

Market Comment | Italian politics remain in the spotlight

Global Financial Markets Unit
28 May 2018

- **The focus of financial markets remained on European political issues** (particularly Italy) in a day in which the **main financial centres** (New York and London) **remained closed** for Bank holidays. This fact could contribute to sharper movements as liquidity remained below its regular average during the day.
- **The latest developments in Italy hit Italian assets, with some contagion to other peripherals.** The coalition plans between the M5S and the Lega and ongoing warnings from rating agencies weighed during last week to drive the risk premia to its highest level since 2013. In this context, market sentiment improved slightly early this morning after yesterday's rejection of the candidate for finance minister and the resignation of the coalition's PM candidate [\(see\)](#). Nonetheless, today's announcement of the appointment of Cottarelli to form the new government brought back the uncertainty to financial markets as an early election seems more likely [\(see\)](#).
- **There was a safe-haven movement** as the German Bund yield hit its lowest level in five months (0.35%) coupled with increasing risk premia and deterioration of peripheral assets. The scale of the contagion was clearly bigger in Portugal than in Spain in both equity and bonds, despite the announcement that the no-confidence vote will take place on Friday [\(see\)](#).
- **Against this backdrop, the EUR hit its lowest since the middle of last year, while the USD remained almost unchanged against its peers** (GBP, JPY). Emerging currencies showed a mixed performance: markets gave a break to the Turkish lira, which recovered some ground after the recent sell-off once the authorities announced the simplification of its rate regime [\(see\)](#). Meanwhile the Brazilian real underperformed today. **The sharp drop in oil prices** amid potential increase in oil supply of main producers [\(see\)](#) had a mild effect on currencies of net exporting countries (COL, RUB).

Table1

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Debt markets (10Y % change in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.48	0.0	-9.0	-1	56
US	2.93	0.0	-12.8	-5	47
GER (2-yr)	-0.67	-4.9	-4.9	-11	-6
Germany	0.34	-6.3	-19.0	-25	-12
France	0.70	-1.4	-12.1	-12	-13
Spain	1.52	5.7	1.5	25	9
Italy	2.68	21.8	28.9	93	58
Portugal	2.07	12.1	6.6	39	6
Greece	4.49	7.6	3.9	64	38
Japan (2-yr)	0.14	-0.2	-0.6	-1	-1
Japan	0.04	-1.5	-1.7	-1	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.10	5.5	55.5	126	85
China	4.57	0.0	0.2	10	6
Colombia	6.61	0.7	-6.1	16	17
Mexico	7.64	0.2	-12.3	10	6
Peru	5.39	1.1	-1.6	43	51
Poland	3.23	1.8	-10.9	17	-9
Russia	7.42	-1.8	0.3	-1	-22
Turkey	13.67	-51.0	91.0	139	231
India	7.74	-5.4	-6.9	-2	35
Indonesia	7.15	-21.3	-33.1	6	86
Country risk (bp, change in bps)	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	4.9	5.9	13	7
Italy	234	28.1	46.9	118	71
Portugal	173	18.4	24.6	64	19
Spain	118	12.0	19.5	50	3
2-yr sovereign spread vs Germany					
France	11	2.0	-1.5	2	-5
Italy	157	46.6	68.1	132	120
Portugal	80	7.9	22.7	23	12
Spain	53	6.4	19.2	30	26
5-yr sovereign CDS *	level	Daily	Weekly	Monthly	YTD
Brazil	192	1.8	-11	20	31
Chile	53	0.4	-4	3	4
Colombia	113	3.0	-3	7	8
Argentina	347	10.2	-16	70	109
Mexico	120	0.1	-10	6	13
Peru	86	0.1	-4	10	14
Venezuela	16,590	0.0	0	0	0
Poland	60	1.9	5	11	11
Russia	128	0.6	-10	5	10
Turkey	264	-4.6	21	69	99
China	56	-0.8	-1	-4	6
India	89	0.1	1	14	20
Indonesia	117	-1.6	-8	10	22
Risk indicators	level	Daily	Weekly	Monthly	YTD
Volatility indicators (change in pp)					
VIX	13	0.0	0	3	3
VSTOXX	18	1.8	4	4	4
EM EFT volatility index	18	0.0	0	-1	2
Dobolizura volatility	8	0.4	0	1	1
EM FX volatility index	9	0.1	0	1	1
Credit spread (BAA) (change in bps)	189	0.0	6	7	11
US 10-yr volatility index	54	1.9	1	1	5
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.39	-	-3	-11	7
EZ Inflation expectations (5Y5Y)	1.69	-	-2	-2	-5
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	54	1.4	0	-1	12
EZ	77	6.1	16	26	38
UK	52	2.2	6	8	11
Large Spanish	86	13.3	27	40	50
Medium Spanish	88	7.4	13	20	13
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	152	1.4	0	-1	12
EZ Non-financial	76	6.1	16	26	38
UK Non-financial	107	1.0	3	4	15
Interbank markets (% change in bps)	level	Daily	Weekly	Monthly	YTD
EDMA Index	-0.37	0	0	0	0
Euro 3m	-0.32	0	0	1	1
Earlier 12m	-0.19	0	0	0	0
Libor 3m	2.32	0	-1	-5	62
Libor 12m	2.73	-1	-3	-4	62
Stock markets (%)	level	Daily	Weekly	Monthly	YTD
Main indices					
S&P500	2,221	0.0	-0.4	2.0	1
Dow Jones	24,753	0.0	-1.0	1.8	0
Nikkei	22,481	0.1	-2.3	0.7	-1
FTSE 100	7,390	0.0	-1.6	4.2	1
EuroStoxx 50	3,484	-0.9	-2.5	0.6	0
IBEX	9,778	-0.5	-2.9	-1.3	-3
DAX	12,863	-0.6	-1.6	2.9	0
CAC	5,509	-0.6	-2.3	1.0	4
MIB	21,992	-1.8	-4.8	8.5	1
ASE Athens	756	0.0	3.7	9.6	8
MSCI Latam *	85,435	-1.0	-3.7	6.4	0
Bovespa (Brazil)	75,780	-4.0	-7.4	-12.3	3
Mexcel (Mexico)	45,031	-0.1	0.6	6.8	-10
Merval (Argentina)	28,674	-3.3	-9.4	2.8	8
MSCI EM Europe *	5,378	0.3	-0.9	0.7	0
Poland	2,218	0.2	-2.2	-9.8	-10
Micex 10 (Russia)	4,492	0.1	-0.9	0.7	9
Wu 100 (Turkey)	106,525	3.2	4.2	0.5	-9
MSCI EM Asia *	933	0.2	0.0	2.0	1
Shanghai Com (China)	3,135	-0.2	-2.5	2.0	-6
Jakarta (Indonesia)	6,068	2.0	4.9	0.2	-5
US banks	level	Daily	Weekly	Monthly	YTD
JPM	116.7	0.0	-1.3	0.5	3
Ch	68.4	0.0	-2.8	-1.1	-8
BaA	30.2	0.0	-1.3	0.3	1
MS	53.0	0.0	-2.5	1.6	2
GS	235.0	0.0	-1.1	2.1	-8
EZ banks	97.2	-1.6	-5.0	-11.2	-11
BfP	59.9	-1.1	-2.8	-5.3	-4
Credit Agricole	12.5	-1.7	-8.0	9.6	-11
Deutsche Bank	10.3	-0.9	-4.8	-13.0	-36
ING	13.1	0.6	-1.6	6.0	15
Intesa	2.6	-3.2	-8.2	-19.6	-7
SG	40.3	-0.8	-2.6	-11.4	-7
Unicredit	14.8	-3.8	-9.1	-10.6	-6
UK banks	level	Daily	Weekly	Monthly	YTD
HSBC	732.8	0.0	-0.8	3.2	4
RIS	289.7	0.0	0.9	6.4	4
Berdays	206.2	0.0	-1.3	1.8	1
Lloyds	65.7	0.0	-1.2	1.2	-3
Large Spanish banks	74.6	-1.6	-5.6	-7.4	-12
Santander	4.9	-2.0	-5.4	-8.7	-10
BBVA	6.1	-1.2	-5.7	-6.2	-13
Medium Spanish banks	74.1	-1.1	-4.1	-3.5	-3
Caixabank	3.9	-1.0	-5.5	-2.3	-3
Sabadel	1.6	0.5	-0.5	-1.9	-5
Banqueparibas	8.3	-2.3	-5.5	-4.4	-5
Banella	3.4	-0.9	-4.3	-5.7	-15
Commodities (%, net for currency depreciation)	level	Daily	Weekly	Monthly	YTD
Developed					
EURUSD	1.163	-0.2	-1.4	-3.9	-4
GBPUSD	1.33	0.0	-0.9	-4.4	-2
USDJPY	109.35	0.1	1.5	0.0	3
DXY	94.40	0.2	0.8	3.1	3
Emerging					
USDARS (Argentina)	24.63	-0.2	-1.0	-19.8	34
USDBRL (Brazil)	3.71	-1.5	-0.9	-6.7	-14
USDCUP (Cuba)	623.71	0.0	2.0	3.4	3
USDCOP (Colombia)	2878	0.0	0.0	2.1	2
USDMXN (Mexico)	19.59	-0.2	1.2	4.1	0
USDPEN (Peru)	3.27	0.0	0.4	1.0	1
USCNY (China)	58.90	-0.6	0.7	6.7	-7
USDRIN (Poland)	3.70	0.1	-1.6	5.9	-7
USDRLB (Russia)	62.39	-0.3	-1.3	0.5	-9
USDTRY (Turkey)	4.58	-2.9	0.0	17.6	-22
USDYNY (China)	6.40	-0.1	-0.2	-1.0	1
USDINR (India)	67.43	0.5	1.0	-1.0	6
USDIDR (Indonesia)	13,995	0.9	1.4	0.7	-4
ADXY	109.8	0.1	0.2	0.8	0
Commodities (%)	level	Daily	Weekly	Monthly	YTD
Brent	75.3	-1.5	-5.0	1	13
WTI	66	-2.1	-8.0	-3	10
Copper	396	-0.3	0.9	-2	-6
Gold	1299	-0.2	0.5	-1	-1
S&P Spot Commodity *	482	-1.9	-2.2	2	9
S&P Brent Spot *	651	-3.0	-3.5	4	15
S&P Metals Spot *	386	-0.5	-0.3	0	-2
S&P Agriculture *	317	1.1	2.7	5	11

Source: Bloomberg, Datastream and Haver

Debt markets (10Y, % changes in bp)					
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US (2-yr)	2.48	0.0	9.0	-1	56
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Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.10	6.5	55.5	126	85
Chile	4.57	0.0	-0.2	10	6
Colombia	6.61	0.2	-6.1	16	7
Mexico	7.84	0.2	12.3	10	6
Peru	5.38	1.1	-16.1	43	51
Poland	3.23	1.8	-10.9	17	-9
Russia	7.42	-1.8	-8.3	-1	-22
Turkey	13.67	31.0	91.0	139	231
India	7.74	-5.4	-6.9	-2	35
Indonesia	12.15	21.3	-33.1	6	86
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	35	4.9	5.9	13	7
Italy	234	28.1	46.9	118	71
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Emerging Markets					
5-yr sovereign CDS *					
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Argentina	347	10.2	-16	70	109
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Peru	86	0.1	-4	10	14
Venezuela	16,599	0.0	0	0	0
Poland	60	1.9	5	11	11
Russia	128	0.6	-10	-5	10
Turkey	264	-4.6	-21	69	99
China	56	-0.5	-1	-4	6
India	89	0.1	1	14	20
Indonesia	117	-1.6	-8	10	32
Risk Indicators					
Volatility indicators (change in ppt)					
level	Daily	Weekly	Monthly	YTD	
VIX	13	0.0	0	-3	3
VSTOXX	18	1.8	4	4	4
EM EFT volatility index	18	0.0	0	-1	2
Dollar/euro volatility	8	0.4	0	1	1
EM FX volatility index	9	0.1	0	1	1
Credit spread (BAA)(change in bps)	189	0.0	6	7	11
US bonds volatility index	54	1.9	1	1	5
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.39	0.0	-3	-11	7
EZ Inflation expectations (5Y5Y)	1.69	-	-2	-2	-5
Banking 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	54	1.4	0	-1	12
EZ	77	6.1	16	26	38
UK	52	2.2	6	8	11
Large Spanish	86	13.3	27	40	50
Medium Spanish	88	7.4	13	20	13
Corporate 5y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	152	1.4	0	-1	12
EZ Non-financial	176	6.1	16	26	38
UK Non-financial	107	1.0	3	4	15
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
COBA Index	-0.37	0	0	0	0
Eurobor 3m	-0.32	0	0	1	1
Eurobor 12m	-0.19	0	0	0	0
Libor 3m	2.32	0	-1	6	63
Libor 12m	2.73	-1	-3	-4	62
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,721	0.0	-0.4	2.0	1
Dow Jones	24,753	0.0	-1.0	1.8	0
Nikkei	22,481	0.1	-2.3	0.7	-1
FTSE 100	7,730	0.0	-1.6	4.2	1
EuroStoxx 50	3,484	-0.9	-2.5	-0.6	0
IBEX	9,778	-0.5	-2.9	-1.3	-3
DAX	12,863	-0.6	-1.6	2.9	0
CAC	5,509	-0.6	-2.3	1.0	-4
MB	21,992	-1.8	-4.8	-8.5	1
ASE Athens	756	0.0	-3.7	9.6	-8
BVL Brussels	85,435	-1.0	-3.7	6.4	0
Bovespa (Brazil)	75,780	-4.0	-7.4	-12.3	-3
BVL Mexico	45,031	-0.1	-0.6	-6.8	-10
BVL Argentina	28,674	3.3	9.4	2.8	6
MSCI Europe *	5,378	0.3	-0.9	0.7	0
Poland	2,218	0.2	2.2	2.9	-10
Nikkei 10 (Russia)	4,492	0.1	-0.9	0.7	9
Ise 100 (Turkey)	106,525	3.2	4.2	0.5	-9
MSCI EM Asia *	933	0.2	0.0	2.0	1
Shanghai Com (China)	3,135	-0.2	-2.5	2.0	-6
Jakarta (Indonesia)	6,068	2.0	4.9	-0.2	-5
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
Wells Fargo	116.0	0.0	-1.3	0.5	-3
JPM	110.7	0.0	-1.3	0.5	-3
Cit	68.4	0.0	-2.8	-1.1	-8
BAC	30.2	0.0	-1.3	0.3	1
MS	53.0	0.0	-2.5	1.6	2
GS	235.0	0.0	-1.1	2.1	-8
EZ banks					
Deutsche	97.2	-1.6	-5.0	-11.2	-11
BNP	59.9	-1.1	-2.8	-5.3	-4
Crédit Agricole	12.5	-1.7	-8.0	-8.6	-11
Deutsche Bank	10.3	-0.9	-4.8	-13.0	-36
ING	13.1	-0.6	-1.6	-6.0	-15
Intesa	2.6	-3.2	-8.2	-19.6	-7
SG	40.3	-0.6	-2.6	-11.4	-7
Unicredit	14.8	-3.8	-9.1	-18.6	-6
UK banks					
HSBC	91.3	0.0	-1.0	2.1	-1
RBS	732.8	0.0	0.8	3.2	-4
RES	289.7	0.0	0.9	6.4	4
Barclays	206.2	0.0	-1.3	-1.8	1
Lloyds	65.7	0.0	-1.2	1.2	-3
Large Spanish banks					
Santander	74.6	-1.6	-5.6	-7.4	-12
Banco Sabadell	4.9	-2.0	-5.4	-8.7	-10
BBVA	6.3	-1.2	-5.7	-6.2	-13
Medium Spanish banks					
Cajabank	74.1	-1.1	-4.1	-3.5	-9
Sabadell	3.9	-1.0	-5.5	-2.3	-3
Banque Paribas	1.6	0.5	-0.5	-1.9	-5
Banque de France	8.3	-2.3	-5.5	-4.4	5
Banque	3.4	-0.9	-4.3	-5.7	-15
Commodities (% red for currency appreciation)					
level	Daily	Weekly	Monthly	YTD	
Developed					
EURUSD	1.163	-0.2	-1.4	-3.9	-4
GBPUSD	1.33	0.0	0.9	-4.4	-2
USDJPY	109.35	0.1	1.5	0.0	3
USDY	94.40	0.2	0.8	3.1	3
Emerging					
USDARS (Argentina)	24.63	0.2	1.0	19.8	34
USDBRL (Brazil)	3.71	-1.5	-0.9	6.7	-14
USDCIP (Chile)	623.71	0.0	2.0	-3.4	-3
USDCOP (Colombia)	2878	0.0	0.0	2.1	2
USDMXN (Mexico)	19.59	-0.2	1.2	4.1	0
USDPEN (Peru)	3.27	0.0	0.4	-1.0	-1
USDRUB (Russia)	58.90	-0.6	0.7	5.7	-7
USDTRY (Turkey)	3.70	0.1	1.6	5.9	-7
USDRUB (Russia)	62.39	0.3	1.3	0.5	-9
USDTRY (Turkey)	4.58	2.9	0.0	-12.6	-22
USDCNY (China)	6.40	-0.1	-0.2	-1.0	1
USDINR (India)	67.43	0.5	1.0	-1.0	-6
USDOR (Indonesia)	13,995	0.9	1.4	0.7	-4
ADXY	109.8	0.1	0.2	0.8	0
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	75.3	-1.5	-5.0	1	13
WTI	66	-2.1	-8.0	3	10
Copper	3.06	-0.3	-0.9	-2	-5
Gold	1299	-0.2	0.5	-1	-1
S&P 500 commodity *	482	-1.9	-2.2	2	9
S&P Brent Spot *	651	-3.0	-3.5	4	15
S&P Metals Spot *	396	-0.5	-0.3	0	-2
S&P Agriculture *	317	1.1	2.7	5	11

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

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