Market Comment | Fresh inflows into safe-haven bonds amid trade and political tensions

Global Financial Markets Unit
21 Jun 2018

- **Negative mood in financial markets** on the back of ongoing global trade tensions and the return of political uncertainty in Italy (see).

- **Safe-haven bonds attracted fresh inflows.** Both the US and the German 10Y yields dropped (around 4 bps), after recent government appointments increased concerns among investors, while the Italian yield surged (30 bps in 2Y and 22 bps in 10Y), also driving up 10Y yields in Spain and Portugal, although Spain attracted good demand in today's bond auctions. Italy's risk premium increased to 240 bps, while Spain's returned to 100 bps.

- **Equity markets declined as the impact of trade tensions between the US and China started to spread to other economies.** German automaker announced a profit warning for 2018, partly due to trade tensions, sending German and European equity indices lower (see). Asian equity indices also declined in today's session as China warned that it is fully prepared to respond to any new tariffs, while US equity indices have also started the session declining as trade tension lingers, with Dow Jones's names with exposure to China declining.

- **The USD remained steady but showing strong intraday volatility, with DM Fx recording a positive performance.** The JPY benefited from safe-haven flows. The EUR ended steady, after falling below 1.16 due to political uncertainty in Italy and recovering some ground in the afternoon. The GBP appreciated strongly against the USD after one more member, BoE´s chief economist, supported an interest rate hike at today's BoE monetary policy meeting, (see). EM currencies continued to depreciate.

- Last but not least, **all eyes are on tomorrow´s OPEC meeting** in which an increase in the supply of crude oil will be discussed, pushing down today´s oil prices (see).

Table 1
Update 18:00 CET June 21

![BBVA Research logo]

Debt markets (10Y, %, changes in bp)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.55	-2.1	-1.8	-2	63
US	2.91	-3.1	-2.7	-15	44
GER (2-yr)	-0.67	-3.2	-4.3	-6	-6
Germany	0.34	-4.2	-9.1	-23	-13
France	0.71	-0.6	-6.2	-13	-12
Spain	1.34	8.9	-1.3	-12	-28
Italy	2.73	18.3	-0.5	40	64
Portugal	1.85	9.7	-7.0	-12	-16
Greece	4.32	-4.9	-28.0	-7	21
Japan (2-yr)	-0.13	0.0	-0.1	0	0
Japan	0.04	-0.3	-1.5	-1	-1

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	12.03	19.6	-28.5	132	177
Chile	4.60	-0.5	0.5	1	9
Colombia	6.59	0.8	1.2	-5	15
Mexico	7.78	-2.5	-17.6	2	20
Peru	5.46	0.9	10.5	1	58
Poland	3.15	-3.0	-7.0	-11	-16
Russia	7.78	-2.2	9.5	33	14
Turkey	16.16	-2.0	52.0	176	480
India	7.78	-5.0	-16.8	-4	39
Indonesia	7.49	20.2	19.5	-4	120

Country risk (bp, changes in bp)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	37	3.6	2.9	10	8
Italy	240	22.5	8.6	63	77
Portugal	151	13.9	2.1	11	-3
Spain	100	13.1	7.8	10	-15
2-yr sovereign spread vs Germany					
France	12	1.7	0.2	0	-4
Italy	153	29.9	12.5	73	116
Portugal	56	8.5	3.9	-16	-11
Spain	47	10.5	3.8	16	20

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	265	-3.8	4	71	105
Chile	58	-1.2	2	2	8
Colombia	127	-1.6	6	15	22
Argentina	415	0.4	33	64	176
Mexico	141	-3.0	-6	16	34
Peru	90	-2.1	3	2	18
Poland	64	0.4	-5	7	16
Russia	146	-8.4	4	9	28
Turkey	314	-10.7	13	27	150
China	57	-1.3	1	0	7
India	90	-0.7	2	2	21
Indonesia	132	-5.2	5	8	47

Risk indicators

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	1.0	2	1	4
VSTOXX	16	2.1	5	3	3
EM EFT volatility Index	19	1.0	2	2	3
Dollar/euro volatility	8	0.1	0	0	1
EM FX volatility index	10	-0.2	0	1	2
Credit spread (BAA) (change in bps)	194	3.1	6	11	17
US bonds volatility index	52	-0.5	-1	-1	3

Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.43	-	1	1	11
EZ Inflation expectations (5Y5Y)	1.74	-	0	3	0

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	54	-0.7	-1	1	12
EZ	88	-1.5	-4	23	48
UK	0	-53.9	-54	-47	-41
Large Spanish	0	-86.8	-83	-63	-36
Medium Spanish	0	-99.1	-95	-77	-75

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	148	-0.7	-1	1	12
EZ Non-financial	79	-1.5	-4	23	48
UK Non-financial	108	-0.4	0	3	15

Interbank markets (%, changes in bp)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	0	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.18	0	0	1	0
Libor 3m	2.33	0	-1	0	64
Libor 12m	2.77	1	1	1	67

Stock markets (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,760	-0.3	-0.8	1.3	2
Dow Jones	24,510	-0.6	-2.6	-1.3	-1
Nikei	22,693	0.6	-0.2	-1.2	0
FTSE 100	7,556	-0.9	-2.7	-4.1	-1
EuroStoxx 50	3,404	-1.0	-3.5	-5.1	-2
IBEX	9,702	-0.9	-2.6	-4.3	-4
DAX	12,512	-1.4	-4.5	-5.0	-3
CAC	5,316	-1.0	-3.8	5.7	1
MIB	21,673	-2.0	-3.6	-6.6	-1
ASE Athens	773	0.9	-0.7	-3.1	-6
MSCI Latam *	81,507	0.6	-0.5	-7.0	-5
Ibovespa (Brazil)	71,004	-1.6	-0.6	-14.2	-9
Mexbol (Mexico)	46,591	-0.4	-1.3	2.2	-7
Merval (Argentina)	31,227	7.2	3.7	0.8	0
MSCI EM Europe *	5,197	1.4	-1.3	-4.7	-4
Poland	2,151	-0.2	-3.9	-4.3	-13
Micex 10 (Russia)	4,393	0.2	1.1	-2.9	7
Ise 100 (Turkey)	95,057	0.5	0.5	-8.0	-19
MSCI EM Asia *	915	0.5	-3.2	-2.1	-1
Shanghai Com (China)	2,876	-1.4	-5.5	-10.5	-14
Jakarta (Indonesia)	5,822	-2.9	-2.9	1.5	-8

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	140.9	-0.2	-1.2	-5.9	-5
JPM	107.5	-0.1	-0.5	-4.9	0
Citi	67.5	0.2	2.0	-5.0	-9
BoA	29.2	0.0	-0.9	-5.3	-2
MS	49.5	-0.8	-3.5	-9.8	-5
GS	226.3	-0.7	-3.1	-4.9	-11
EZ banks	90.8	-1.4	-2.6	-11.9	-17
BNP	53.2	-0.9	-3.0	-15.2	-14
Crédit Agricole	11.6	-0.5	-3.4	-12.3	-17
Deutsche Bank	9.4	-2.2	-2.9	-14.5	-41
ING	12.5	-1.4	-2.0	-7.7	-19
Intesa	2.6	-2.0	-1.2	-8.5	-7
SG	35.9	-1.1	-4.1	-13.9	-17
Unicredito	14.4	-3.2	-0.9	-13.8	-8
UK banks	85.1	-1.5	-3.6	-8.6	-8
HSBC	708.1	-2.6	-3.6	-5.0	-7
RBS	256.9	-0.4	-2.5	-13.2	-7
Barclays	190.2	-1.8	-5.2	-9.9	-6
Lloyds	61.4	-0.5	-2.8	-8.4	-9
Large Spanish banks	72.0	-0.8	-2.1	-10.3	-15
Santander	4.7	-1.0	-2.3	-11.0	-14
BBVA	6.0	-0.6	-2.0	-9.7	-16
Medium Spanish banks	71.1	-1.6	-3.5	-9.9	-7
Caixabank	3.6	-2.0	-5.4	-13.1	-8
Sabadell	1.4	-1.9	-3.6	-14.5	-16
Bankinter	8.5	-1.3	-1.9	-4.5	7
Bankia	3.2	-1.3	-4.3	-11.4	-20

Currencies (%, red for currency depreciation)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.160	0.2	0.3	-1.5	-4
GBPUSD	1.32	0.6	-0.1	-1.4	-3
USDJPY	110.04	0.3	0.5	0.8	2
DXY	94.87	-0.3	0.0	1.3	3

Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	27.43	1.2	2.0	-12.9	-49
USDBRL (Brazil)	3.80	-0.7	0.2	-4.1	-16
USDCLP (Chile)	641.81	-0.5	0.9	-2.7	-6
USDCOP (Colombia)	2954	-0.9	-3.2	-3.6	-1
USDMXN (Mexico)	20.40	-0.2	2.3	-3.2	-4
USDPEN (Peru)	3.28	0.0	0.1	-0.2	-1
LACI	56.74	-0.2	0.9	-3.9	-11
USDPLN (Poland)	3.73	-0.1	-0.9	-2.7	-8
USDRUB (Russia)	63.76	-0.3	-1.9	-4.1	11
USDTRY (Turkey)	4.73	0.0	-0.1	-1.4	-26
USDCNY (China)	6.49	-0.3	-1.4	-2.0	0
USDINR (India)	67.99	0.1	-0.5	0.1	-7
USDIDR (Indonesia)	14,102	-1.2	-1.2	0.3	-4
ADXY	108.3	-0.1	-0.9	-1.5	-2

Commodities (%)

	level	Daily	Weekly	Monthly	YTD
Brent	73.7	-1.4	-3.0	-7	11
WTx	66	-0.9	-1.9	-9	9
Copper	303	-0.6	-5.8	-3	-7
Gold	1268	0.0	-2.7	-2	-4
S&P Spot commodity *	464	0.2	-2.2	-6	5
S&P Brent Spot *	633	-0.4	-1.7	-7	12
S&P Metals Spot *	376	-0.3	-4.6	-3	-4
S&P Agricultural *	289	0.7	-3.8	-7	2

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Source: Bloomberg, Datastream and Haver

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Euribor 12m	-0.18	0	0	1	0
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Libor 12m	2.77	1	1	1	67

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JPM	107.5	-0.1	-0.5	-4.9	0
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BoA	29.2	0.0	-0.9	-5.3	-2
MS	49.5	-0.8	-3.5	-9.8	-5
GS	226.3	-0.7	-3.1	-4.9	-11
EZ banks	90.8	-1.4	-2.6	-11.9	-17
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USDMXN (Mexico)	20.40	-0.2	2.3	-3.2	-4
USDPEN (Peru)	3.28	0.0	0.1	-0.2	-1
LACI	56.74	-0.2	0.9	-3.9	-11
USDPLN (Poland)	3.73	0.1	-0.9	-2.7	-8
USDRUB (Russia)	63.76	-0.3	-1.9	-4.1	-11
USDTRY (Turkey)	4.73	0.0	-0.1	-1.4	-26
USDCNY (China)	6.49	-0.3	-1.4	-2.0	0
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