

Market Comment | Equities continue to suffer from increasing yields

Global Financial Markets Unit

05 Feb 2018

- **Equity markets extended their decline across the board, continuing the process of adjustment to a potentially tighter monetary policy**, following the strong US payroll reported last Friday, which also showed acceleration in wages growth ([see](#)). Fed fund futures priced in a 60% probability of three rate hikes in 2018. Market risk measures such as implied volatility in equity markets have topped the highest levels since France's elections, when concerns about the rise of European populism prevailed. Even so, VIX levels are still below those reached immediately after the US elections
- And this was despite January's strong EZ composite PMI (12-year high) ([see](#)). **European bond markets recovered some ground today**, with the 10Y yield declining, trimming last week's losses, also backed by today's cautious message from the ECB's Mario Draghi ([see](#)). Peripheral yields declined slightly less than core yields, except in Italy, with risk premiums widening slightly. US yields inched up in the longer tenors after the strong PMI
- **The USD continued to appreciate against its main peers** after the positive jobs data, supported also by higher-than-expected confidence data released today (highest non-Manufacturing ISM since August 2005 [see](#))
- The recent spike in volatility contributed to diminish the appetite for most risky assets, and emerging assets were no exception, also dragged down due to the recent USD appreciation and decreasing commodity prices (mainly oil). EM currencies and equity showed a slightly negative bias.

Table 1

Update 17.45 CET 05 February 2018

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US 10Y	2.12	-2.0	10.5	17	91
US 2-yr	2.65	6.6	15.3	39	41
GER 10Y	0.56	-1.6	-3.1	5	22
Germany	0.74	-3.1	4.2	30	39
France	1.00	-2.2	2.6	21	19
Spain	1.46	-1.3	4.0	-8	3
Italy	2.03	-2.5	0.1	1	16
Portugal	2.05	3.1	10.5	-10	-208
Greece	3.73	5.1	6.8	-13	-316
Japan 10Y	0.13	-0.6	-1.2	0	6
Japan 2-yr	0.08	-0.5	2.7	2	2
Emerging Markets					
Brazil	9.86	5.8	8.6	-40	-156
Chile	4.60	3.7	8.7	5	28
Colombia	6.47	10.6	9.1	11	62
Mexico	7.59	0.0	0.0	13	5
Peru	4.36	-1.4	-7.2	-26	-211
Poland	3.55	-3.2	-3.7	30	-16
Russia	7.24	-2.9	-24.4	-40	-121
Turkey	11.43	3.0	-21.0	-3	43
India	7.61	4.9	16.9	28	123
Indonesia	6.37	8.5	5.9	19	-147
Country Risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
1-yr sovereign spread vs Germany					
France	26	0.9	-1.6	-9	-20
Italy	129	0.6	-4.3	-29	-23
Portugal	131	6.2	6.3	-17	-224
Spain	72	1.8	-0.2	-39	-36
2-yr sovereign spread vs Germany					
France	15	0.4	1.3	0	4
Italy	23	1.1	0.2	5	-38
Portugal	50	2.8	-13.3	-17	-50
Spain	20	-0.1	2.2	-2	-28
Emerging Markets					
5-yr sovereign CDS *					
Brazil	151	6.9	10	1	-120
Chile	46	3.8	4	-1	-36
Colombia	93	4.7	4	-6	-70
Mexico	100	4.0	4	0	-56
Peru	68	2.3	2	-1	-40
Poland	48	0.7	1	1	-27
Russia	107	2.7	-5	-11	-70
Turkey	167	4.8	3	5	-106
China	58	2.9	7	8	-59
India	67	-0.1	1	4	-60
Indonesia	84	2.8	5	-1	-72
Risk Indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year
VIX	18	2.6	28	93	6
VSTOXX	19	7.4	42	65	2
EM EFT volatility Index	23	0.7	12	45	15
Dollar/Euro volatility	8	6.6	3	32	-22
EM FX volatility Index	9	4.0	4	12	-22
Credit spread (BAA)(bps)	157	-0.6	-2	-18	-70
US bonds volatility Index	60	4.3	8	27	-21
Inflation expectations (%)					
level	Daily	Weekly	Monthly	Year	
US Inflation expectations (5Y)	2.48	7.9	10	13	-6
EZ Inflation expectations (5Y)	1.75	0.7	2	4	-4
Emerging 5Y CDS (bps) *					
US	43	0.0	1	1	-29
EZ	38	1.3	4	1	-69
UK	41	2.1	2	0	-49
Large Spanish	33	1.5	3	-1	-84
Medium Spanish	62	-0.1	3	-12	-89
Corporate 5Y CDS (bps) *					
US Non-financial	143	0.8	1	1	-29
EZ Non-financial	58	-1.3	4	1	-69
UK Non-financial	96	0.5	0	3	-29
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	Year	
CONA Index	-0.26	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	1.79	0.00	0.0	0.1	0.8
Libor 12m	2.29	0.00	0.0	0.2	0.6
Stock markets (%)					
Main Indices	level	Daily	Weekly	Monthly	Year
S&P500	2,751	-0.4	-3.6	1	21
Dow Jones	25,338	-0.7	-4.2	1	27
Nikkei	22,682	-2.5	-4.0	4	16
FTSE 100	7,335	-1.5	-4.4	5	2
EuroStoxx 50	3,479	-1.3	-4.5	-3	5
IBEX	10,065	-1.8	-4.7	-2	6
DAX	12,687	-0.8	-4.8	-4	10
CAC	5,286	-1.5	-4.3	-2	8
MIIB	22,822	-1.6	-4.1	1	16
ASE Athens	854	-2.5	-3.7	3	30
MSCI Latam *	92,004	-1.4	-1.8	6	26
Ibovexa (Brazil)	83,742	-0.4	-1.1	6	36
Nobel	50,396	0.0	0.5	1	8
MSCI EM Europe *	5,741	-0.9	-1.1	5	14
Poland	2,506	-0.1	-3.4	-1	25
Mosc (Russia)	2,277	-0.2	-0.3	4	1
He 100 (Turkey)	116,853	-1.1	-3.3	1	53
MSCI EM Asia *	975	-0.9	-2.6	4	40
Shanghai Com (China)	3,487	0.7	-1.0	3	10
Jakarta (Indonesia)	6,590	-0.1	-1.1	5	25
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
JPM	114.3	-0.1	-1.8	5	31
CIT	76.3	0.9	-4.5	1	24
BoA	31.7	-0.7	-1.7	5	38
MS	55.0	-0.9	-4.3	3	26
GS	259.2	-0.3	-4.8	1	7
EZ banks	113.8	-1.1	-4.6	1	8
BNP	65.4	-0.9	-4.3	3	4
Citib AgriLife	14.0	-1.4	-3.8	1	20
Deutsche Bank	13.7	-1.5	-11.8	-16	-16
ING	15.6	-0.4	-4.4	-1	12
Intesa	3.1	-1.0	-3.2	9	21
SG	45.3	-1.3	-4.0	2	6
Unicredit	17.2	-2.1	-3.7	5	23
UK banks	91.0	-0.8	-4.8	-2	4
HSBC	749.8	-0.1	-2.7	-2	12
RBS	281.7	-1.7	-6.2	1	20
Barclays	193.9	-0.8	-6.6	-5	-17
Lloyds	68.1	-0.9	-4.8	0	5
Large Spanish banks					
Santander	88.2	-1.3	-4.8	1	13
BBVA	5.8	-1.3	-4.4	3	14
CAIXA	7.3	-1.3	-5.1	0	12
Medium Spanish banks					
Cakabank	82.4	0.8	-3.9	5	13
Sabadell	4.2	-1.3	-4.5	3	28
Bankinter	1.9	1.0	-4.0	6	35
Banqueparibas	9.0	-1.4	-2.4	12	20
Banisa	4.0	-1.1	-5.6	-4	-3
Currencies (% ind for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD					
EURUSD	1.24	-0.4	0.2	2.0	10
GBPUSD	1.40	-0.8	0.5	3.4	14
USDJPY	110.12	0.0	-1.1	2.3	6
DKK	89.54	0.4	0.3	-2.5	-13
Emerging					
USDARS (Argentina)	19.50	-0.1	0.5	-4.7	-21
USD BRL (Brazil)	3.24	-0.6	-2.7	-0.3	-1
USDCLP (Chile)	601.19	0.3	0.4	0.7	10
USDCOP (Colombia)	2841	0.0	-0.1	1.6	4
USDMXN (Mexico)	18.62	-0.1	0.1	3.5	13
USDPERU (Peru)	3.23	-0.2	-0.3	-0.5	5
LACI	64.49	-0.3	0.9	0.7	5
USDPLN (Poland)	3.34	0.1	0.1	2.7	20
USD RUB (Russia)	56.85	-0.5	-1.0	0.2	6
USDTRY (Turkey)	3.77	0.1	0.7	0.5	6
USDCNY (China)	6.29	0.1	0.8	3.1	9
USDINR (India)	64.07	0.0	-0.8	-1.0	6
USDIDR (Indonesia)	13,520	-0.5	-1.2	-0.7	-1
ADXY	111.6	-0.1	0.1	1.2	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent					
WTI	65	-0.9	-1.0	5	22
Copper	323	1.6	1.6	0	27
Gold	1335	0.1	0.4	1	15
S&P Spot commodity *	457	-0.8	-0.9	2	15
S&P Brent Spoz *	584	-1.5	-0.9	1	21
S&P Metals Spoz *	392	-1.1	-0.6	0	29
S&P Agricultural *	265	-0.3	0.2	0	9

Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
US (2-yr)	2.12	-2.0	0.5	1.7	9.1
US	2.85	0.6	15.3	39	11
GER (2-yr)	-0.56	-1.6	-3.1	5	22
Germany	0.74	-3.1	4.2	30	39
France	1.00	-2.2	2.6	21	19
Spain	1.46	-1.3	4.0	-8	3
Italy	2.03	-2.5	-0.1	1	16
Portugal	2.05	-1.1	10.5	-10	-208
Greece	3.73	5.1	6.8	-13	-316
Japan (2-yr)	-0.13	-0.6	-1.2	0	6
Japan	0.08	-0.5	2.7	2	2
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
Brazil	9.86	5.8	8.6	-40	-156
Chile	4.60	2.7	8.7	5	28
Colombia	6.47	10.6	9.1	11	-62
Mexico	7.59	0.0	0.0	13	-5
Peru	4.36	-1.4	7.2	-26	-211
Poland	3.55	-3.2	-3.7	30	-16
Russia	7.24	-2.9	-24.4	-40	-121
Turkey	11.43	3.0	21.0	-3	43
India	7.61	4.9	16.9	28	123
Indonesia	6.37	8.5	5.9	19	-147
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	Year
10-yr sovereign spread vs Germany					
France	26	0.9	-1.6	-9	-20
Italy	129	0.6	-4.3	-29	-23
Portugal	131	6.2	6.3	-17	-224
Spain	72	1.8	-0.2	-39	-36
2-yr sovereign spread vs Germany					
France	15	0.4	1.3	0	4
Italy	23	1.1	-0.2	-5	-38
Portugal	50	2.8	-13.3	-17	-50
Spain	20	-0.1	2.2	-2	-28
Emerging Markets					
level	Daily	Weekly	Monthly	Year	
5-yr sovereign CDS *					
Brazil	151	6.9	10	1	-120
Chile	46	3.8	4	-1	-36
Colombia	93	4.7	4	-6	-70
Mexico	100	4.0	4	0	-56
Peru	68	2.3	2	-1	-40
Poland	46	1.7	1	1	-27
Russia	107	2.7	-5	-11	-70
Turkey	167	4.8	3	5	-106
China	58	2.9	7	8	-59
India	67	0.1	1	4	-60
Indonesia	84	2.8	5	-1	-72
Risk indicators					
Volatility indicators (%)	level	Daily	Weekly	Monthly	Year
VIX	18	2.6	28	93	6
VSTOXX	19	7.4	42	65	2
EM EFT volatility index	23	0.7	12	45	15
Dobrosrno volatility	6	6.6	3	32	-22
EM FX volatility index	9	4.0	4	12	-22
Credit spread (BAA) (bps)	157	0.6	-2	-18	-70
US bonds volatility index	60	4.3	8	22	-21
Inflation expectations (%)					
level	Daily	Weekly	Monthly	Year	
US Inflation expectations (5YSY)	2.48	7.9	10	13	-6
EZ Inflation expectations (5YSY)	1.75	0.7	2	4	-1
Banking 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US	43	0.8	1	1	-29
EZ	38	1.3	4	1	-69
UK	41	2.1	2	0	-49
Large Spanish	32	1.5	3	-1	-64
Medium Spanish	62	0.1	3	-12	-89
Corporate 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	Year	
US Non-financial	143	0.8	1	1	-29
EZ Non-financial	58	-1.3	4	1	-69
UK Non-financial	96	0.5	0	3	-29
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	1.79	0.00	0.0	0.1	0.8
Libor 12m	2.29	0.00	0.0	0.2	0.6
Stock markets (%)					
Index/Bases	level	Daily	Weekly	Monthly	Year
S&P500	2,751	-0.4	-3.6	1	21
Dow Jones	25,338	-0.7	-4.2	1	27
Nikkei	22,682	-2.5	4.0	-4	16
FTSE 100	7,335	-1.5	-4.4	-5	2
EuroStoxx 50	3,479	-1.3	-4.5	-3	5
IBEX	10,065	-1.4	-4.7	-2	6
DAX	12,687	-0.8	-4.8	-4	10
CAC	5,286	-1.5	-4.3	-2	8
MIB	22,822	-1.6	-4.1	1	16
ASE Athens	854	-2.5	-3.7	3	30
MSCI Latam *	92,004	-1.4	-1.9	6	26
Ibovespa (Brazil)	83,742	-0.4	-1.1	6	36
Mexol	50,396	0.0	0.5	1	8
MSCI EM Europe *	5,741	-0.9	-1.1	5	14
Poland	2,506	0.1	-3.4	-1	25
Micex (Russia)	2,277	-0.2	-0.3	4	1
Ise 100 (Turkey)	116,853	-1.1	-3.3	1	53
MSCI EM Asia *	975	-0.9	-2.6	4	40
Shanghai Com (China)	3,487	0.7	-1.0	3	10
Jakarta (Indonesia)	6,590	-0.1	-1.1	5	25
Banking sector					
level	Daily	Weekly	Monthly	Year	
US banks					
JPM	114.1	-0.1	-1.8	5	31
Citi	76.3	-0.9	-4.5	1	24
BoA	31.7	-0.7	-1.7	5	38
MS	35.0	0.9	-4.3	3	26
GS	258.2	-0.3	-4.9	1	7
EZ banks					
BNP	113.8	-1.1	-4.6	1	8
BBVA	65.4	-0.9	-4.3	3	4
Credit Agricole	14.8	-1.4	-3.8	1	20
Deutsche Bank	13.7	-1.5	-11.8	-16	-16
ING	15.6	-0.4	-4.4	-1	12
Intesa	3.1	-1.0	-3.2	9	21
SG	45.3	-1.3	-4.0	2	6
Unicredit	17.2	-2.1	-3.7	5	23
UK banks					
HSBC	91.0	-0.8	-4.8	-2	4
RBS	749.8	-0.1	-2.7	-2	12
RBS	281.7	-1.7	-6.2	1	20
Barclays	193.9	-0.8	-6.6	-5	-17
Lloyds	68.1	0.9	-4.8	0	5
Large Spanish banks					
Santander	88.2	-1.3	-4.8	1	13
Santander	5.8	-1.3	-4.4	3	14
BBVA	7.3	-1.3	-5.1	0	12
Medium Spanish banks					
Cakobank	82.4	-0.8	-3.9	5	13
Cakobank	4.2	-1.3	-4.5	3	28
Sabadell	1.9	1.0	-4.0	6	35
Bankinter	9.0	-1.4	-2.4	12	20
Bankia	4.0	-1.1	-5.6	-4	-3
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	Year
EURUSD	1.24	-0.4	0.2	2.6	18
GBPUSD	1.40	-0.8	-0.5	3.4	14
USDJPY	110.12	0.0	-1.1	2.3	6
DXY	89.54	0.4	0.3	-2.5	-13
Emerging					
level	Daily	Weekly	Monthly	Year	
USDARS (Argentina)	19.50	-0.1	0.5	-4.7	-21
USD BRL (Brazil)	3.24	-0.6	-2.7	-0.3	-1
USD CUP (Cuba)	601.19	0.3	0.4	0.7	10
USD COP (Colombia)	2841	0.0	-0.1	1.6	4
USD MXN (Mexico)	18.62	-0.1	-0.1	3.5	13
USD PEN (Peru)	3.23	-0.2	-0.3	-0.5	5
LACI	64.49	-0.3	-0.9	0.7	5
USD PLN (Poland)	3.34	0.1	0.1	2.7	20
USD RUB (Russia)	56.85	-0.5	-1.0	0.2	6
USD TRY (Turkey)	3.77	0.1	0.7	-0.5	-5
USD CNY (China)	6.29	0.1	0.8	3.1	9
USD INR (India)	64.07	0.0	-0.8	-1.0	6
USD IDR (Indonesia)	13,520	-0.5	-1.2	-0.7	-1
ADXY	111.6	-0.1	-0.1	1.2	8
Commodities (%)					
level	Daily	Weekly	Monthly	Year	
Brent	68.1	-0.7	-2.0	0	21
WTX	65	-0.9	-1.6	5	22
Copper	323	1.6	1.6	0	27
Gold	1335	0.1	0.4	1	15
S&P Spot commodity *	457	-0.8	-0.9	2	15
S&P Brent Spot *	584	-1.5	-0.9	1	21
S&P Metals Spot *	392	-1.1	-0.6	0	29
S&P Agricultural *	285	-0.3	-0.2	0	-5

Fuente: BBVA Research

Source: Bloomberg, Datastream and Haver

* With one day delay

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.

BBVA is a bank supervised by the Bank of Spain and by Spain’s Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.

January 2018

Table 1