BBVA Research

Market Comment | Trade concerns prompt switch from stocks to bonds

Global Financial Markets Unit
22 Jun 2018

- **Risk-off mood due to ongoing global trade tensions and Italy´s political problems were the drivers of the financial markets during the week**. Safe-haven currencies and bonds attracted fresh inflows after China and the EU announced retaliations against the imposition of tariffs by the US on imports coming from these economies (see). In this context, **stock prices fell across the board during the week**, while the equity volatility index (VIX) hovered around 14%.

- Following this pattern, **core yields declined during the week**: the US 10YT yield remained broadly steady below the 3% threshold, while the decline in the 10Y German Bund yield was more intense, dropping below 0.4%, as political concerns over Italy came to the forefront at the end of the week, the Italian risk premium increasing, with a mild effect on other peripheral countries' risk premia (see).

- In the Fx Market, **the USD rally took a breather, diminishing the pressure on EM currencies**. The MXN and the Turkish lira recovered some ground during the week (ahead of upcoming Turkey´s elections) while the BRL underperformed against the USD due to idiosyncratic factors. Regarding the DM, the JPY appreciated amid trade tensions.

- **The boost in crude oil supply by just 1 million barrels per day for the next month** (lower than expected) **was decided in today´s OPEC meeting**. However, oil prices rebounded at the end of the week after some volatility (around $75 per barrel) (see).

Table 1
Update 17:30 CET June 22

Debt markets (10Y, %, changes in bp)					
Developed Markets	**level**	**Daily**	**Week**	**Month**	**YTD**
US (2-yr)	2.54	0.6	-0.4	2	62
US	2.90	0.6	-1.8	-9	44
GER (2-yr)	-0.67	0.2	-4.7	-9	-6
Germany	0.34	0.0	-6.8	-17	-13
France	0.71	0.2	-2.6	-10	-12
Spain	1.35	1.8	5.7	-9	-26
Italy	2.70	-3.5	8.8	30	60
Portugal	1.82	-2.4	-0.1	-14	-19
Greece	4.15	-16.8	-34.8	-22	4
Japan (2-yr)	-0.13	0.0	0.0	1	0
Japan	0.04	-0.3	-1.1	-1	-1
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
Brazil	12.07	1.0	-2.0	139	182
Chile	4.60	-0.1	0.4	3	9
Colombia	6.59	-1.5	-3.6	-2	15
Mexico	7.75	-4.9	-24.4	5	18
Peru	5.42	-1.0	0.5	4	55
Poland	3.17	2.5	-7.4	-6	-14
Russia	7.76	-1.6	-8.0	30	13
Turkey	15.68	-48.0	4.0	147	432
India	7.82	4.6	-6.9	-3	43
Indonesia	7.54	5.0	24.5	-8	125
Country risk (bp, changes in bp)					
Developed Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
10-yr sovereign spread vs Germany					
France	37	0.2	4.2	7	9
Italy	236	-3.5	15.6	47	73
Portugal	149	-2.3	6.8	4	-5
Spain	102	1.8	12.5	8	-13
2-yr sovereign spread vs Germany					
France	12	-0.2	-0.3	5	-5
Italy	156	2.7	28.1	69	119
Portugal	54	-2.1	5.1	-18	-13
Spain	45	-1.8	6.3	16	18
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
5-yr sovereign CDS *					
Brazil	262	-3.4	-7	72	101
Chile	58	0.1	1	2	9
Colombia	126	-1.2	-1	15	21
Argentina	401	-13.6	-9	53	163
Mexico	138	-2.9	-11	15	31
Peru	90	-0.2	0	2	18
Poland	65	1.1	-3	9	17
Russia	143	-2.2	3	11	25
Turkey	308	-6.7	8	30	143
China	59	1.4	3	3	8
India	93	3.2	5	4	24
Indonesia	135	2.8	9	16	50
Risk indicators					
Volatilty indicators (change in pp)	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
VIX	14	-1.0	2	1	4
VSTOXX	14	-1.7	2	-1	1
EM EFT volatility Index	18	-1.3	1	0	2
Dollar/euro volatility	7	-0.3	0	-1	1
EM FX volatility index	10	0.0	0	1	2
Credit spread (BAA) (change in bps)	195	-0.6	7	9	17
US bonds volatility index	53	1.2	0	0	4
Inflation expectations (%)	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Inflation expectations (5Y5Y)	2.44	-	1	3	12
EZ Inflation expectations (5Y5Y)	1.74	-	1	3	0
Banking 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US	57	2.1	3	4	14
EZ	92	4.4	6	28	53
UK	55	2.3	3	9	15
Large Spanish	89	4.7	11	26	53
Medium Spanish	97	4.4	-2	21	23
Corporate 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Non-financial	150	2.1	3	4	14
EZ Non-financial	80	4.4	6	28	53
UK Non-financial	109	0.5	2	3	16
Interbank markets (%, changes in bp)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
EONIA Index	-0.37	0	0	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.18	0	0	1	1
Libor 3m	2.34	0	0	1	64
Libor 12m	2.77	0	0	1	66
Stock markets (%)					
Main indices	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
S&P500	2,758	0.3	-0.8	0.9	2
Dow Jones	24,618	0.6	-1.9	-1.1	-1
Nikkei	22,517	-0.8	-1.5	-0.8	-1
FTSE 100	7,683	1.7	0.6	-1.4	0
EuroStoxx 50	3,432	0.8	-2.1	-3.1	-2
IBEX	9,768	0.7	-0.8	-2.6	-3
DAX	12,538	0.2	-3.6	-3.4	-3
CAC	5,378	1.2	-2.2	-3.4	2
MIB	21,832	0.7	-1.6	-4.7	0
ASE Athens	771	-0.2	1.0	-1.8	-6
MSCI Latam *	79,994	-1.9	-2.0	-9.4	-7
Ibovespa (Brazil)	70,645	0.8	-0.2	-12.6	-9
Mexbol (Mexico)	46,348	-0.2	-1.3	1.2	-7
Merval (Argentina)	30,387	-1.6	0.8	0.5	-2
MSCI EM Europe *	5,190	-0.1	-1.3	-4.8	-4
Poland	2,163	0.6	-1.8	-2.1	-12
Micex 10 (Russia)	4,423	0.7	2.5	-1.1	7
Ise 100 (Turkey)	95,852	0.8	1.4	-5.9	-18
MSCI EM Asia *	906	-0.9	-3.2	-3.0	-2
Shanghai Com (China)	2,890	0.5	-4.4	-8.8	-14
Jakarta (Indonesia)	5,822	-1.1	-2.9	1.2	-8
Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	141.2	0.0	-0.6	-4.9	-5
JPM	107.2	-0.3	-0.6	-4.7	-1
Citi	67.5	-0.1	1.8	-3.8	-9
BoA	29.3	-0.1	0.0	-3.8	-2
MS	49.9	0.3	-2.4	-8.1	-4
GS	228.2	0.5	-1.6	-4.0	-11
EZ banks	91.6	0.9	-0.2	-9.9	-16
BNP	53.7	1.0	-0.7	-13.0	-13
Crédit Agricole	11.8	1.0	-0.6	-10.3	-16
Deutsche Bank	9.5	1.1	-0.2	-13.0	-41
ING	12.6	1.2	0.4	-5.4	-18
Intesa	2.6	0.4	0.9	-6.5	-7
SG	36.2	0.7	-1.9	-12.2	-16
Unicredito	14.5	0.9	1.5	-11.0	-8
UK banks	86.5	1.6	0.3	-6.4	-6
HSBC	720.6	1.8	-0.3	-2.5	-6
RBS	261.3	1.7	2.7	-11.2	-6
Barclays	193.6	1.8	-0.5	-7.3	-5
Lloyds	62.1	1.2	0.0	-6.8	-8
Large Spanish banks	72.8	1.0	1.0	-7.5	-14
Santander	4.7	1.1	1.1	-8.3	-13
BBVA	6.0	1.0	0.9	-6.8	-15
Medium Spanish banks	71.8	1.0	0.3	-8.0	-6
Caixabank	3.7	0.7	-1.0	-11.7	-8
Sabadell	1.4	0.0	-1.3	-13.4	-16
Bankinter	8.6	0.6	1.3	-3.2	8
Bankia	3.4	3.5	2.0	-6.6	-17
Currencies (%, red for currency depreciation)					
Developed	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
EURUSD	1.164	0.3	0.2	-0.5	-4
GBPUSD	1.33	0.2	-0.1	-0.6	-2
USDJPY	109.94	0.0	0.7	0.1	2
DXY	94.69	-0.2	-0.1	0.7	3
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
USDARS (Argentina)	27.19	1.2	3.8	-11.0	-48
USDBRL (Brazil)	3.77	0.0	-1.0	-3.8	-16
USDCLP (Chile)	636.74	0.6	-0.5	-2.0	-5
USDCOP (Colombia)	2920	1.1	-0.8	-1.5	0
USDMXN (Mexico)	20.13	0.9	2.4	-2.5	-3
USDPEN (Peru)	3.27	0.2	0.4	-0.1	-1
LACI	57.30	0.6	1.0	-3.7	-10
USDPLN (Poland)	3.72	0.3	-0.8	-1.1	-8
USDRUB (Russia)	63.00	1.0	0.2	-2.8	-10
USDTRY (Turkey)	4.69	0.7	0.9	-2.4	-24
USDCNY (China)	6.51	-0.2	-1.0	-1.8	0
USDINR (India)	67.83	0.2	0.3	0.9	-7
USDIDR (Indonesia)	14,086	0.1	-1.1	0.9	-4
ADXY	108.1	-0.2	-0.7	-1.4	-2
Commodities (%)					
	level	**Daily**	**Weekly**	**Monthly**	**YTD**
Brent	74.7	2.2	1.7	-6	12
WTx	68	3.8	4.6	-5	13
Copper	303	0.2	-3.5	-1	-7
Gold	1269	0.2	-0.8	-2	-4
S&P Spot commodity *	461	-0.7	-0.6	-7	4
S&P Brent Spot *	620	-2.1	-0.4	-9	9
S&P Metals Spot *	376	0.0	-2.5	-3	-4
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EZ banks	91.6	0.9	-0.2	-9.9	-16
BNP	53.7	1.0	-0.7	-13.0	-13
Crédit Agricole	11.8	1.0	-0.6	-10.3	-16
Deutsche Bank	9.5	1.1	-0.2	-13.0	-41
ING	12.6	1.2	0.4	-5.4	-18
Intesa	2.6	0.4	0.9	-6.5	-7
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Barclays	193.6	1.8	-0.5	-7.3	-5
Lloyds	62.1	1.2	0.0	-6.8	-8
Large Spanish banks	72.8	1.0	1.0	-7.5	-14
Santander	4.7	1.1	1.1	-8.3	-13
BBVA	6.0	1.0	0.9	-6.8	-15
Medium Spanish banks	71.8	1.0	0.3	-8.0	-6
Caixabank	3.7	0.7	-1.0	-11.7	-8
Sabadell	1.4	0.0	-1.3	-13.4	-16
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USDRUB (Russia)	63.00	1.0	0.2	-2.8	-10
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USDCNY (China)	6.51	-0.2	-1.0	-1.8	0
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