

Market Comment

Risk-off mood abated by the trade relief after the G20 summit

- Risk-off mood abated after the talks on the sidelines of the G20 summit held this weekend in Osaka. Trump-Xi manage to get talks back on track, Russia and Saudi Arabia agreed to extend crude oil output cuts and EU and Mercosur (Argentina, Brazil, Paraguay and Uruguay) reached a trade deal after two decades of negotiation.
- U.S. and China agreed to resume trade talks with a temporary truce, renewing optimism about the likelihood of a trade deal. In this context, US delayed further tariffs on Chinese goods, but would not lift existing import tariffs. Moreover, Huawei got lighter restrictions on component suppliers from the U.S. whose officials will meet in the next few days to decide whether to take it off the blacklist, whereas China agreed to boost US farm purchases, especially soybean.
- The EU and Mercosur reached a trade deal which will remove the majority of tariffs on EU exports to Mercosur and Mercosur exports to the EU. Consequently, it will make EU companies more competitive by saving them €4bn worth of duties per year and it will support Mercosur to boost exports of farm commodities. Besides that, European leaders after a long meeting in Brussels failed to reach agreement and will reconvene on Tuesday to agree on top jobs.
- On the data front, both official and Caixin manufacturing PMI fell more than expected into the contraction territory in June (official: 49.4, consensus 49.5, previous month 49.4; Caixin: 49.4, 50.1 consensus, previous month 50.2). In the Eurozone, its final Markit manufacturing PMI for June was downwardly revised by 0.2p to 47.6 from 47.7 in May, dragged by ongoing falls in output and new orders. In contrast, the U.S. economic activity in the manufacturing sector remained in the expansion level in June above consensus estimates, although at a slower pace than in May (51.7, consensus 51, previous month 52.1).
- Across fixed income securities, sovereign bond yields oscillated, trimming its early increase after ECB's dovish comments. The 10Y German bund yield slipped to its minimum level, hovering around -0.36. Meanwhile, peripheral bond yields also declined driven by search for yield strategies in bond markets. In particular, both Greece and Italy's risk premia fell sharply, the latter one led by the EC decision of delaying its decision on Italy's debt due to the summit of EU leaders.
- In FX markets, the USD appreciated against the G10 currencies as the trade truce has slightly lowered the markets expectations of two Fed rate cuts at the end of this month. Moreover, the JPY and gold prices declined amid increased risk appetite against the backdrop of an increasing hope for a trade deal between the U.S. and China. In emerging markets, the TRY appreciated significantly after Trump eased his threat to sanction the Turkey's purchase of Russian missile while the CNY hit two months high against USD encouraged by the G-20. Elsewhere, ARS and BRL also appreciated supported by the EU-Mercosur trade deal.
- Early gains in crude oil, driven by the OPEC members agreement on extending production cuts until at least March 2020, eased. This decline was due to disappointing manufacturing data in the U.S., China and the Eurozone which lowered the expectations of oil demand in the future, suggesting that a more aggressive production cut may be needed. Furthermore, gold prices declined below 1400\$ per ounce as a consequence of increased risk appetite.
- Equity markets rose encouraged by the G20 trade relief with tech companies leading the gains.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,78	2,8	5,1	-28	-70
US	2,02	1,4	0,5	-19	-67
GER (2-yr)	-0,75	-0,3	-1,0	-11	-14
Germany	-0,36	-3,0	-5,0	-18	-60
France	-0,05	-4,5	-7,3	-29	-76
Spain	0,33	-6,1	-7,4	-43	-119
Italy	1,95	-14,9	-20,1	-70	-94
Portugal	0,41	-6,4	-11,3	-45	-145
Greece	2,30	-15,4	-13,2	-76	-210
Japan (2-yr)	-0,22	0,0	1,2	-5	-8
Japan	-0,15	1,2	0,8	-7	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,32	-13,0	-34,0	-111	-191
Chile	3,12	1,5	2,8	-36	-113
Colombia	6,14	0,0	-8,5	-53	-61
Mexico	7,48	-9,3	-19,3	-46	-116
Peru	4,19	-1,4	2,3	-43	-118
Poland	2,36	-2,6	1,1	-35	-46
Russia	7,45	-3,4	-3,2	-54	-133
Turkey	15,73	-35,0	14,0	-253	-7
India	6,88	0,3	3,1	-25	-49
Indonesia	7,37	0,1	-10,7	-68	-66

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-1,5	-2,3	-10	-10
Italy	231	-11,9	-15,1	-52	-34
Portugal	77	-3,4	-6,3	-27	-79
Spain	69	-3,1	-2,4	-25	-53
2-yr sovereign spread vs Germany					
France	7	-0,4	-1,4	2	-8
Italy	85	-12,1	-17,8	-44	-23
Portugal	30	-2,6	-3,9	7	4
Spain	29	-3,1	-3,8	1	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	150	0,5	0	-29	-58
Chile	38	-0,5	0	-12	-25
Colombia	91	-0,9	-1	-23	-67
Argentina	964	-19,9	23	-207	158
Mexico	111	-0,3	0	-13	-44
Peru	53	-0,2	-1	-17	-42
Poland	65	0,5	0	-2	-3
Russia	114	-1,0	2	-14	-40
Turkey	395	-3,8	-46	-124	36
China	44	-0,4	0	-13	-24
India	80	1,7	-2	-4	-34
Indonesia	90	0,2	-2	-23	-47

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-1,0	-1	-3	-11
VSTOXX	12	-1,4	-2	-4	-11
EM EFT volatility Index	18	-2,2	-1	-3	-7
Dollar/euro volatility	5	-0,1	0	1	-2
EMFX volatility index	8	0,0	0	0	-2
Credit spread (BAA) (change in bps)	229	-1,4	-4	-5	-16
US bonds volatility index	70	0,5	-3	9	4
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,04	-	-2	-7	-9
EZ Inflation expectations (5Y5Y)	1,21	-	-6	-10	-40
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	49	-1,6	0	-17	-33
EZ	61	-1,7	-4	-26	-43
UK	54	-1,2	-3	-23	-41
Large Spanish	42	-1,9	-4	-19	-45
Medium Spanish	93	-1,3	-1	5	-20
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	164	-1,6	0	-17	-33
EZ Non-financial	73	-1,7	-4	-26	-43
UK Non-financial	101	0,5	1	-8	-18

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	0	1	0
Euribor 3m	-0,35	0	0	-3	-4
Euribor 12m	-0,22	0	-1	-5	-10
Eonia Swap 3m	-0,40	0	-1	-4	-5
Eonia Swap 12m	-0,50	-1	-2	-10	-14
Libor 3m	2,32	0	-3	-20	-48
Libor 12m	2,18	-1	-2	-39	-84

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2.966	0,8	0,7	6,3	18
Dow Jones	26.734	0,5	0,0	6,2	15
Nikkei	21.730	2,1	2,1	3,8	9
FTSE 100	7.498	1,0	1,1	3,9	11
EuroStoxx 50	3.498	0,7	1,2	5,4	17
IBEX	9.265	0,7	0,8	1,2	8
DAX	12.521	1,0	2,0	5,2	19
CAC	5.568	0,5	0,8	6,1	18
MIB	21.254	0,1	-0,1	6,5	16
ASE Athens	874	0,7	2,9	6,8	43
MSCI Latam *	94.273	0,1	-0,9	4,2	9
Ibovespa (Brazil)	101.627	0,7	-0,4	4,3	16
Mexbol (Mexico)	43.357	0,5	-0,9	0,0	4
Merval (Argentina)	41.964	0,4	4,6	22,6	39
MSCI EM Europe *	5.991	-0,2	0,8	5,3	13
Poland	2.330	0,1	-0,1	4,9	2
Micex 10 (Russia)	4.822	1,2	0,7	4,1	15
Ise 100 (Turkey)	99.736	3,4	4,8	10,8	9
MSCI EM Asia *	854	-0,2	0,2	5,2	9
Shanghai Com (China)	3.045	2,2	1,2	4,8	22
Jakarta (Indonesia)	6.380	0,4	1,0	4,5	3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	139,5	1,3	4,5	8,2	21
JPM	113,5	1,5	4,4	6,0	16
Citi	70,8	1,1	5,0	11,3	36
BoA	29,5	1,6	5,3	8,5	20
MS	44,2	1,0	2,7	5,8	12
GS	206,9	1,1	4,8	10,4	24
EZ banks	70,1	0,4	3,3	2,9	2
BNP	42,1	0,8	3,3	1,8	7
Crédit Agricole	10,8	2,3	4,4	4,5	14
Deutsche Bank	6,8	-0,4	7,7	9,1	-3
ING	10,2	0,3	4,4	4,8	9
Intesa	1,9	-0,8	-0,4	0,1	-4
SG	22,2	0,0	3,1	-1,5	-20
Unicredit	10,7	-1,5	2,0	4,9	8
UK banks	75,8	1,1	2,1	0,9	4
HSBC	661,8	0,7	2,5	1,3	2
RBS	222,0	1,0	3,2	2,2	2
Barclays	152,5	1,8	2,7	1,1	1
Lloyds	57,2	1,1	0,4	-0,7	10
Large Spanish banks	61,6	1,0	2,2	-0,2	6
Santander	4,1	0,9	3,4	1,7	4
BBVA	5,0	1,1	1,1	-2,0	7
Medium Spanish banks	49,7	1,7	4,1	-7,8	-14
Caixabank	2,5	0,9	3,9	-10,1	-20
Sabadell	0,9	1,5	3,2	-9,3	-8
Bankinter	6,2	2,7	4,9	-6,0	-11
Bankia	2,1	1,3	4,8	-8,5	-18

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,131	-0,6	-0,8	1,6	-1
GBPUSD	1,26	-0,4	-0,8	0,2	-1
USDJPY	108,44	-0,5	-1,1	1,1	1
DX	96,71	0,6	0,8	-1,5	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	42,21	0,6	0,5	5,6	-11
USDBRL (Brazil)	3,82	0,7	0,1	4,2	2
USDCPL (Chile)	678,89	0,0	0,3	4,5	2
USDCOP (Colombia)	3210	0,0	-0,2	4,6	1
USDMXN (Mexico)	19,07	0,8	0,7	0,4	3
USDPEN (Peru)	3,29	0,1	0,4	2,3	2
LACI	54,77	0,5	0,3	3,0	1
USDPLN (Poland)	3,75	-0,5	-0,5	2,8	0
USDRUB (Russia)	62,96	0,4	-0,6	3,4	10
USDTRY (Turkey)	5,65	2,6	2,9	4,1	-6
USDCNY (China)	6,85	0,2	0,4	0,7	0
USDINR (India)	68,95	0,1	0,6	1,3	1
USDIDR (Indonesia)	14113	0,1	0,2	2,1	2
ADXY	105,30	-0,1	-0,1	1,2	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64,9	-2,5	0,0	-3	21
WTx	59	-0,5	1,5	4	29
Copper	269	-0,7	-0,7	1	2
Gold	1389	-1,4	-2,1	8	8
S&P Spot commodity *	425	-1,2	0,6	1	14
S&P Metals Spot *	551	-1,4	0,9	-1	20
S&P Metals Spot *	320	0,2	0,7	2	0
S&P Agricultural *	298	-2,3	-2,6	1	5

Source: Bloomberg, Datastream and Haver

* With one day delay