

Market Comment

European stocks picked up ahead of the ECB meeting. ECB Preview

- U.S. President Trump announced an agreement with the Congress to increase the budget deficit until the middle of 2021 which would enable to raise spending levels in both defense and non-defense areas. This deal is expected to be approved by both houses of Congress in the next few days.
- On the trade front, Chinese state media reported U.S. Trade representative Lighthizer and Treasury Secretary Mnuchin will likely visit China next week for face-to-face talks. Furthermore, U.S. president Trump promised U.S. tech chief executives that a ban on sales to Huawei would be eased, although it still remains on a U.S. blacklist.
- The consumer confidence in the Eurozone picked up (-6.6 pts, consensus -7.1 pts, previous month -7.2 pts). However, in the U.S. there were negative data with the Richmond Fed Manufacturing Survey significantly worse-than-expected (-12, consensus 5, previous month 3) and with disappointing existing home sales (-1.7% m/m, consensus -0.4% m/m, previous month 2.9% m/m). In this context, markets expectations of a Fed rate cut of 50 bps at the end of July remains around 20% while, markets see that the most possible scenario is a rate cut of 25 bps.
- The IMF further reduced its global growth outlook by 0.1% for 2019 and 2020 (from 3.3% in April to 3.2% in July for 2019) against the backdrop of escalating trade concerns, Brexit-related uncertainty and increasing geopolitical tensions. The Eurozone would grow by 1.3% in 2019, unchanged from the previous forecast, and by 1.6% in 2020, 0.1% more. The downward revisions in the IMF's quarterly outlook update are mainly concentrated in the developing world.
- Core government bonds were steady whereas peripheral risk premia were mixed. Italy's risk premium narrowed, erasing yesterday's widening, whereas the Spanish risk premium widened slightly after Sanchez failed to form government.
- In FX markets, the USD extended its gains across the G10 board and EM currencies. The pound oscillated, trimming its early appreciation as the path to Brexit is uncertain with Boris Johnson becoming the Britain's prime minister. Nonetheless, the EC President Juncker signaled its intention to negotiate constructively toward Brexit. Elsewhere, oil prices halted its upward trend as geopolitical tensions fade after the new Britain's prime minister Boris Johnson stated that he would not support a military action against Iran, whereas Iran's Foreign Minister Zarif said that Tehran does not seek confrontation with London.
- Equity markets rose with material and financial sectors leading the gains in both S&P500 and EuroStoxx.



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DEBT MARKETS (10Y, %, CHANGES IN BP)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.83	2.1	-1.7	7	-65
US	2.06	1.4	-4.2	1	-62
GER (2-yr)	-0.77	-0.1	-4.0	-4	-16
Germany	-0.36	-0.9	-11.1	-11	-64
France	-0.09	-0.6	-9.7	-14	-80
Spain	0.39	0.3	-9.7	-4	-102
Italy	1.60	-5.1	-1.0	-55	-114
Portugal	0.46	-0.2	-9.2	-12	-126
Greece	2.05	-5.9	-19.0	-49	-235
Japan (2-yr)	-0.20	0.0	-1.5	3	-6
Japan	-0.14	-0.6	-2.3	1	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.22	-8.2	-9.9	-44	-201
Chile	2.85	-0.1	-17.9	-22	-140
Colombia	5.95	-0.3	-10.4	-28	-80
Mexico	7.50	0.5	-19.5	-18	-114
Peru	3.79	0.2	-8.6	-39	-157
Poland	2.10	-5.1	-16.6	-28	-72
Russia	7.37	-1.1	-8.4	-16	-141
Turkey	15.67	15.0	-96.0	-14	-13
India	6.47	4.7	13.2	-39	-90
Indonesia	7.27	7.0	17.2	-18	-75

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	27	0.3	1.4	-3	-16
Italy	196	-4.2	10.1	-44	-50
Portugal	82	0.7	1.9	-1	-63
Spain	75	1.2	1.4	7	-39
2-yr sovereign spread vs Germany					
France	8	-0.1	1.1	-1	-7
Italy	75	-5.3	4.4	-25	-34
Portugal	24	-2.2	-2.0	-14	-3
Spain	29	0.5	2.8	-3	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	127	-0.5	1	-20	-80
Chile	36	0.6	1	-1	-27
Colombia	85	-0.1	2	-5	-73
Argentina	894	-1.0	22	-37	87
Mexico	116	0.5	6	7	-39
Peru	51	0.2	0	-3	-44
Poland	64	0.0	2	-1	-4
Russia	105	0.4	-1	-2	-49
Turkey	373	2.8	-23	-61	13
China	42	-0.2	-1	1	-26
India	67	-0.4	-10	-14	-46
Indonesia	85	0.4	0	-4	-52

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0.5	0	-2	-12
VSTOXX	13	-0.8	1	-1	-11
EM EFT volatility Index	16	-0.4	1	-1	-8
Dollar/euro volatility	5	0.2	0	0	-2
EM FX volatility index	7	0.0	0	-1	-3
Credit spread (BAA) (change in bps)	223	-1.4	-3	-14	-23
US bonds volatility index	61	-2.9	0	-14	-6
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.12	-	-2	5	-1
EZ Inflation expectations (5Y5Y)	1.29	-	3	-1	-32
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	47	-1.5	0	-2	-35
EZ	55	-0.3	0	-9	-49
UK	56	0.1	4	-1	-39
Large Spanish	39	-0.3	0	-7	-49
Medium Spanish	87	-4.6	-3	4	-26
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	166	-1.5	0	-2	-35
EZ Non-financial	71	-0.3	0	-9	-49
UK Non-financial	96	-0.3	0	-4	-23

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	0	-1
Euribor 3m	-0.37	0	-1	-3	-6
Euribor 12m	-0.31	0	-3	-10	-19
Eonia Swap 3m	-0.44	0	-1	-4	-8
Eonia Swap 12m	-0.54	0	-2	-7	-19
Libor 3m	2.28	2	-2	-6	-51
Libor 12m	2.19	3	-2	3	-82

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2.993	0.3	-0.4	1.4	19
Dow Jones	27.231	0.2	-0.4	1.9	17
Nikkei	21.621	1.0	0.4	1.7	8
FTSE 100	7.557	0.6	-0.3	2.0	12
EuroStoxx 50	3.533	1.2	0.3	1.9	18
IBEX	9.282	1.3	-1.0	0.6	9
DAX	12.491	1.6	0.5	1.2	18
CAC	5.618	0.9	0.1	1.6	19
MIB	21.955	1.0	-1.1	2.6	20
ASE Athens	870	0.5	1.6	3.7	42
MSCI Latam *	94.974	0.0	-1.0	1.0	10
Ibovespa (Brazil)	103.750	-0.2	0.0	1.7	18
Mexbol (Mexico)	41.077	-0.3	-4.4	-5.6	-1
Merval (Argentina)	38.624	-0.3	-7.6	-4.1	28
MSCI EM Europe *	5.891	-0.5	-1.0	-1.7	11
Poland	2.336	-0.3	0.6	1.2	3
Micex 10 (Russia)	4.751	0.5	-1.1	-0.7	13
Ise 100 (Turkey)	102.556	1.5	4.6	9.1	12
MSCI EM Asia *	851	-0.3	-0.3	-0.3	9
Shanghai Com (China)	2.900	0.4	-1.3	-3.4	16
Jakarta (Indonesia)	6.404	-0.8	-0.2	1.1	3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	143.2	1.7	1.8	6.7	24
JPM	116.2	1.7	0.9	6.2	19
Citi	72.0	1.2	0.9	5.9	38
BoA	30.2	2.1	4.1	7.4	23
MS	45.1	1.4	1.6	3.6	14
GS	217.9	1.8	1.1	11.2	30
EZ banks	72.7	2.1	-1.2	6.2	6
BNP	42.9	2.2	-0.6	4.6	9
Crédit Agricole	11.0	1.9	-0.9	6.3	17
Deutsche Bank	7.1	3.0	-0.7	12.2	2
ING	10.3	2.0	-2.1	4.2	9
Intesa	2.0	1.2	-1.3	8.5	5
SG	23.0	3.1	-0.3	4.4	-17
Unicredit	11.5	2.6	-2.1	8.1	16
UK banks	77.3	1.0	-0.2	3.3	6
HSBC	670.9	1.3	0.1	3.3	4
RBS	228.6	0.0	-0.6	6.0	5
Barclays	160.1	2.2	1.3	7.7	6
Lloyds	57.0	0.5	-1.7	-1.9	10
Large Spanish banks	61.1	3.2	-1.9	1.2	5
Santander	4.1	3.6	-2.0	3.3	4
BBVA	4.9	2.8	-1.8	-0.8	5
Medium Spanish banks	48.6	3.0	-5.4	1.3	-15
Caixabank	2.5	2.4	-5.7	-0.4	-22
Sabadell	0.9	3.8	-7.0	-1.0	-11
Bankinter	6.3	2.8	-4.1	5.7	-10
Bankia	2.0	3.9	-7.3	-3.2	-23

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,115	-0.5	-0.5	-1.9	-3
GBPUSD	1.24	-0.3	0.2	-2.4	-3
USDJPY	108.13	-0.2	0.1	-0.7	1
DX	97.68	0.4	0.3	1.5	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	42.69	-0.5	0.0	0.3	-12
USDBRL (Brazil)	3.77	-0.9	-0.1	1.3	3
USDCLP (Chile)	692,25	-0.5	-1.6	-1.2	0
USDCOP (Colombia)	3187	-0.3	0.4	0.5	2
USDMXN (Mexico)	19.13	-0.4	-0.2	0.0	3
USDPEN (Peru)	3.29	-0.1	-0.1	0.4	2
LACI	54.76	-0.5	-0.2	0.3	1
USDPLN (Poland)	3.82	-0.7	-0.5	-1.9	-2
USDTRUB (Russia)	63.29	-0.3	-0.4	-0.4	10
USDTRY (Turkey)	5.71	-0.6	-0.1	1.8	-7
USDCNY (China)	6.88	0.0	0.0	-0.2	0
USDINR (India)	68.94	0.0	-0.3	0.9	1
USDIDR (Indonesia)	13985	-0.3	-0.4	1.2	3
ADX	104.96	-0.1	-0.1	-0.4	0

COMMODITIES (%)	level	Daily	Weekly	Monthly	YTD
Brent	62.9	-0.5	-2.2	-3	17
WTX	56	-0.3	-2.7	-2	23
Copper	270	-0.7	0.1	0	3
Gold	1419	-0.5	0.9	1	11
S&P Spot commodity *	417	0.2	-1.5	-1	11
S&P Brent Spot *	536	1.2	-1.3	-2	17
S&P Metals Spot *	325	-1.4	-0.7	3	2
S&P Agricultural *	287	-1.7	-2.2	-5	1

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

Central Bank Annex

ECB preview

- At July meeting the ECB will strengthen its forward guidance on rates opening the door to rate cuts, retaining its dovish which was reinforced at Sintra meeting.
- The cautious tone could be reinforced on the back of lingering risks due to global concerns on the persistence of trade war tensions, amid the Eurozone slowdown and the low inflation expectations. Along the same lines, the minutes of the June meeting confirmed that there was a broad agreement on the list of measures that Mr. Draghi presented at Sintra (reinforce the forward guidance, cut interest rate along with the tiered deposit, and resume the QE). Particularly, the ECB will maintain that risks for growth remain tilted to the downside.
- Against this background, as Draghi hinted last month setting set the stage for an additional measures, we expect as soon as this week meeting the ECB to strengthen its forward guidance on rates opening the door to rate cuts and expressing their forward guidance on rates conditional on inflation expectations (rather than time-dependent). On depo rate cuts we expect them to occur in October (-10bps) but it is not ruled out that it could happen at the September meeting if necessary; always together with a tiered system for deposits. Resuming the QE is not in our baseline scenario, it can be used as a second line of defense.
- Economic indicators over the last month suggest that softer growth is taking root so far this year driven by the weakness of foreign and industrial sectors. Hard data up to May were disappointing as declining exports and worsening foreign orders point to a gloomy outlook next months, despite robust households spending supported by job creation and low inflation. Confidence surveys up to June were mixed despite some moderation in the deterioration of manufacturing sentiment and resilient services to mood. The GDP growth is likely to have slowed to around 0.2% QoQ in 2Q19 (from 0.4%) and remain broadly steady in 2H19, somewhat weaker than the ECB's projections by June. Regarding prices, core inflation increased 0.3pp to 1.3% YoY in June driven by the higher service prices, but beyond seasonal volatility core inflation is expected to remain at low levels and increase only gradually in coming months to stand below the ECB's target in a context of very low inflation expectations.