

Market Comment

Better than expected U.S. labour market changes the course of the week.

- The much-anticipated June 29 Trump-Xi meeting at the G20 summit was effective in getting derailed US-China trade talks back on track. The US also granted a conditional reprieve on supply-ban for 'blacklisted' Chinese tech major Huawei and agreed to 'temporarily' refrain from slapping new levies on China, but said that it would not lift existing import tariffs. In return, China agreed to boost US farm purchases while pressed the US to remove existing tariffs as a pre-condition for any trade deal. Also in the G20 meeting EU and Mercosur (Argentina, Brazil, Paraguay and Uruguay) reached a trade deal after two decades of negotiation.
- On the other hand, this week it was known that U.S. is considering widening its tariff threat against the EU by \$4 billion in retaliation for EU's subsidies on Airbus.
- In the Eurozone, Christine Lagarde nomination for ECB President is being viewed as a dovish signal, expecting that her succession will pave the way for a continuation of further monetary stimulus. Elsewhere, the U.S. President Trump said he will nominate two new Fed officials (J. Shelton and C. Waller) that are expected to favor lower interest rates.
- In the U.S., the unemployment rate was little changed at 3.7% in June. U.S. Nonfarm payrolls surprised the market increasing 224k after a slowdown in May (consensus 160k, previous 72k).
- Until the U.S. employment data came out, global bond yields had been dropping across the board during the week on expectations of global central banks' dovish actions. However, yields rocketed back after U.S. monthly jobs report showed much stronger-than-expected employment growth in June.
- Search for yield continued benefiting peripherals and EMs sovereign bonds but not HY. Italy's risk premium narrowed dramatically (by 34 bps) helped, in part, by the news that the EU's Excessive Deficit Procedure won't be launched shortly. Spain's 10Y yield declined to 0.33% (risk premium narrowed to 68bps).
- In FX, the US dollar broadly appreciated after U.S. added more jobs than anticipated. EM FX rates showed minor changes, except the TRY which appreciated strongly on the back of positive inflation figures.
- Equity markets continued to climb, with S&P 500 reaching new highs (but in light trade volume and dropping after U.S. labour data). During the week, banking sector surged in Europe (5%), especially Italian banks (8%) due to the outperformance of Italian debt. Although OPEC and non-OPEC producers agreed to extend oil output cuts until at least march 2020, oil prices declined as concerns of economic slowdown would hit oil demand and Russia did not discard the option to increase oil output.

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

| Developed Markets | level | Daily | Week | Month | YTD |
|-------------------|-------|-------|--------|---------|------|
| US (2-yr) | 1,87 | 11,2 | 11,7 | 1 | -62 |
| US | 2,06 | 10,7 | 5,1 | -8 | -63 |
| GER (2-yr) | -0,75 | 1,2 | 0,3 | -7 | -14 |
| Germany | -0,36 | 4,2 | -3,0 | -13 | -60 |
| France | -0,09 | 4,6 | -8,0 | -24 | -80 |
| Spain | 0,33 | 7,7 | -7,0 | -30 | -120 |
| Italy | 1,74 | 6,1 | -36,5 | -73 | -115 |
| Portugal | 0,43 | 9,5 | -4,6 | -25 | -143 |
| Greece | 2,15 | 8,6 | -30,2 | -81 | -225 |
| Japan (2-yr) | -0,21 | 0,5 | 0,7 | 1 | -7 |
| Japan | -0,16 | 0,0 | 0,3 | -3 | -16 |
| Emerging Markets | level | Daily | Weekly | Monthly | YTD |
| Brazil | 7,36 | 7,7 | -9,0 | -91 | -187 |
| Chile | 3,09 | -1,1 | -2,2 | -34 | -117 |
| Colombia | 6,00 | 11,5 | -13,8 | -53 | -75 |
| Mexico | 7,36 | 5,4 | -20,7 | -55 | -128 |
| Peru | 4,14 | 3,4 | -6,0 | -44 | -122 |
| Poland | 2,28 | 1,4 | -10,7 | -25 | -54 |
| Russia | 7,45 | 1,5 | -4,2 | -45 | -133 |
| Turkey | 15,60 | 24,0 | -48,0 | -252 | -20 |
| India | 6,70 | -5,3 | -18,4 | -32 | -67 |
| Indonesia | 7,23 | -2,9 | -14,0 | -73 | -80 |

COUNTRY RISK (BP, CHANGES IN BP)

| Developed Markets | level | Daily | Weekly | Monthly | YTD |
|--|-------|-------|--------|---------|-----|
| 10-yr sovereign spread vs Germany | | | | | |
| France | 27 | 0,4 | -5,0 | -11 | -14 |
| Italy | 209 | 1,9 | -33,5 | -60 | -55 |
| Portugal | 79 | 5,3 | -1,6 | -12 | -77 |
| Spain | 68 | 3,5 | -4,0 | -17 | -54 |
| 2-yr sovereign spread vs Germany | | | | | |
| France | 8 | 0,4 | 0,1 | 0 | -8 |
| Italy | 83 | 1,8 | -14,1 | -37 | -25 |
| Portugal | 29 | 1,0 | -4,4 | 0 | 3 |
| Spain | 29 | 3,4 | -3,7 | -1 | -8 |
| Emerging Markets | level | Daily | Weekly | Monthly | YTD |
| 5-yr sovereign CDS * | | | | | |
| Brazil | 146 | -0,7 | -4 | -26 | -62 |
| Chile | 37 | 0,0 | -1 | -11 | -26 |
| Colombia | 89 | -0,4 | -3 | -23 | -69 |
| Argentina | 889 | 0,0 | -95 | -292 | 83 |
| Mexico | 110 | -0,5 | -1 | -13 | -45 |
| Peru | 51 | -0,2 | -2 | -17 | -43 |
| Poland | 64 | -0,5 | 0 | -3 | -4 |
| Russia | 110 | -1,0 | -5 | -19 | -44 |
| Turkey | 367 | -4,8 | -32 | -107 | 7 |
| China | 41 | -0,7 | -3 | -17 | -27 |
| India | 78 | -0,2 | 0 | -7 | -36 |
| Indonesia | 85 | -0,1 | -5 | -26 | -53 |

RISK INDICATORS

| Volatility indicators (change in pp) | level | Daily | Weekly | Monthly | YTD |
|---|-------|-------|--------|---------|-----|
| VIX | 14 | 1,7 | -1 | -2 | -11 |
| VSTOXX | 13 | 0,8 | -1 | -4 | -11 |
| EM EFT volatility Index | 17 | 0,5 | -3 | -4 | -8 |
| Dollar/euro volatility | 5 | -0,2 | -1 | -1 | -2 |
| EM FX volatility index | 8 | -0,2 | -1 | -1 | -2 |
| Credit spread (BAA) (change in bps) | 216 | -10,7 | -14 | -27 | -29 |
| US bonds volatility index | 68 | 0,0 | -2 | -9 | 2 |
| Inflation expectations (% change in pp) | level | Daily | Weekly | Monthly | YTD |
| US Inflation expectations (5Y5Y) | 2,02 | - | -3 | -13 | -11 |
| EZ Inflation expectations (5Y5Y) | 1,20 | - | -1 | -8 | -40 |
| Banking 5y CDS (bps) * | level | Daily | Weekly | Monthly | YTD |
| US | 47 | -0,1 | -4 | -16 | -36 |
| EZ | 56 | 0,5 | -7 | -26 | -49 |
| UK | 51 | 0,3 | -3 | -15 | -43 |
| Large Spanish | 38 | 0,1 | -6 | -19 | -50 |
| Medium Spanish | 93 | -3,0 | -1 | 7 | -20 |
| Corporate 5y CDS (bps) * | level | Daily | Weekly | Monthly | YTD |
| US Non-financial | 160 | -0,1 | -4 | -16 | -36 |
| EZ Non-financial | 67 | 0,5 | -7 | -26 | -49 |
| UK Non-financial | 96 | -0,4 | -4 | -13 | -23 |

INTERBANK MARKETS (% CHANGES IN BP)

| | level | Daily | Weekly | Monthly | YTD |
|-----------------------|-------|-------|--------|---------|-----|
| EONIA Index | -0,37 | 0 | -1 | 0 | -1 |
| Euribor 3m | -0,36 | -1 | -2 | -4 | -5 |
| Euribor 12m | -0,27 | -1 | -5 | -9 | -15 |
| Eonia Swap 3m | -0,41 | 0 | -1 | -3 | -5 |
| Eonia Swap 12m | -0,50 | 1 | -1 | -8 | -15 |
| Libor 3m | 2,30 | 1 | -2 | -17 | -49 |
| Libor 12m | 2,18 | 0 | -1 | -23 | -83 |

STOCK MARKETS (%)

| Main indices | level | Daily | Weekly | Monthly | YTD |
|----------------------------|---------|--------|--------|---------|------|
| S&P500 | 2.973 | -0,8 | 1,0 | 5,2 | 19 |
| Dow Jones | 26.802 | -0,6 | 0,8 | 4,9 | 15 |
| Nikkei | 21.746 | 0,2 | 2,2 | 4,7 | 9 |
| FTSE 100 | 7.549 | -0,7 | 1,7 | 4,6 | 12 |
| EuroStoxx 50 | 3.520 | -0,7 | 1,3 | 5,4 | 17 |
| IBEX | 9.326 | -0,8 | 1,4 | 1,9 | 9 |
| DAX | 12.543 | -0,7 | 1,2 | 4,7 | 19 |
| CAC | 5.582 | -0,7 | 0,8 | 5,5 | 18 |
| MIB | 21.965 | -0,7 | 3,4 | 9,0 | 20 |
| ASE Athens | 895 | 0,2 | 3,0 | 8,9 | 46 |
| MSCI Latam * | 95.965 | 0,9 | 1,9 | 4,8 | 11 |
| Ibovespa (Brazil) | 103.461 | -0,2 | 2,5 | 7,8 | 18 |
| Mexbol (Mexico) | 43.236 | -0,5 | 0,2 | -0,4 | 4 |
| Merval (Argentina) | 41.800 | 1,0 | 0,0 | 18,5 | 38 |
| MSCI EM Europe * | 6.127 | 0,5 | 2,1 | 5,1 | 16 |
| Poland | 2.342 | -0,6 | 0,6 | 5,3 | 3 |
| Micex 10 (Russia) | 4.898 | -0,2 | 2,8 | 3,3 | 17 |
| Ise 100 (Turkey) | 99.653 | 0,3 | 3,3 | 10,3 | 9 |
| MSCI EM Asia * | 859 | 0,1 | 0,4 | 4,7 | 10 |
| Shanghai Com (China) | 3.011 | 0,2 | 1,1 | 5,2 | 21 |
| Jakarta (Indonesia) | 6.373 | 0,2 | 0,3 | 2,6 | 3 |
| Banking sector | level | Daily | Weekly | Monthly | YTD |
| US banks | 0,0 | -100,0 | -100,0 | -100,0 | -100 |
| JPM | 113,3 | 0,4 | 1,3 | 2,8 | 16 |
| Citi | 71,3 | 0,6 | 1,8 | 8,4 | 37 |
| BoA | 29,2 | 0,7 | 0,8 | 4,8 | 19 |
| MS | 44,2 | 0,5 | 0,9 | 4,2 | 12 |
| GS | 206,8 | 0,4 | 1,1 | 9,7 | 24 |
| EZ banks | 73,3 | 0,7 | 5,0 | 7,3 | 6 |
| BNP | 43,5 | 1,0 | 4,0 | 4,1 | 10 |
| Crédit Agricole | 11,1 | 0,1 | 5,5 | 6,9 | 18 |
| Deutsche Bank | 7,2 | 3,0 | 6,4 | 17,5 | 4 |
| ING | 10,5 | 0,9 | 3,0 | 6,2 | 12 |
| Intesa | 2,0 | 0,1 | 7,8 | 9,6 | 5 |
| SG | 22,8 | 1,7 | 2,6 | 1,7 | -18 |
| Unicredito | 11,6 | -0,7 | 7,2 | 15,3 | 17 |
| UK banks | 77,3 | 0,4 | 3,2 | 3,3 | 6 |
| HSBC | 672,1 | 0,1 | 2,3 | 4,0 | 4 |
| RBS | 226,8 | 1,0 | 3,2 | 5,8 | 5 |
| Barclays | 157,5 | 1,0 | 5,2 | 3,3 | 5 |
| Lloyds | 58,2 | -0,2 | 2,8 | 0,6 | 12 |
| Large Spanish banks | 63,0 | 0,0 | 3,4 | 3,6 | 8 |
| Santander | 4,2 | 0,0 | 3,4 | 5,2 | 6 |
| BBVA | 5,1 | 0,0 | 3,5 | 2,2 | 10 |
| MEDIA Spanish banks | 51,1 | 0,5 | 4,7 | -2,9 | -11 |
| Caixabank | 2,6 | 0,0 | 4,5 | -3,0 | -17 |
| Sabadell | 1,0 | 0,5 | 4,7 | -4,3 | -5 |
| Bankinter | 6,4 | 0,4 | 5,7 | -1,4 | -9 |
| Bankia | 2,2 | 1,4 | 3,9 | -4,6 | -16 |

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

| Developed | level | Daily | Weekly | Monthly | YTD |
|--------------------|--------|-------|--------|---------|-----|
| EURUSD | 1,121 | -0,7 | -1,4 | -0,1 | -2 |
| GBPUSD | 1,25 | -0,6 | -1,5 | -1,5 | -2 |
| USDJPY | 108,54 | -0,7 | -0,6 | -0,1 | 1 |
| DXY | 97,30 | 0,6 | 1,2 | 0,0 | 1 |
| Emerging | level | Daily | Weekly | Monthly | YTD |
| USDARS (Argentina) | 41,97 | -0,4 | 1,2 | 7,0 | -10 |
| USDBRL (Brazil) | 3,82 | -0,6 | 0,6 | 1,5 | 1 |
| USDCLP (Chile) | 683,82 | -0,7 | -0,7 | 1,5 | 1 |
| USDCOP (Colombia) | 3220 | -0,6 | -0,3 | 2,6 | 1 |
| USDMXN (Mexico) | 19,06 | -0,3 | 0,8 | 2,7 | 3 |
| USDPEN (Peru) | 3,30 | -0,2 | -0,1 | 1,4 | 2 |
| LACI | 54,71 | -0,5 | 0,3 | 2,5 | 1 |
| USDPLN (Poland) | 3,79 | -0,9 | -1,6 | 0,5 | -1 |
| USD RUB (Russia) | 63,82 | -0,5 | -0,9 | 2,4 | 9 |
| USDTRY (Turkey) | 5,63 | -0,6 | 2,9 | 1,8 | -6 |
| USDCNY (China) | 6,89 | -0,3 | -0,4 | 0,2 | 0 |
| USDINR (India) | 68,42 | 0,1 | 0,9 | 1,2 | 2 |
| USDIDR (Indonesia) | 14083 | 0,4 | 0,3 | 1,3 | 2 |
| ADXY | 104,89 | -0,3 | -0,5 | 0,4 | 0 |

COMMODITIES (%)

| | level | Daily | Weekly | Monthly | YTD |
|----------------------|-------|-------|--------|---------|-----|
| Brent | 63,9 | 0,9 | -4,0 | 5 | 19 |
| WTX | 57 | -0,5 | -2,4 | 10 | 26 |
| Copper | 265 | -1,0 | -1,9 | 1 | 1 |
| Gold | 1394 | -1,5 | -1,1 | 5 | 9 |
| S&P Spot commodity * | 421 | 0,0 | -1,0 | 6 | 12 |
| S&P Brent Spot * | 543 | 0,0 | -1,4 | 5 | 19 |
| S&P Metals Spot * | 316 | 0,0 | -1,4 | 1 | -1 |
| S&P Agricultural * | 299 | 0,0 | 0,1 | 4 | 5 |

Source: Bloomberg, Datastream and Haver

* With one day delay