

# Market Comment | BoJ decision consolidates recent global higher yields

Global Financial Markets Unit

31 Jul 2018

- **The BoJ slightly adjusted its monetary policy:** i) introduced a forward guidance that interest rates would remain low for an extended period of time, ii) maintained the purchases of JGB to keep the 10Y yield at about zero percent but doubling the current fluctuation range of 10 bps and iii) reduced the size of bank reserves subject to negative rates. In sum the BoJ tweaked its monetary policy conduct to avoid side effects of ultra-loosening monetary policy, showing its tolerance of higher levels of 10Y yield curve. Moreover, this move might also point out the way that the BOJ exits the QQE in future, although Japanese policymakers are not in a hurry to end it.
- **Eurozone advance inflation increased** to 2.1% in July, while core inflation also climbed (to 1.1% from 0.9%), **slightly more than expected**, underpinned by both services inflation and non-energy industry prices. **Eurozone 2Q18 GDP growth moderated slightly more than expected** (0.34% QoQ, BBVA 0.38% consensus 0.4%, previous quarter 0.36%). Spanish GDP growth decelerated (0.1pp to 0.6% QoQ in Q2). Domestic demand accounted for all of the increase, although some items such as private consumption disappointed. The contribution of external demand was negative, as trade flows generally declined. Despite this, investment in machinery regained traction ([see](#)).
- **Global yields seem to be consolidating the higher levels of last week. Although the BoJ tweaked its monetary policy, global bond yields trimmed early falls, as the BoJ's Kuroda suggested that the current fluctuation range for the 10Y bond yield would be doubled ([see](#)).** As a result, the US 10Y yield closed at 2.96%, while the 10Y German yield remained broadly steady as slightly lower-than-expected Eurozone 2Q18 GDP growth offset the slightly stronger inflation rate in July. **Peripheral risk premia slightly narrowed except in Greece, where the risk premium surged** after the IMF issued a cautious report on Greece ([see](#)).
- Regarding trade conflicts between the US and China, **today's new flow seems positive, with the possibility that talks between China and the US will resume([see](#)).**
- In Fx markets, **the USD swung between small gains and losses against other major G-10 currencies, ahead of tomorrow's FOMC meeting.** However, **the JPY depreciated after the BoJ's decision, while the euro moved sideways, due to mixed economic data.** Finally, the GBP slightly depreciated ahead of the expected hike in interest rates by the BoE's policy meeting on Thursday([see](#)). The TRY continued its weaker movement against the USD due to Turkey's Central Bank's forecast of higher inflation ([see](#)), while the CNY fluctuated during the session amid the release of weaker PMI data for China ([see](#)). In Latam, weaker preliminary economic data in Mexico weighed on its currency, leading the MXN to depreciate against the US dollar ([see](#)).

- **US equity markets showed gains**, ahead of Apple's earnings results , **while the European equity indices also increased**, underpinned by lower European yields and positive earnings. Among Asian equity indices, the Hang Seng index declined sharply, dragged by technology companies, increasing concerns about technology valuations.

Table 1

Update 17:50 CET July 31

Debt markets (10Y, % changes in bp)					
Developed Markets	Level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.67	0.4	32	14	75
US	2.96	-1.5	0.9	10	49
GER (2-yr)	-0.57	1.6	3.9	10	4
Germany	0.44	-0.3	4.6	9	-8
France	0.73	-1.6	2.8	7	-9
Spain	1.40	-2.5	3.0	2	-27
Italy	2.72	-6.4	3.7	4	63
Portugal	1.74	-3.1	-3.9	-5	-27
Greece	3.96	8.6	11.2	0	-14
Japan (2-yr)	-0.11	0.6	1.5	1	3
Japan	0.06	-2.4	2.6	1	1
Emerging Markets	Level	Daily	Weekly	Monthly	YTD
Brazil	11.17	11.0	8.4	-50	91
Chile	1.54	-0.8	-1.4	-6	3
Colombia	6.84	3.5	13.0	26	40
Mexico	7.77	1.7	-0.9	17	19
Peru	5.13	0.0	-6.0	-14	26
Poland	3.17	-2.9	1.3	-5	-14
Russia	7.81	-5.7	-2.4	0	17
Turkey	16.00	37.0	13.0	108	664
India	7.77	-1.6	-0.9	-13	39
Indonesia	7.77	3.9	-4.6	-3	147
Country risk (bp, changes in bp)					
Developed Markets	Level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	-1.3	-1.8	-2	-1
Italy	228	-6.1	-0.9	-4	71
Portugal	130	-2.8	-8.5	-13	-19
Spain	96	-2.2	-1.6	6	19
2-yr sovereign spread vs Germany					
France	19	-0.2	-1.6	-2	3
Italy	131	-7.6	1.7	5	94
Portugal	38	-2.1	-12.4	-16	-11
Spain	26	-1.5	-7.4	-17	-2
Emerging Markets	Level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	210	1.4	-13	-55	50
Chile	49	-0.8	-7	-13	0
Colombia	104	1.0	-6	-22	-1
Argentina	413	1.0	-27	-28	175
Mexico	118	4.7	-1	-19	8
Peru	77	1.0	-6	-13	5
Poland	61	0.9	-1	-3	13
Russia	133	6.2	-1	-11	15
Turkey	318	5.5	19	17	154
China	58	1.5	-5	-13	8
India	90	1.9	-8	-5	21
Indonesia	110	2.6	-3	-32	25
Risk indicators					
Volatility indicators (change in pp)	Level	Daily	Weekly	Monthly	YTD
VIX	13	-1.0	1	3	4
VSTOXX	13	-0.2	0	-4	-1
EM EFT volatility Index	18	-0.1	0	-3	2
Dollar euro volatility	6	-0.1	0	-1	0
EM FX volatility index	10	0.1	0	0	2
Credit spread (BAA) (change in bp)	186	1.5	-2	-12	9
US bonds volatility index	49	0.6	1	2	0
Inflation expectations (%)	Level	Daily	Weekly	Monthly	YTD
US Inflation expectations (EY5Y)	2.44	-	-1	4	12
EZ Inflation expectations (EY5Y)	1.74	-	-	2	0
Banking 5y CDS (bp)	Level	Daily	Weekly	Monthly	YTD
US	49	-0.3	-3	-9	7
EZ	83	1.0	-6	-20	43
UK	61	0.1	-6	1	20
Large Spanish	69	2.2	-10	-35	33
Medium Spanish	89	1.8	-9	-38	14
Corporate 5y CDS (bp) *	Level	Daily	Weekly	Monthly	YTD
US Non financial	157	-0.3	-3	-9	7
EZ Non financial	74	1.0	-6	-20	43
UK Non financial	98	0.1	-1	-14	6
Interbank markets (% changes in bp)					
	Level	Daily	Weekly	Monthly	YTD
CONIA Index	-0.36	0	0	-1	1
Earlier 3m	-0.32	0	0	0	1
Earlier 12m	-0.18	0	0	0	1
Libor 3m	2.34	0	1	1	65
Libor 12m	2.82	0	2	6	71
Stock markets (%)					
Main indices	Level	Daily	Weekly	Monthly	YTD
S&P500	2,816	0.5	-0.1	3.6	4
Dow Jones	25,451	0.6	0.8	4.9	3
Nikkei	22,554	0.0	0.2	1.1	-1
FTSE 100	7,749	0.6	0.5	1.5	1
EuroStoxx 50	3,526	0.4	1.2	3.8	1
IBEX	9,880	0.3	1.1	2.7	-2
DAX	12,806	0.1	0.9	4.1	-1
CAC	5,511	0.4	1.4	3.5	4
MB	22,207	1.2	1.5	2.7	2
ASE Athens	761	0.4	1.5	0.5	-7
MSCI Latam *	87,767	0.4	2.0	8.1	2
Bovespa (Brazil)	79,226	-1.3	0.1	8.9	2
Merckel (Mexico)	49,781	0.2	0.6	4.4	-1
Merval (Argentina)	29,163	-0.2	3.2	12.0	-6
Jakarta (Indonesia)	5,372	0.8	2.6	3.7	0
MSCI EM Europe *	2,302	-1.3	2.6	7.8	-6
Micex 10 (Russia)	4,394	1.2	1.2	-1.6	7
Shanghai 30 (China)	96,952	0.8	5.2	0.4	-18
MSCI EM Asia *	995	-0.4	1.0	2.4	-3
Shanghai Com (China)	2,876	0.3	-1.0	1.0	-14
Jakarta (Indonesia)	5,336	-0.9	0.3	4.7	-7
Banking indices (%)	Level	Daily	Weekly	Monthly	YTD
US banks	148.6	-0.9	0.5	8.7	0
JPM	115.3	-1.2	1.0	10.7	7
CB	72.0	-0.4	1.3	7.6	-3
BA	31.0	-1.1	0.5	9.9	4
MS	50.4	-1.0	-1.1	6.3	-3
GS	237.6	-0.6	0.7	7.7	-7
EZ banks	95.7	1.7	4.1	6.6	-12
BNP	55.7	1.0	4.0	4.7	-10
Credit Agricole	12.0	1.0	3.3	5.1	14
Deutsche Bank	11.2	2.3	7.0	21.3	-30
ING	13.1	0.7	1.7	6.3	-15
Intesa	2.6	-4.1	6.4	5.9	4
SG	38.1	1.8	3.7	5.5	-12
Unicredit	15.2	1.1	4.5	6.1	-3
UK banks	86.7	0.5	0.7	1.2	-6
HSBC	730.5	0.6	-0.1	2.8	-5
RBS	255.4	0.7	2.0	-0.3	-8
Barclays	198.0	0.5	2.4	2.6	5
Lloyds	62.4	0.0	-1.0	-1.1	-8
Large Spanish banks	75.0	1.0	1.9	4.2	-11
Santander	4.8	1.1	1.6	5.0	12
BBVA	6.3	0.9	2.1	3.5	-11
Medium Spanish banks	72.4	0.8	0.8	2.1	-6
CaixaBank	4.9	0.9	3.1	6.8	9
Sabadell	1.4	2.3	3.0	-0.5	-15
Bankinter	8.3	-0.3	-3.7	-1.0	4
Bankia	2.4	1.3	-2.7	5.1	17
Commodities (% , incl for currency depreciation)					
Developed	Level	Daily	Weekly	Monthly	YTD
LUKUSD	1,171	0.0	0.2	0.2	-3
GBPU\$D	1,31	-0.1	-0.2	0.6	-3
USDJPY	111.91	-0.8	-0.6	-1.0	0
DXY	94.48	-0.1	-0.1	0.0	3
Emerging	Level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	27.36	-0.4	0.5	5.4	-49
USDRL (Brazil)	3.75	-0.5	0.0	3.3	-15
USDCUP (Cuba)	639.51	-0.2	2.3	2.2	5
USDCOP (Colombia)	2885	-0.4	0.4	1.6	2
USDMMX (Mexico)	18.59	-0.3	1.6	6.6	5
USDPEN (Peru)	3.27	-0.1	0.1	0.4	-1
LACI	58.90	-0.4	0.9	4.6	-7
USDPLN (Poland)	3.65	-0.1	0.8	2.4	-6
USD RUB (Russia)	62.33	-0.1	1.6	0.7	8
USDTRY (Turkey)	4.91	-0.6	-0.5	6.9	-30
USDCNY (China)	6.82	0.0	0.4	3.0	5
USDINR (India)	66.55	0.2	0.6	-0.1	8
USDIDR (Indonesia)	14,414	0.0	0.9	-0.6	-7
ADXY	105.9	0.2	0.3	-1.2	-4
Commodities (%)					
	Level	Daily	Weekly	Monthly	YTD
Brent	74.4	-0.8	1.3	-6	12
WTI	69	-1.9	0.4	-7	14
Copper	280	0.7	0.0	-5	14
Gold	1224	0.2	0.0	-2	-7
S&P Spot commodity *	409	1.0	1.9	-4	6
S&P Brent Spot *	643	1.1	2.4	5	13
S&P Metals Spot *	349	-0.1	-0.3	-5	-11
S&P Agrioflora *	293	1.5	3.6	3	3
* With one day delay					
Source: Bloomberg, Datastream and Haver					

Fuente: BBVA Research

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Debt markets (10Y, %, change in bps)					
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France	0.73	-1.6	2.8	7	-9
Spain	1.40	-2.5	3.0	2	-27
Italy	2.72	-6.4	3.7	4	63
Portugal	1.74	-3.1	-3.9	-5	-27
Greece	3.96	6.6	11.2	0	-14
Japan (2-yr)	-0.11	0.6	1.5	1	3
Japan	0.06	-2.4	2.6	1	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	11.17	11.0	8.4	-50	91
Chile	4.54	-0.8	-1.4	-5	3
Colombia	6.84	3.5	13.0	26	40
Mexico	7.77	1.7	-0.9	17	19
Peru	5.13	0.0	6.0	-14	26
Poland	3.17	-2.9	1.3	-5	-14
Russia	7.81	-5.7	-2.4	0	17
Turkey	18.00	37.0	13.0	188	664
India	7.77	-1.6	-0.9	-13	39
Indonesia	7.77	3.8	-4.5	-3	147
Country risk (bps, change in bps)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
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Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	210	1.4	-13	-55	50
Chile	49	-0.8	-7	-13	0
Colombia	104	1.0	-6	-22	-1
Argentina	413	1.0	-27	-28	175
Mexico	113	4.7	-1	-19	6
Peru	77	1.0	-6	-13	5
Poland	61	0.9	-1	-3	13
Russia	133	0.2	-1	-11	15
Turkey	318	5.5	19	17	154
China	58	1.5	-5	-13	8
India	90	1.9	-8	-5	21
Indonesia	110	2.6	-5	-32	25
Risk indicators					
Volatility indicators (change in bps)	level	Daily	Weekly	Monthly	YTD
VIX	13	1.0	1	-3	4
VSTOXX	13	-0.2	0	-4	-1
EM EFT volatility Index	18	-0.1	0	-3	2
Dollarindex volatility	6	-0.1	0	-1	0
EM FX volatility index	10	0.1	0	0	2
Credit spread (BAA) (change in bps)	166	1.5	-2	-12	9
US bonds volatility index	49	0.6	-1	-2	0
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.44	-	-1	4	12
EZ Inflation expectations (5Y5Y)	1.24	-	3	-2	0
Bundling 5-yr CDS (bps)	level	Daily	Weekly	Monthly	YTD
US	49	-0.3	-3	-9	7
EZ	83	1.0	-6	-20	43
UK	61	0.1	-6	1	20
Large Spanish	69	2.2	-10	-35	33
Medium Spanish	89	1.8	-1	-8	14
Corporate 5-yr CDS (bps)	level	Daily	Weekly	Monthly	YTD
US Non-financial	157	-0.3	-3	-9	7
EZ Non-financial	74	1.0	-6	-20	43
UK Non-financial	58	0.1	-4	-14	6
Interbank markets (% change in bps)					
level	Daily	Weekly	Monthly	YTD	
EURIA Index	-0.36	0	0	-1	1
Eurobor 3m	-0.32	0	0	0	1
Eurobor 12m	-0.18	0	0	0	1
Libor 3m	2.34	0	1	1	65
Libor 12m	2.82	0	2	6	71
Stock markets (%)					
Main Index	level	Daily	Weekly	Monthly	YTD
SEPS50	2,816	0.5	0.1	3.6	4
Dow Jones	25,451	0.6	0.8	4.9	3
Nikkei	22,554	0.0	0.2	1.1	-1
FTSE 100	7,749	0.6	0.5	1.5	1
EuroStoxx 50	3,526	0.4	1.2	3.8	1
IBEX	9,680	0.3	1.1	2.7	-2
DAX	12,806	0.1	0.9	4.1	-1
CAC	5,511	0.4	1.4	3.5	4
MB	22,207	1.2	1.5	2.7	2
ASE Athens	761	0.4	1.5	0.5	-7
MSCI Latam *	87,767	0.4	2.0	8.1	2
Bovespa (Brazil)	79,226	-1.8	0.1	3.8	2
Mexbol (Mexico)	49,781	0.2	0.6	4.4	-1
Merval (Argentina)	29,163	-0.2	3.2	12.0	-6
MSCI EM Europe *	5,372	0.8	2.6	3.7	0
Polxw	2,302	-1.1	2.6	7.8	-6
Moon 10 (Russia)	4,394	1.2	1.2	1.6	7
Ru 100 (Turkey)	96,952	0.8	5.2	0.4	-18
MSCI EM Asia *	895	-0.4	1.0	2.4	-3
Shanghai Com (China)	2,876	0.3	-1.0	1.0	-14
Jakarta Indonesia	5,936	-0.9	0.3	4.7	-7
European banks	level	Daily	Weekly	Monthly	YTD
US banks	148.6	-0.9	0.5	8.7	0
JPM	115.3	-1.2	1.0	10.7	7
Ch	72.0	-0.4	1.3	7.6	-3
BoA	31.0	-1.1	0.5	9.9	4
MS	50.4	-1.0	-1.1	6.3	-3
GS	237.6	-0.6	0.7	7.7	-7
EZ banks	95.7	1.7	4.1	6.6	-12
BNP	55.7	1.0	4.0	4.7	-10
Credit Agricole	12.0	1.0	3.3	5.1	-14
Deutsche Bank	11.2	2.3	7.0	21.3	-30
ING	13.1	0.7	1.7	6.3	-15
Intesa	2.6	4.1	6.4	5.9	-4
SG	38.1	1.8	3.7	5.5	-12
Unicredit	15.2	1.1	4.5	6.1	-3
UK banks	86.7	0.5	0.7	1.2	-6
HSBC	730.5	0.6	-0.1	2.8	-5
RBS	255.4	0.7	2.0	0.3	-8
Bectley	194.0	0.5	2.4	2.6	-5
Lloyds	62.4	0.0	-1.0	-1.1	-8
Large Spanish banks	75.0	1.0	1.9	4.2	-11
Santander	4.8	1.1	1.6	5.0	-12
BBVA	6.3	0.9	2.1	3.5	-11
Medium Spanish banks	72.4	0.8	0.8	2.1	-6
Catalbank	4.0	0.9	3.1	6.8	0
Sabadell	1.4	2.3	3.0	0.5	-15
Bankinter	8.3	-0.3	-3.7	-1.0	4
Banla	3.4	1.3	4.2	5.1	-17
Commodities (% vol for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	11,171	0.0	0.2	0.2	-3
GBPUSD	1,131	-0.3	-0.2	0.6	-3
USDJPY	111.91	-0.8	-0.6	-1.0	0
DXU	94.48	0.1	0.1	0.0	-3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	27.36	-0.4	0.5	5.4	-49
USDBRL (Brazil)	3.75	-0.5	0.0	3.3	-15
USDCUP (Cuba)	639.51	-0.2	2.3	2.2	-5
USDCOP (Colombia)	2885	-0.4	0.4	1.6	2
USDMXN (Mexico)	18.59	-0.3	1.6	6.6	5
USDPEN (Peru)	3.27	-0.1	0.1	0.4	-1
LACI	58.90	-0.4	0.9	4.6	-7
USDPLN (Poland)	3.65	-0.1	0.8	2.4	-6
USDROB (Russia)	62.33	-0.1	1.6	0.7	-8
USDTRY (Turkey)	4.91	-0.6	0.5	6.9	-30
USDCHY (China)	6.82	0.0	0.4	3.0	-5
USDINR (India)	68.55	0.2	0.6	0.1	-8
USDIRR (Indonesia)	14,414	0.0	0.9	0.6	-7
ADXY	105.9	0.2	0.3	-1.2	-4
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	74.4	-0.8	1.3	-6	12
WTX	59	-1.9	0.4	-7	14
Copper	280	0.7	0.0	-5	-14
Gold	1224	0.2	0.0	-2	-7
S&P Spot commodity *	469	1.0	1.9	-4	6
S&P Brent Spot *	643	1.1	2.4	-5	13
S&P Metals Spot *	349	-0.1	-0.3	-5	-11
S&P Agricultural *	293	1.5	3.6	3	3

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

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Fuente: BBVA Research

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