

THE FINANCIAL MARKET STRESS INDICATOR REMAINS AT LOW LEVELS

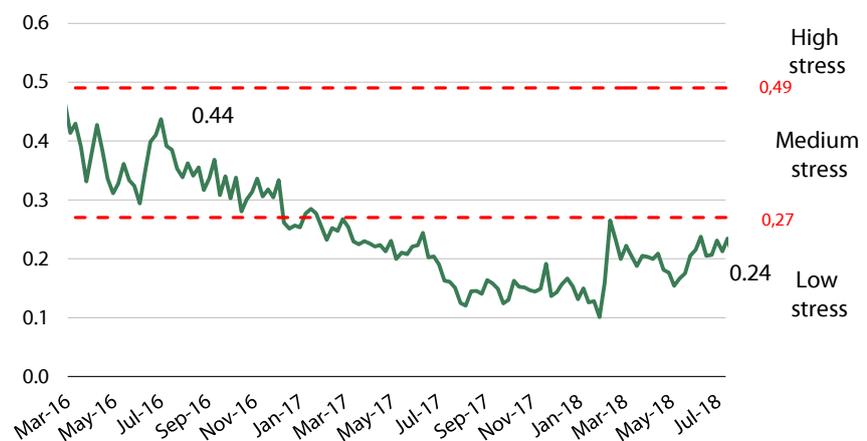
27 July 2018

- In mid-July, the financial market stress indicator produced by CNMV stood at 0.24 points, thus remaining at low levels
- However, a slight upturn has been recorded which may be related to current international trade tensions.
- CNMV's Note on Financial Stability analyses the risks that affect Spanish markets on a quarterly basis

The Spanish National Securities Market Commission (CNMV) has published the [July 2018 Financial Stability Note](#), which assesses the stress level in the Spanish financial markets, analyses the developments in the different financial risks and identifies the main sources of risk.

The note, the seventh in the series published by CNMV, shows that the level of stress on the Spanish financial markets, which had fallen significantly following February's volatility episode, has increased again since May due to the period of political uncertainty experienced in Italy and fears of a possible trade war. Despite the increase, the indicator stood at 0.24 points in mid-July, which is a low stress level. By segment, the highest level of stress was observed in the case of financial intermediaries and, to a lesser extent, in fixed-income securities.

Spanish financial market stress indicator



The Note describes the recent performance of the Spanish economy, which continues to show great dynamism, recording 3% GDP growth in the first quarter of the year, only one tenth less than in the previous quarter and four tenths higher than in the euro zone. It also highlights the fact that no effect on the financial markets has been perceived in the wake of the change of government that took place in Spain at the beginning of June.

The Spanish equity markets began the second quarter of the year with increases in asset prices, although the aforementioned uncertainties ended up preventing more significant advances which could be attributed to the positive progression of Spanish companies. In the fixed-income market, the risk premium temporarily rebounded at the end of May (to 134 b.p.) after some contagion effect arising from Italian debt, but again stood below 100 b.p. in mid-July.

The most significant risks posed to the financial system that can be observed are related to market and liquidity risks, mainly in fixed income assets and, more generally, the effects of the change in the stance of the monetary policy of advanced economies. In the latter sense, measures that restrict world trade may lead to further price increases and, consequently, introduce more uncertainty into central bank expectations in terms of interest rate movements.

*The **Financial Stability Note** presents a broad set of indicators, including most notably the Spanish financial market stress indicator and what are known as colour maps (also known as heat maps). The first one provides a real-time measurement of systemic risk in the Spanish financial system, ranging from 0 to 1, which is obtained by weighted aggregation of the stress levels estimated in the following six segments: variable income, fixed income, financial intermediaries, currency markets, derivatives and the foreign exchange market. Heat maps allow us to visualise the changes witnessed in the various risk categories.*

Complete document: Financial Stability Note No.7. July 2018

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