	-14	-223
Spain	81	0.7	-7.0	-28	-28
2-yr sovereign spread vs Germany					
France	14	0.4	-2.1	-5	4
Italy	26	-0.9	-3.4	-11	-35
Portugal	46	0.2	-24.9	-18	-53
Spain	17	-1.1	-4.8	11	31
Emerging Markets	level	Daily	Weekly	Monthly	Year
5-yr sovereign CDS *					
Brazil	143	-2.5	-3	-19	-128
Chile	43	0.1	0	-7	-39
Colombia	90	-0.6	-1	-15	-73
Mexico	98	0.0	2	-8	-58
Peru	67	0.2	1	-5	-41
Poland	48	0.1	-1	0	-27
Russia	111	-0.9	0	-6	-65
Turkey	163	-0.6	0	-3	-109
China	52	1.4	3	1	65
India	67	0.4	-1	-3	-60
Indonesia	80	1.1	0	-6	-76
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year
VIX	12	-0.3	2	10	0
VSTOXX	12	-2.9	4	-3	-4
EM EFT volatility index	19	0.0	16	31	5
Dovolenstvo volatility	8	-0.1	1	35	26
EM FX volatility index	8	3.3	3	5	-26
Credit spread (BAA) (bps)	167	-1.3	5	9	-60
US bonds volatility index	53	-1.2	2	12	-30
Inflation expectations (%)	level	Daily	Weekly	Monthly	Year
US Inflation expectations (5Y5Y)	2.37	-4.5	-4	5	-16
EZ Inflation expectations (5Y5Y)	1.73	-1.7	-3	2	-6
Changing 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US	42	-0.8	0	0	-30
EZ	35	-0.6	-1	-5	-73
UK	40	0.7	-1	-2	-50
Large Spanish	30	-0.9	-4	-7	-87
Medium Spanish	62	-1.5	-7	-13	-90
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	Year
US Non-financial	138	0.8	-1	-1	-30
EZ Non-financial	59	-0.6	-1	5	-73
UK Non-financial	95	0.1	-1	3	-30
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
OMIA 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	1.75	0.00	0.0	0.1	0.8
Libor 12m	2.23	0.00	0.0	0.1	0.5
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	Year
S&P 500					
S&P 500	2,833	0.0	1.0	6	25
Dow Jones	26,393	0.0	1.2	7	32
Nikkei	23,632	0.2	0.7	3	21
FTSE 100	7,651	0.5	-1.0	0	6
EuroStoxx 50	3,648	0.5	0.0	3	10
IBEX	10,608	0.1	1.2	4	12
DAX	13,325	0.2	0.8	2	15
CAC	5,534	1.0	0.1	3	13
MI	23,797	0.3	0.2	7	21
ASE Athens	882	0.5	4.1	9	34
MSCI Latam *	92,213	0.0	2.7	9	26
Ibovespa (Brazil)	84,419	0.9	3.9	11	37
Mexol	50,778	0.0	2.2	4	9
MSCI EM Europe *	5,816	-0.2	1.2	9	15
Poland	2,596	0.2	0.2	5	30
Micex (Russia)	2,291	-1.3	0.2	9	1
ISEQ (Turkey)	120,114	1.3	4.3	7	58
MSCI EM Asia *	990	-0.2	1.9	9	42
Shanghai Com (China)	3,558	0.3	2.0	9	13
Jakarta Indonesia	6,661	0.7	2.9	7	26
Banking sector	level	Daily	Weekly	Monthly	Year
US banks					
US banks	153.9	0.0	1.5	7	27
JPM	115.7	0.0	2.4	8	33
Citi	79.4	0.0	1.5	6	29
BoA	32.1	0.0	1.2	8	40
HS	56.8	0.0	1.1	8	30
GS	269.0	0.0	5.0	5	11
EZ banks					
EZ banks	119.1	0.2	1.6	8	13
BNP	66.2	0.3	1.9	9	9
Credit Agricole	15.4	0.4	1.3	11	25
Deutsche Bank	15.8	0.0	3.0	-2	-3
ING	16.2	-0.1	-1.3	5	17
Intesa	3.1	0.7	1.8	12	24
SG	46.8	0.8	3.3	8	-3
Unicredit	18.0	-0.4	3.5	14	28
UK banks					
UK banks	96.2	0.7	0.9	5	10
HSC	771.1	0.4	-2.2	1	15
RBS	303.3	1.4	2.0	10	29
Barclays	211.8	0.7	5.6	4	-10
Lloyds	71.6	0.5	0.2	6	11
Large Spanish banks					
Large Spanish banks	92.6	0.1	2.7	7	19
Santander	6.1	-0.1	2.4	9	20
BBVA	7.6	0.2	3.0	6	17
Medium Spanish banks					
Medium Spanish banks	86.3	0.3	4.6	13	18
Cakabank	4.4	-0.5	2.5	12	35
Sabadell	1.9	0.2	3.6	16	40
Banqueparibas	9.2	1.1	6.9	16	22
Bankia	4.3	0.1	4.9	9	6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.24	0.4	1.8	-4.7	19
GBPUSD					
GBPUSD	1.42	0.7	2.8	6.3	16
USDJPY					
USDJPY	109.24	0.2	1.4	3.6	7
USDY					
USDY	88.94	-0.5	-1.8	-4.4	-13
Emerging	level	Daily	Weekly	Monthly	Year
USDARS (Argentina)					
USDARS (Argentina)	19.49	0.5	-2.6	-5.7	-21
USDBRL (Brazil)					
USDBRL (Brazil)	3.14	0.1	1.6	5.2	2
USDCLP (Chile)					
USDCLP (Chile)	599.05	0.0	1.5	2.9	11
USDCOP (Colombia)					
USDCOP (Colombia)	2791	0.3	2.5	6.5	6
USDMXN (Mexico)					
USDMXN (Mexico)	18.53	0.4	0.5	5.9	14
USDPEN (Peru)					
USDPEN (Peru)	3.21	0.0	0.2	1.0	5
USDLQ (Poland)					
USDLQ (Poland)	65.30	0.2	0.8	4.2	6
USDPLN (Poland)					
USDPLN (Poland)	3.33	0.4	2.5	5.6	20
USD RUB (Russia)					
USD RUB (Russia)	55.89	0.0	1.5	3.2	7
USDTRY (Turkey)					
USDTRY (Turkey)	3.75	0.1	1.5	1.8	5
USDCNY (China)					
USDCNY (China)	6.33	0.0	1.2	3.5	9
USDINR (India)					
USDINR (India)	63.54	0.0	0.5	1.0	7
USDIDR (Indonesia)					
USDIDR (Indonesia)	13,306	-0.1	0.1	1.9	1
ADXY					
ADXY	111.9	0.2	0.8	2.5	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Brent	70.3	-0.2	2.4	6	24
WTI					
WTI	66	0.0	3.4	10	23
Copper					
Copper	320	0.0	1.0	-2	26
Gold					
Gold	1353	0.4	1.6	5	16
S&P Spot commodity *					
S&P Spot commodity *	461	-0.1	2.3	5	16
S&P Brent Spot *					
S&P Brent Spot *	595	-0.1	2.5	6	24
S&P Metals Spot *					
S&P Metals Spot *	395	-0.2	1.6	1	30
S&P Agricultural *					
S&P Agricultural *	283	0.1	1.0	0	-6

Debt markets (10Y % changes in bp)					
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Poland	3.54	15.2	21.5	24	-18
Russia	7.48	-0.3	0.8	-19	-97
Turkey	11.55	6.0	27.0	-5	89
India	7.31	0.0	1.2	9	93
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Peru	67	0.2	1	-5	-41
Poland	46	-0.1	-1	0	-27
Russia	111	-0.9	0	-6	-65
Turkey	163	-0.6	0	-3	-109
China	52	1.4	3	1	-65
India	67	0.4	-1	-3	-60
Indonesia	80	1.1	0	-6	-76
Risk indicators					
Volatility indicators (%)					
level	Daily	Weekly	Monthly	Year	
VIX	12	-0.3	2	10	0
VSTOXX	12	-2.9	4	-3	-4
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Dobrosiuro volatility	8	-0.1	1	35	-26
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Banking 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US	42	-0.8	-1	-1	-30
EZ	35	-0.6	-1	-5	-73
UK	40	-0.7	-1	-2	-50
Large Spanish	30	-0.9	-4	-7	-87
Medium Spanish	62	-1.5	-7	-13	-90
Corporate 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US Non-financial	138	-0.8	-1	-1	-30
EZ Non-financial	59	-0.6	-1	-5	-73
UK Non-financial	95	-0.1	-1	-3	-30
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
EURIBOR 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	1.75	0.00	0.0	0.1	0.8
Libor 12m	2.23	0.00	0.0	0.1	0.5
Stock markets (%)					
Index Prices					
level	Daily	Weekly	Monthly	Year	
S&P500	2,839	0.0	1.0	6	25
Dow Jones	26,393	0.0	1.2	7	32
Nikkei	23,632	-0.2	0.7	3	21
FTSE 100	7,651	0.5	-1.0	9	6
EuroStoxx 50	3,648	0.5	0.0	3	10
IBEX	10,608	0.1	1.2	4	12
DAX	13,325	0.2	-0.8	2	15
CAC	5,934	1.0	0.1	3	13
MIB	23,797	0.3	0.2	7	21
ASE Athens	882	0.5	4.1	9	34
MSCI Latam *	92,213	0.0	2.7	9	26
Ibovespa (Brazil)	84,419	0.9	3.9	11	37
Mexol	50,778	0.0	2.2	4	9
MSCI EM Europe *	5,816	-0.2	1.2	9	15
Poland	2,596	0.2	-0.2	5	30
Micex (Russia)	2,291	-1.3	0.2	9	1
Ise 100 (Turkey)	120,114	1.3	4.3	7	58
MSCI EM Asia *	990	-0.2	1.9	9	42
Shanghai Com (China)	3,558	0.3	2.0	9	13
Jakarta (Indonesia)	6,661	0.7	2.9	7	26
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
JPM	115.7	0.0	2.4	8	33
Citi	79.4	0.0	1.5	6	29
BoA	32.1	0.0	1.2	8	40
MS	56.8	0.0	-1.1	8	30
GS	268.0	0.0	5.0	5	11
EZ banks					
BNP	119.1	0.2	1.6	8	13
Credit Agricole	15.4	-0.4	1.3	11	25
Deutsche Bank	15.8	0.0	3.0	-2	-3
ING	16.2	-0.1	-1.3	5	17
Intesa	3.1	0.7	1.8	12	24
SG	46.8	0.8	3.3	8	-3
Unicredit	18.0	-0.4	3.5	14	28
UK banks					
Sabadell	96.2	0.7	0.9	5	10
HSBC	771.1	0.4	-2.2	1	15
RBS	303.3	1.4	2.0	10	29
Barclays	211.8	0.7	5.6	4	-10
Lloyds	71.6	0.5	0.2	6	11
Large Spanish banks					
Santander	6.1	-0.1	2.4	9	20
BBVA	7.6	0.2	3.0	6	17
Medium Spanish banks					
Cakobank	4.4	-0.5	2.5	12	35
Sabadell	1.9	0.2	3.6	16	40
Bankinter	9.2	-1.1	6.9	16	22
Bankia	4.3	0.1	4.9	9	6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.24	0.4	1.6	4.2	19
GBPUSD	1.42	0.7	2.8	6.3	16
USDJPY	109.24	0.2	1.4	3.6	7
DXY	88.94	-0.5	1.8	-4.4	-13
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	19.49	0.5	-2.6	-5.7	-21
USD BRL (Brazil)	3.14	0.1	1.6	5.2	2
USD CUP (Cuba)	599.05	0.0	1.5	2.9	11
USDCOP (Colombia)	378.1	0.3	2.5	6.5	6
USDMXN (Mexico)	18.53	0.4	0.5	5.9	14
USDPEN (Peru)	3.21	0.0	0.2	1.0	5
LACI	65.38	0.2	0.8	4.2	6
USDPLN (Poland)	3.33	0.4	2.5	5.6	20
USD RUB (Russia)	55.89	0.0	1.5	3.2	7
USD TRY (Turkey)	3.75	0.1	1.5	1.8	-5
USDCNY (China)	6.33	0.0	1.2	3.5	9
USDINR (India)	63.54	0.0	0.5	1.0	7
USDIDR (Indonesia)	13,306	-0.1	0.1	1.9	1
ADXY	111.9	0.2	0.8	2.5	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
Wti	70.3	-0.2	2.4	6	24
Copper	66	0.0	3.4	10	23
Copper	320	0.0	1.0	-2	26
Gold	1393	0.4	1.6	5	16
S&P Spot commodity *	461	-0.1	2.3	5	16
S&P Brent Spot *	595	-0.1	2.5	6	24
S&P Metals Spot *	395	-0.2	1.6	1	30
S&P Agricultural *	283	0.1	1.0	0	-6

Source: Bloomberg, Datastream and Haver

* With one day delay

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Table 1