

Market Comment | Financial markets in cautious mood

Global Financial Markets Unit
05 Mar 2018

- **Financial markets have begun the week on a cautious note in a volatile session**, amid worries about a potential trade war, with the US president's rhetoric increasing during the weekend, and heightened political uncertainty in Italy. Moreover, financial markets are moving in a narrow range ahead of significant events this week such as the ECB's meeting (see preview below), the Bank of Japan's monetary policy meeting - the market will check for any QE exit clues - and the US payroll data - the market will focus on wage pressures.
- **The election results in Italy suggest that there will be a hung parliament**, with no clear formation of a government. Moreover, Italy's elections results also renew concerns about rising political populism in Europe (see). Concerns about Italy **offset the positive news coming from Germany**, where the Social Democratic Party (SPD) voted to form a coalition with Angela Merkel's Christian Democratic Union (CDU) and the Christian Social Union.
- In this context, **the European sovereign bonds attracted safe-haven flows**, with yields slightly declining across the board, except in Italy due to the elections results. The Italian risk premium widened (+4bps), while the Span's narrowed further (-4pb)
- In a very volatile session, **equity markets declined in Asian, while rising slightly in the US and Europe, except in Italy**. Election results dragged down Italian banks, while concerns about a potential trade war weighed on the German and US automotive sectors. Equity volatility slightly decreases during the sessions (VIX 18).
- **In FX, the euro swung around the US\$1.23 level**, with Italy's election results having a short-lived impact on the European currency. **EM currencies were broadly stable. Meanwhile crude and copper prices increased.**

ECB preview:

At Thursday's meeting, the ECB could remove the "explicit" downward bias on the asset purchase programme, or pave the way to do so in April. While the stock market correction should not alter the ECB's view, a cautious tone can be expected regarding the protectionist threat after Trump's announcement. The central bank remains on track in its exit strategy as economic conditions continue improving and it is increasingly confident regarding the inflation outlook.

We do not expect major changes in the update of the ECB Staff projections in March, despite the fact that incoming data could put a slight upward bias to its short-term forecasts. The futures of the euro against the USD have increased about 5% since December and could increase the ECB's concerns about its negative effect on both growth and inflation, but the latter could be partly offset by higher futures of Brent (around 3%), while there should not be changes on the ongoing support of the global outlook. Nonetheless, risks to

this scenario continues to be tilted to the downside, especially due to increasing external risks. We think the ECB will feel more confident with the current macroeconomic scenario that envisages a consolidation of the recovery over the forecast horizon, but moderating as projected in December (2.3% in 2018, 1.9% in 2019 and 1.7% in 2020), supporting a gradual increase in inflation to converge to the ECB's target next years (December forecast: 1.4% in 2018, 1.5% in 2019 and 1.7% in 2020).

In this context, the minutes of the January meeting restated that there is wide consensus that communication needs to evolve. In particular, some members expressed a preference for dropping the easing bias regarding the APP in January, but it was concluded that such adjustment was premature. However, in the accounts it was reiterated that such changes would take place early in the year. Although in general terms we are not expecting the ECB to take any bold step in monetary policy normalisation as soon as this week, we think it is possible that it could take one step forward in its communication strategy, coinciding with the staff forecast revision. More precisely, we consider it likely that the ECB will drop its easing bias on the APP, or hint to do so in April.

Other topics that could come up during the Q&A include the recent global sell-off and the spike in market volatility. Regarding this, in a context in which the euro appreciation and the increase in long term yields has slowed down, it is very likely that the central bank will play down the recent turmoil, emphasising that the economic recovery remains robust, keeping the central bank on track in its monetary normalisation process. All in all, the ECB is not in a hurry to signal the end of QE when bond purchases will fall to zero. That decision will probably not be taken until 2H18, but the central bank will adjust its policy stance to the QE exit guidance during 1H18.

Table 1

Update 17.45 CET 05 March 2018

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.24	0.4	1.6	8	32
US	2.87	0.6	0.8	8	41
GER (2-yr)	-0.55	-0.1	-1.6	-1	6
Germany	0.64	-1.0	-1.1	-8	17
France	0.91	-1.4	-2.7	7	8
Spain	1.50	-5.2	-5.8	1	-12
Italy	2.00	3.3	-1.4	4	-9
Portugal	1.95	3.3	-4.4	0	-6
Greece	4.36	1.2	-4.3	66	26
Japan (2-yr)	-0.17	-0.8	-1.5	-4	-3
Japan	0.04	0.4	-5.7	1	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.48	8.3	-10.3	-20	-7.8
Chile	4.54	0.0	-4.7	1	3
Colombia	6.93	-2.0	43.3	58	49
Mexico	7.61	1.0	-1.3	5	3
Peru	4.48	0.3	-9.5	11	-40
Poland	3.33	4.2	-7.4	-19	2
Russia	7.18	-0.7	5.5	-11	-45
Turkey	11.76	15.0	22.0	42	40
India	7.78	3.5	8.8	17	39
Indonesia	6.63	5.5	15.6	41	33
Country risk (bp, changes in bp)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	27	-0.4	-1.6	1	2
Italy	136	4.3	-0.3	12	-20
Portugal	131	2.5	-3.3	8	-16
Spain	86	-4.2	-4.7	9	-22
2-yr sovereign spread vs Germany					
France	10	-0.4	0.3	-4	-7
Italy	39	0.9	1.6	17	2
Portugal	48	-2.8	-2.2	-15	-20
Spain	35	0.4	0.1	17	8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	156	-3.5	2	13	-5
Chile	47	-0.4	1	4	-2
Colombia	106	0.1	5	17	1
Mexico	108	-0.8	5	11	1
Peru	39	-0.3	4	12	7
Poland	48	1.4	0	0	-1
Russia	109	3.5	0	2	-9
Turkey	175	5.3	4	11	10
China	56	-0.3	-2	2	6
India	69	0.3	-4	1	0
Indonesia	58	0.6	0	7	3
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in ppt)					
VIX	18	-1.5	2	5	8
VIXOXX	19	-4.5	2	3	6
EM ETT volatility Index	25	-0.5	4	5	8
Dollar/euro volatility	8	-0.4	0	0	1
EM FX volatility Index	8	0.0	0	0	0
Credit spread (BAA) (change in bps)	171	-0.6	1	16	-7
US bonds volatility index	65	1.6	2	7	16
Inflation expectations (%)					
US Inflation expectations (5Y3Y)	2.40	-	-1	-1	9
EZ Inflation expectations (5Y3Y)	1.72	-	-	-	2
Banking 5Y CDS (bps) *					
US	52	0.9	0	10	10
EZ	50	1.0	-4	13	11
UK	47	1.8	2	8	7
Large Spanish	45	1.3	-4	12	9
Medium Spanish	69	-0.5	0	5	-5
Corporate 5Y CDS (bps) *					
US Non-financial	152	0.9	0	10	10
EZ Non-financial	65	1.0	-4	13	11
UK Non-financial	101	0.9	-1	5	8
Interbank markets (% changes in bp)	level	Daily	Weekly	Monthly	YTD
EURIBOR 3m	-0.36	0	1	0	1
EURIBOR 12m	-0.33	0	0	0	0
Libor 3m	2.03	0	7	25	33
Libor 12m	2.50	-1	4	23	39
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main indices					
S&P500	2,713	0.8	-2.4	-4	1
Dow Jones	24,698	0.7	-3.9	-6	1
Nikkei	21,042	-0.7	-5.0	-10	-8
FTSE 100	7,116	0.7	-2.4	-5	-7
EuroStoxx 50	3,355	0.9	-3.1	-6	-4
IBEX	9,591	0.6	-3.1	-8	-5
DAX	12,091	1.5	-3.5	-7	-6
CAC	5,167	0.6	-3.3	-5	-2
MIB	21,620	-0.4	-3.9	-7	0
ASE Athens	795	2.3	-5.1	-10	-3
MSCI Latam *	90,875	0.3	-2.2	-2	6
Ibovespa (Brazil)	85,990	0.3	-1.9	1	10
Merval	47,770	0.5	-1.4	-6	5
MSCI EM Europe *	5,695	-0.8	-2.5	-3	4
Poland	2,330	0.7	-3.3	-8	5
Micex (Russia)	2,310	0.9	-1.9	0	9
Ise 100 (Turkey)	116,946	0.1	-1.6	2	0
MSCI EM Asia *	933	-1.1	-2.3	-6	1
Shanghai Com (China)	3,257	0.1	-2.2	-6	-3
Jakarta (Indonesia)	6,551	-0.8	-1.0	1	3
Banking sector					
US banks	148.3	1.0	-3.0	-4	4
JPM	114.7	1.2	-3.5	-2	6
Chf	74.1	0.5	-4.6	-7	0
BoA	32.0	1.2	-1.3	-2	7
MS	55.5	1.3	-2.7	-3	6
BS	261.1	1.1	-3.8	-4	2
EZ banks	107.6	-0.7	-3.6	8	-2
BNP	62.1	-1.3	-4.3	-7	0
Crédit Agricole	13.6	-1.1	-3.0	-11	-3
Deutsche Bank	12.8	2.2	-3.7	-13	-20
ING	14.2	0.5	-3.5	-9	-7
Intesa	3.0	-1.4	-3.9	-6	8
SG	45.1	-0.2	-2.8	-3	4
Unicredit	16.5	3.4	-4.2	-7	5
UK banks	88.8	0.4	-2.0	-4	-4
HSC	702.0	-0.4	-2.7	-6	-8
RBS	261.6	1.6	-2.4	-9	-6
Barclays	207.2	0.9	-0.6	5	2
Lloyds	67.0	0.0	-2.3	-3	-1
Large Spanish banks	82.1	-0.5	-4.2	-9	-3
Santander	5.5	0.4	-3.3	-7	1
BBVA	6.6	0.5	-5.0	-11	-7
Medium Spanish banks	77.6	0.1	-4.1	-9	1
Celastec	3.9	0.1	-3.6	-12	-3
Sabotef	1.7	0.2	-4.4	-13	-1
Bankinter	8.8	-0.2	-3.6	-6	11
Bankia	3.8	0.4	-6.0	-6	6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.23	0.1	0.1	-1.4	2
GBPUSD	1.39	0.4	-0.8	-2.9	2
USDJPY	105.96	-0.2	0.9	3.1	6
DX	89.88	0.0	0.1	1.5	-2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	20.21	0.4	-0.2	-4.3	-10
USDBRL (Brazil)	3.25	0.0	0.8	-2.6	0
USDCLP (Chile)	598.57	0.1	-1.9	-0.3	1
USDCOP (Colombia)	2852	0.4	-0.5	-2.0	3
USDMXN (Mexico)	19.86	-0.2	-1.0	-2.8	3
USDPEN (Peru)	3.25	0.2	0.0	-1.2	0
LACI	63.90	0.0	0.9	-2.4	1
USDPOL (Poland)	3.40	0.1	-0.4	-3.3	2
USDRUB (Russia)	56.57	0.4	-1.7	-1.1	2
USDTRY (Turkey)	3.81	-0.1	-0.6	-2.1	-1
USDCHF (China)	6.35	0.1	-0.5	0.8	2
USDINR (India)	65.11	0.1	-0.5	-1.7	-3
USDIR (Indonesia)	13.762	0.0	-0.7	-2.5	-2
ADXY	111.1	0.1	-0.4	-0.8	1
Commodities (%)	level	Daily	Weekly	Monthly	YTD
Brent	68.8	2.2	-2.5	-6	-1
WTI	63	2.4	-1.9	-5	4
Copper	310	0.0	-3.0	-3	-5
Gold	1321	-0.1	-0.9	-2	0
S&P Spot commodity *	442	0.1	-2.7	-4	0
S&P Brent Spot *	548	0.0	-4.3	-8	-3
S&P Metals Spot *	381	-0.3	-2.4	-4	-3
S&P Agricultural *	307	-0.9	2.8	7	8

* With one day delay

Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
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France	0.91	-1.4	-2.7	-7	8
Spain	1.50	-5.2	-5.8	1	-12
Italy	2.00	3.3	-1.4	4	-9
Portugal	1.95	-3.5	-4.4	0	6
Greece	4.36	1.2	-4.3	66	26
Japan (2-yr)	-0.17	-0.8	-1.5	-4	-3
Japan	0.04	-0.4	-5.7	-1	7
Emerging Markets					
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Colombia	6.93	-2.0	43.3	58	49
Mexico	7.61	1.8	-1.3	5	3
Peru	4.48	-0.3	0.5	11	-0
Poland	3.33	4.2	-7.4	-19	2
Russia	7.18	-0.7	5.5	-11	-45
Turkey	11.76	15.0	22.0	42	40
India	7.78	3.5	8.8	17	39
Indonesia	6.63	5.5	15.6	41	33
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
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2-yr sovereign spread vs Germany					
France	10	-0.4	0.3	-4	-7
Italy	39	0.9	1.6	17	2
Portugal	48	-2.8	-2.2	-15	-20
Spain	35	0.4	0.1	17	8
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS*					
Brazil	156	-3.5	2	13	-5
Chile	47	0.4	1	4	-2
Colombia	106	0.1	5	17	1
Mexico	108	-0.8	5	11	1
Peru	79	-0.3	4	12	3
Poland	48	1.4	0	0	-1
Russia	109	3.5	0	2	-9
Turkey	175	5.3	4	11	10
China	56	-0.3	-2	2	6
India	69	0.3	-4	1	0
Indonesia	88	0.6	0	7	3
Risk indicators					
Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	18	-1.5	2	5	8
VSTOXX	19	-4.5	2	3	6
EM EFT volatility Index	25	-0.5	4	5	8
Dollar/euro volatility	8	-0.4	0	0	1
EM FX volatility Index	8	0.0	0	0	0
Credit spread (BAA) (change in bps)	171	-0.6	1	16	-7
US bonds volatility index	65	1.6	2	7	16
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)					
US Inflation expectations (5Y5Y)	2.40	-	-1	-1	9
EZ Inflation expectations (5Y5Y)	1.72	-	-1	-2	-2
Banking 5y CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US					
US	52	0.9	0	10	10
EZ	50	1.0	-4	13	11
UK	47	1.8	2	8	7
Large Spanish	45	1.3	-4	12	9
Medium Spanish	69	-0.5	0	5	-5
Corporate 5y CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial					
US Non-financial	152	0.9	0	10	10
EZ Non-financial	65	1.0	-4	13	11
UK Non-financial	101	0.9	-1	5	8
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index					
EONIA Index	-0.36	0	1	0	1
Eurobor 3m					
Eurobor 3m	-0.33	0	0	0	0
Eurobor 12m					
Eurobor 12m	-0.19	0	0	0	-1
Libor 3m					
Libor 3m	2.03	0	7	25	33
Libor 12m					
Libor 12m	2.50	-1	4	23	39
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500					
S&P500	2,713	0.8	-2.4	-4	-1
Dow Jones					
Dow Jones	24,698	0.7	-3.9	-6	-1
Nikkei					
Nikkei	21,042	-0.7	-5.0	-10	-5
FTSE 100					
FTSE 100	7,116	0.7	-2.4	-5	-7
EuroStoxx 50					
EuroStoxx 50	3,355	0.9	-3.1	-6	-4
IBEX					
IBEX	9,591	0.6	-3.1	-8	-5
DAX					
DAX	12,091	1.5	-3.5	-7	-6
CAC					
CAC	5,167	0.6	-3.3	-5	-2
MIB					
MIB	21,820	-0.4	-3.9	-7	0
ASE Athens					
ASE Athens	795	-2.3	-5.1	-10	-3
MSCI Latam*					
MSCI Latam*	90,875	0.3	-2.2	-2	6
Ibovespa (Brazil)					
Ibovespa (Brazil)	85,990	0.3	-1.9	1	10
Mexbol					
Mexbol	47,770	0.5	-1.4	-6	-5
MSCI EM Europe*					
MSCI EM Europe*	5,605	-0.8	-2.5	-3	-4
Poland					
Poland	2,330	0.7	-3.3	-8	-5
Mobx (Russia)					
Mobx (Russia)	2,310	0.9	-1.9	0	9
Ice 100 (Turkey)					
Ice 100 (Turkey)	116,846	0.1	-1.6	-2	0
MSCI EM Asia*					
MSCI EM Asia*	933	-1.1	-2.3	-6	1
Shanghai Com (China)					
Shanghai Com (China)	3,257	0.1	-2.2	-6	-3
Jakarta (Indonesia)					
Jakarta (Indonesia)	6,551	-0.8	-1.0	-1	-2
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	148.3	1.0	-3.0	-4	-4
Citi	114.7	1.2	-3.5	-2	6
BoA	74.1	0.5	-4.6	-7	0
MS	32.0	1.2	-1.3	-2	7
GS	55.5	1.3	-2.7	-3	6
Wells	261.1	1.1	-3.8	-4	-2
EZ banks					
BNP	107.6	-0.7	-3.6	-8	-2
Credit Agricole	62.1	-1.3	-4.3	-7	0
Deutsche Bank	13.6	-1.1	-3.0	-11	-3
ING	12.8	2.2	-3.7	-13	-20
Intesa	14.2	0.5	-3.5	-9	-7
SG	3.0	-1.4	-3.9	-6	8
UniCredit	45.1	-0.2	-2.8	-3	4
UK banks					
HSBC	16.5	-0.4	-4.2	-7	5
RBS	88.8	0.4	-2.0	-4	-4
Barclays	702.0	-0.4	-2.7	-6	-8
Lloyds	251.6	1.6	-2.4	9	6
Large Spanish banks					
Santander	207.2	0.9	-0.6	5	2
BBVA	67.0	0.0	-2.3	-3	-1
Medium Spanish banks					
Cajabank	62.1	-0.1	-4.2	-9	-3
Sabadell	5.3	0.4	-3.3	-7	1
Banque	6.6	-0.5	-5.0	-11	-7
Bankier	77.6	0.1	-4.1	-9	1
Banka	3.8	0.1	-0.6	-12	-3
Banker	1.7	0.2	-4.4	-13	-1
Banka	8.8	-0.2	-3.6	-6	11
Banka	3.5	0.4	-6.0	-6	-6
Currencies (% incl for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
EURUSD	1.23	0.1	0.1	-1.4	2
GBPUSD					
GBPUSD	1.39	0.4	-0.8	-2.9	2
USDJPY					
USDJPY	105.96	-0.2	0.9	3.1	6
DXY					
DXY	89.98	0.0	0.1	1.5	-2
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)					
USDARS (Argentina)	20,211	0.4	-0.2	-4.3	-10
USDRL (Brazil)					
USDRL (Brazil)	3.25	0.0	0.8	2.6	0
USDCLP (Chile)					
USDCLP (Chile)	598.57	0.1	-1.9	-0.3	1
USD COP (Colombia)					
USD COP (Colombia)	2852	0.4	-0.5	-2.0	3
USD MNY (Mexico)					
USD MNY (Mexico)	18.86	-0.2	-1.0	-2.5	3
USD PEN (Peru)					
USD PEN (Peru)	3.25	0.2	0.0	-1.2	0
LACI					
LACI	63.90	0.0	0.9	-2.4	1
USD RUB (Russia)					
USD RUB (Russia)	3.40	0.1	-0.4	-2.3	2
USDTRY (Turkey)					
USDTRY (Turkey)	56.57	0.4	-1.7	-1.1	2
USDTRY (Turkey)					
USDTRY (Turkey)	3.81	-0.1	-0.6	-2.1	-1
USD CNY (China)					
USD CNY (China)	6.35	-0.1	-0.5	-0.8	2
USD INR (India)					
USD INR (India)	65.11	0.1	0.5	-1.7	-3
USD IDR (Indonesia)					
USD IDR (Indonesia)	13,762	0.0	-0.7	-2.5	-2
ADXY					
ADXY	111.1	0.1	-0.4	-0.8	1
Commodities (Ct)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	65.8	2.2	-2.5	-6	-1
WTX					
WTX	63	2.4	-1.9	-5	-4
Copper					
Copper	310	0.0	3.0	-3	5
Gold					
Gold	1321	-0.1	-0.9	-2	0
S&P Spot commodity*					
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S&P Agricultural*					
S&P Agricultural*	307	-0.9	2.8	7	8

* With one day delay

Fuente: BBVA Research

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