

Market Comment | The US dollar strengthened while downbeat economic data dragged yields

Global Financial Markets Unit
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- **The US dollar continued to strengthen against other main currencies**, after the FOMC meeting suggested the Fed is on track to resume the tightening cycle in June's meeting (see below). **However, concerns about the trade talk between the US and China have trimmed some US dollar appreciation today** (see). Meanwhile, weaker-than-expected euro zone economic and inflation figures have also weighed on the euro, with the EURUSD breaking through the US\$1.20 level (see below). Depreciation against the US dollar was stronger in EM FX than in DM FX, while idiosyncratic factors deepened the Argentina peso and the Turkish lira depreciations. The former was affected negatively by reduced Central Bank interventions in support of the peso, while worse-than-expected inflation figures dragged the lira.
- **Sovereign bonds slightly attracted safe-haven flows as concerns increased about the resumption of trade tensions between China and the US** (see). **Moreover, downbeat economic data in US and Eurozone have also shifted flows from equity to bond markets, dragging sovereign yields lower.** Against this background, the US 10Y yield has declined slightly today but remains hovering around 3% levels, while the decline in Germany's 10Y yield was slightly stronger than in the US on the back of lower inflation figures. Peripheral risk premiums continued to narrow.
- **Equity markets declined, dragged down by weak earnings and economic data, couple with concerns about rising trade tensions between China and the US.** The stronger US dollar has also weighed on US equity indices, while in the euro zone downbeat economic data dragged equity markets today, with the banking sector underperforming. Moreover, technical factors could have accelerated the falls in US equity market, with the **Equity volatility increasing to 18**. Meanwhile, oil prices slightly declined despite concerns about US sanctions against Iran.
- **The Federal Reserve at its May meeting maintained the current level of the Fed Funds rate at 1.5-1.75% as we expected.** However, with inflation and inflation expectations edging up, and the tailwinds from the tax reform building we expect future communications to begin to reflect these dynamics with the emergence of a slightly hawkish bias. In fact, the FOMC stated that: "Inflation on a 12-month basis is expected to run near the Committee's symmetric 2 percent objective over the medium term". In addition, it let fall the phrase, "... the Committee is monitoring inflation developments closely." These changes acknowledge that inflation is expected to run above the 2% mark and that concerns are shifting towards the build up of potential inflationary pressures. As a result, **we continue to forecast that the FOMC will increase rates for the second time this year at its 12th-13th June meeting, followed by two more increases in the second half of the year.**
- **Weak economic and inflation figures in the euro zone. Euro zone 1Q18 GDP grew 0.4% QoQ** swda, in line with our forecast but below the market's expectations, with economic growth slowing down from the previous quarter (4Q17 0.7% QoQ) (see). **EZ flash estimate for CPI slowed down against**

expectations (1.2% YoY, consensus 1.3% YoY, previous 1.3% YoY) ([see](#)). **The EZ PIM slowed down less than previously expected** in April (56.2 points, flash estimate 56.0 points, March 56.6 points). The stronger euro seems to be having a negative impact on new export orders, according to firms, but high numbers of strikes could also affect April's figures.

Table1

Update 17.45 CET 3 May

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.47	-1.6	-1.0	19	55
US	2.94	3.0	-4.5	16	47
GER (2-yr)	-0.59	-1.2	-2.2	1	2
Germany	0.53	-5.0	-6.2	3	6
France	0.76	-4.3	-5.7	3	-6
Spain	1.25	-5.8	-1.7	6	-36
Italy	1.74	-5.2	-0.9	-6	-36
Portugal	1.65	-4.5	-3.7	1	-36
Greece	4.00	6.8	5.2	-26	-11
Japan (2-yr)	-0.13	0.0	-0.5	0	0
Japan	0.05	-1.5	1.5	0	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.80	1.2	3.4	13	-30
China	4.47	-0.4	-0.4	-1	-4
Colombia	6.45	0.9	0.2	-7	1
Mexico	7.53	1.0	-0.7	20	-5
Peru	4.96	1.4	1.4	43	9
Poland	3.18	0.0	12.4	-1	-13
Russia	7.45	6.6	2.4	28	19
Turkey	13.03	49.0	75.0	81	167
India	7.74	0.1	-2.0	40	35
Indonesia	7.02	1.8	-7.0	43	73
Country risk (bp changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	23	0.7	0.5	0	6
Italy	121	-0.2	5.3	-9	-42
Portugal	112	0.5	2.5	-2	-43
Spain	72	-0.8	4.5	3	-43
2-yr sovereign spread vs Germany					
France	9	0.5	0.3	-2	-7
Italy	26	-1.2	1.2	-3	-11
Portugal	39	-0.6	0.1	-10	-29
Spain	24	0.8	1.4	0	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	182	4.1	10	16	21
Chile	54	1.4	4	2	5
Colombia	109	1.0	2	1	4
Mexico	118	2.0	4	5	11
Peru	80	1.7	4	-2	8
Poland	49	0.1	1	1	1
Russia	136	2.9	4	13	18
Turkey	210	9.3	15	19	46
China	59	0.4	-1	-7	8
India	75	0.1	0	1	6
Indonesia	100	2.3	2	4	23
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	18	1.9	2	-3	8
VSTOXX	14	0.9	1	-4	1
EM EFT volatility index	21	1.3	2	-7	4
Dollar/euro volatility	7	-0.2	0	0	0
EM FX volatility index	9	0.3	0	0	1
Credit spread (Baa) (change in ppt)	186	3.0	4	1	9
US bonds volatility index	49	-2.7	-4	-7	0
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US inflation expectations (5YSY)	2.44	-	-5	-1	12
EZ inflation expectations (5YSY)	1.69	-	-2	0	-5
Banking by CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	56	-0.3	0	-4	14
EZ	94	-0.8	3	-5	15
UK	44	-1.0	0	-7	3
Large Spanish	48	-0.2	2	-5	12
Medium Spanish	69	-0.7	1	-6	6
Corporate by CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	152	-0.3	0	-4	14
EZ Non-financial	67	-0.8	3	-5	15
UK Non-financial	104	0.2	0	-2	11
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	1	0	1
Euribor 3m	-0.33	0	0	0	0
Euribor 12m	-0.19	0	0	0	0
Libor 3m	2.36	1	0	5	67
Libor 12m	2.78	1	0	11	67
Stock markets (%)					
Index	level	Daily	Weekly	Monthly	YTD
Main indices					
S&P500	2,601	-1.3	-2.5	-0.5	-4
Dow Jones	23,656	-1.1	-2.7	-1.6	-5
Nikkei	22,473	0.0	0.7	5.5	-1
FTSE 100	7,503	-0.5	1.1	6.7	-2
EuroStoxx 50	3,529	0.7	0.7	5.4	1
IBEX	10,039	-0.5	1.4	5.1	0
DAX	12,690	-0.9	1.5	5.7	-1
CAC	5,302	0.5	0.9	6.8	4
MI8	24,964	-0.8	0.1	6.9	10
ASE Athens	839	-2.2	0.4	7.7	3
MSC Latam *	90,770	-1.5	-0.5	1.3	6
Bovespa (B3SE)	83,325	-1.4	-3.5	-1.5	7
Moex10	47,119	-1.4	-2.4	0.9	6
MSC EM Europe *	5,484	-0.1	1.7	0.5	2
Poland	2,292	0.0	0.4	2.4	-7
Micex 10 (Russia)	4,496	0.8	0.8	2.1	9
ISE 100 (Turkey)	102,909	-1.7	-3.8	-10.2	-12
MSC EM Asia *	929	-0.4	1.6	0.6	11
Shanghai Com (China)	3,101	0.6	0.8	-1.1	-7
Jakarta (Indonesia)	5,859	-2.3	-3.6	-6.1	-8
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	132.5	-2.8	-4.1	-5.1	-7
Citi	105.6	-2.2	-4.1	-3.5	-2
BofA	66.8	-1.7	-3.4	-2.4	-10
MS	29.6	-3.4	-5.0	-3.4	-4
GS	50.1	-3.2	-4.1	-5.8	-4
Wells Fargo	228.2	-2.5	-4.9	-8.9	-11
EZ banks	107.9	-1.4	-1.3	3.5	-1
BNP	63.4	-1.5	0.3	6.2	2
Crédit Agricole	13.4	-1.8	-1.8	1.2	-4
Deutsche Bank	11.3	-1.1	-4.4	1.4	-29
ING	13.8	-2.1	-0.8	1.7	-10
Intesa	3.2	0.5	0.6	6.6	14
SG	44.9	-1.1	-1.4	2.7	4
Unicredit	17.6	-1.8	-3.0	3.6	12
UK banks	88.8	-0.9	-0.7	2.8	4
HSC	721.3	-1.2	1.6	8.7	-6
RBS	268.5	-1.5	-1.4	3.7	-3
Barclays	202.7	-1.3	-3.5	-2.0	0
Lloyds	64.7	0.5	-0.3	-0.7	4
Large Spanish banks	81.2	-1.3	0.8	3.4	4
Santander	5.3	-1.1	0.4	2.0	-2
BBVA	6.7	-1.5	1.9	4.7	6
Median Spanish banks	76.7	-1.4	-0.2	2.4	0
Cababank	4.1	-2.1	3.0	6.9	3
Sabadell	1.6	0.7	0.3	-0.8	3
Bankinter	8.6	-1.6	-1.3	3.6	8
Banque	3.5	-2.8	-2.8	-1.2	-12
Currencies (%: red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD					
GBPUSD	1.36	-0.1	-2.5	-3.5	0
USDJPY	109.01	0.8	0.3	-2.3	3
DXU	92.61	0.1	1.1	2.7	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	21.73	-2.5	-5.7	-7.7	-18
USDBRL (Brazil)	3.55	0.0	2.2	-6.3	-9
USDCJP (China)	620.95	0.3	-3.0	-2.9	-2
USDCOP (Colombia)	2859	-0.9	-1.5	-2.9	3
USDMXN (Mexico)	19.11	-0.2	-1.6	-4.9	2
USDPEN (Peru)	3.26	0.3	-1.3	-1.6	-1
LACI	61.05	0.5	-2.2	-4.8	-4
USDPLN (Poland)	3.57	0.1	-2.2	-4.4	-3
USDRUB (Russia)	63.47	0.9	-1.2	-10.2	-10
USDTRY (Turkey)	4.23	-1.3	-4.1	-6.1	12
USDCHF (Switzerland)	6.35	0.1	-0.3	-1.0	2
USDINR (India)	66.65	0.0	0.2	-2.5	-5
USDIDR (Indonesia)	13,939	0.1	-0.3	-1.3	-3
ADXY	110.4	0.2	-0.3	-1.4	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
WTX	73.2	0.2	-2.1	10	10
Copper	68	-0.2	0.6	7	12
Gold	306	0.5	-1.6	0	-6
S&P Spot commodity *	1315	0.7	-0.2	-1	0
S&P Brent Spot *	473	0.3	0.2	6	7
S&P Metals Spot *	624	0.3	0.7	8	10
S&P Agricultural *	384	1.5	-0.7	5	-2
S&P Agricultural *	312	0.4	3.1	5	10

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
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Germany	0.53	-9.0	-9.2	3	6
France	0.76	-4.3	-5.7	3	6
Spain	1.25	-5.8	-1.7	6	-36
Italy	1.74	-5.2	-0.9	6	-36
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Greece	4.00	6.8	5.2	-26	-11
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Peru	80	1.7	4	2	8
Poland	49	0.1	1	1	1
Russia	136	2.9	4	13	19
Turkey	210	9.3	15	19	46
China	59	0.4	-1	-7	8
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EM FX volatility index	9	-0.3	0	0	1
Credit spread (BAA) (change in bps)	186	3.0	4	1	9
US bonds volatility index	49	-2.7	-4	-7	0
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (EY5Y)	2.44	-1.5	-4	-12	-12
EZ Inflation expectations (EY5Y)	1.69	-	-2	0	-5
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	56	-0.3	0	-4	14
EZ	54	-0.8	3	-5	18
UK	44	-1.0	0	-7	3
Large Spanish	48	-0.2	2	-5	12
Medium Spanish	69	-0.7	1	-6	-6
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	152	-0.3	0	-4	14
EZ Non-financial	67	-0.8	3	-5	19
UK Non-financial	104	-0.2	0	-2	11
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	1	0	1
Euribor 3m	-0.33	0	0	0	0
Euribor 12m	-0.19	0	0	0	0
Libor 3m	2.36	1	0	5	67
Libor 12m	2.78	1	0	11	67
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,601	-1.3	-2.5	-0.5	-4
Dow Jones	23,656	-1.1	-2.7	-1.6	-5
Nikkei	22,473	0.0	0.7	5.5	-1
FTSE 100	7,503	-0.5	1.1	6.7	-2
EuroStoxx 50					
IBEX	10,039	-0.5	1.4	5.1	0
DAX	12,690	-0.9	1.5	5.7	-1
CAC	5,502	-0.5	0.9	6.8	4
MBI	24,064	-0.8	0.1	6.8	10
ASE Athens	839	-2.2	0.4	7.7	3
MSCI Latam*	90,770	-1.5	-0.5	1.3	6
Bovespa (Brazil)	63,325	-1.4	-1.5	1.5	7
Mexbol	47,119	-1.4	-2.4	0.9	-6
MSCI EM Europe *					
Poland	5,484	-0.1	1.2	0.5	2
Poland	2,292	0.0	0.4	2.4	-7
Micex 10 (Russia)	4,496	-0.8	0.8	2.1	9
Ise 100 (Turkey)	102,909	-1.7	-3.8	-10.2	-12
MSCI EM Asia *					
929	-0.4	1.6	0.6	1	
Shanghai Com (China)	3,101	0.6	0.8	1.1	-7
Jakarta (Indonesia)	5,859	-2.3	-3.6	-6.1	-8
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	122.5	-2.8	-4.4	-5.1	-7
Citi	105.6	-2.2	-4.1	-3.5	-2
BoA	66.8	-1.7	-3.4	-2.4	-10
MS	28.6	-3.4	-5.0	-3.4	-4
GS	50.1	-3.2	-4.1	-6.8	-4
Wells Fargo	228.2	-2.5	-4.9	-8.9	-11
EZ banks					
BNP	107.9	-1.4	-1.3	3.5	-1
BBVA	63.4	-1.5	0.3	6.2	2
Credit Agricole	13.4	-1.8	-1.8	1.2	4
Deutsche Bank	11.3	-1.1	-4.4	1.4	-29
ING	13.8	-2.1	-0.8	1.7	-10
Intesa	3.2	-0.5	-0.6	6.6	14
SG	44.9	-1.1	-1.4	2.7	4
Unicredit	17.6	-1.8	-3.0	3.6	12
UK banks					
HBS	68.0	-0.9	-0.7	2.6	4
HBS	721.3	-1.2	1.6	8.7	-6
RBS	268.5	-1.5	-1.4	3.7	-3
Barclays	202.7	-1.3	-3.5	-2.0	0
Lloyds	64.7	0.5	-0.3	-0.7	-4
Large Spanish banks					
Santander	81.2	-1.3	0.8	3.4	-4
Santander	5.3	-1.1	-0.4	2.0	-2
BBVA					
BBVA	6.2	-1.5	1.9	4.7	6
Medium Spanish banks					
Casabank	76.7	-1.4	-0.2	2.4	0
Casabank	4.1	-2.1	3.0	6.9	3
Sabobank	1.6	0.7	0.3	0.8	-3
Bankinter	6.6	-1.6	-1.3	3.6	8
Bankia	3.5	-2.8	-2.8	-1.2	-12
Currencies (% red for currency depreciation)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD					
EURUSD	1.20	0.1	-1.1	-2.5	-1
GBPUSD	1.36	-0.1	-2.5	-3.5	0
USD JPY	109.01	0.8	0.3	-2.3	3
USD INR	92.61	0.1	1.1	2.7	1
Emerging					
USDARS (Argentina)					
USDARS (Argentina)	21.73	-2.5	-5.7	-7.7	-18
USD BRL (Brazil)					
USD BRL (Brazil)	3.55	0.0	-2.2	-6.3	-9
USD COP (Colombia)					
USD COP (Colombia)	620.85	-0.3	-0.9	2.8	-2
USD MXN (Mexico)					
USD MXN (Mexico)	2859	-0.9	-1.5	-2.9	3
USD PEN (Peru)					
USD PEN (Peru)	19.11	-0.2	-1.6	-4.9	2
LACI					
LACI	61.05	-0.5	-2.2	-4.8	-4
USD PLN (Poland)					
USD PLN (Poland)	3.57	0.1	-2.2	-4.4	-3
USD RUB (Russia)					
USD RUB (Russia)	63.47	0.9	-1.2	-10.2	-10
USD TRY (Turkey)					
USD TRY (Turkey)	4.23	-1.3	-4.1	-6.1	-12
USD CNY (China)					
USD CNY (China)	6.35	0.1	-0.3	-1.0	2
USD INR (India)					
USD INR (India)	66.65	0.0	0.2	-2.5	-5
USD IDR (Indonesia)					
USD IDR (Indonesia)	13,939	0.1	0.3	-1.3	-3
ADXY	110.4	0.2	-0.3	-1.4	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
Brent	73.2	-0.2	-2.1	7	10
WTX					
WTX	68	-0.2	-0.6	7	12
Copper					
Copper	306	0.5	-1.6	0	-6
Gold					
Gold	1315	0.7	-0.2	-1	0
S&P Spot commodity *					
S&P Spot commodity *	473	0.3	-0.2	6	7
S&P Brent Spot *					
S&P Brent Spot *	624	0.3	-0.7	8	10
S&P Metals Spot *					
S&P Metals Spot *	384	1.5	-0.7	5	-2
S&P Agricultural *					
S&P Agricultural *	312	-0.4	3.1	5	10

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

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