

Market Comment

Fed Chairman Jerome Powell reinforces the thesis of an upcoming rate cut

- Today, the chairman of the US Federal Reserve, Jerome Powell, delivering the Fed's semi-annual monetary report to Congress, reinforced the thesis of an upcoming rate cut by the Fed given the potential impact on US growth of the global economic slowdown, as well as the uncertainty related to the trade war and the Brexit.
- Powell pointed that the Fed's base scenario continues to be one of solid economic growth and good labour market performance, with inflation eventually returning towards the 2% target. However, he stated that uncertainties have increased in recent months. Powell did not talk of any timeframe or scale for possible monetary easing, but he sent a dovish message acknowledging that the risk of low inflation may turn out to be more persistent than expected.
- In Mexico, Carlos Urzúa unexpectedly resigned as Finance Minister through a letter addressed to President Andrés Manuel López Obrador, in which he claimed firmly that many of the decisions taken within the Ministry were opposed to Urzúa's criteria.
- On the data front, MoM Industrial Production in France increased in May by 2.1% which is way higher than the 0.5% increase of April and the forecast of 0.3%. MoM Industrial Production in Italy increased in May by 0.9% which contrasts with the 0.8% decrease observed in April and the forecast of 0.3%. In USA, Wholesale Trade Sales in May have increased by 0.1% which was below the consensus forecast of +0.3%.
- The European Commission has published its summer economic forecasts. The forecast for euro area GDP growth in 2019 remains unchanged at 1.2%, but the forecast for 2020 was lowered slightly to 1.4%. For 2020 the European Commission maintains the growth forecast of 1.9% for Spain, while it has slightly revised down the 2020 GDP for the whole Eurozone, Germany and France (to 1.4% from a previous 1.5%).
- Powell's statements helped to steep the US treasury yield curve. Both the 2Y and 10Y yield fell but the 2Y yield made it stronger. Meanwhile, in Europe, better than expected industrial production data drove up bond yields. Besides, search for yield continued benefiting peripherals and risk premiums declined.
- In FX markets, the USD weakened (DXY -0.4%) after Jerome Powell spoke. On the other hand, the Mexican peso dropped against the U.S. dollar after Mexico's finance minister resignation.
- Crude oil prices rose more than three percent, due to U.S. inventories falling more than expected in the week to July 5. Moreover, there was some noise on the supply side as large producers evacuated some oil platforms in the Gulf of Mexico before the arrival of a storm.
- Jerome Powell speech was good for U.S. equity due to the effect of lower interest rates on market valuation. Today, the most followed index in the world, the S&P 500, crossed the 3,000 threshold for the first time in history.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.83	-7.7	7.0	-7	-66
US	2.05	-1.7	9.8	-10	-64
GER (2-yr)	-0.73	-0.1	2.1	-6	-12
Germany	-0.30	5.0	8.1	-9	-55
France	-0.02	3.6	8.6	-15	-73
Spain	0.44	2.2	22.8	-16	-108
Italy	1.74	0.2	15.1	-62	-116
Portugal	0.51	3.2	21.1	-18	-136
Greece	2.29	9.4	23.6	-53	-211
Japan (2-yr)	-0.18	1.6	3.9	2	-4
Japan	-0.12	2.0	3.2	0	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.22	-6.3	-10.5	-94	-202
Chile	3.07	-2.2	-1.8	-8	-118
Colombia	5.99	-2.3	7.3	-39	-76
Mexico	7.61	6.4	29.1	-8	-103
Peru	4.08	0.4	-6.8	-42	-128
Poland	2.24	3.6	-7.1	-27	-59
Russia	7.40	-3.3	-6.9	-36	-138
Turkey	16.49	15.0	94.0	-163	69
India	6.55	-4.3	-28.8	-53	-82
Indonesia	7.34	7.0	5.0	-40	-69

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	-1.4	0.5	-7	-12
Italy	204	-4.8	7.0	-54	-61
Portugal	81	-1.8	13.0	-9	-75
Spain	75	-2.8	14.7	-8	-47
2-yr sovereign spread vs Germany					
France	8	0.7	0.7	1	-8
Italy	83	2.0	13.5	-23	-25
Portugal	30	1.3	4.3	-2	4
Spain	29	0.9	4.3	-1	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	136	-7.4	-10	-33	-72
Chile	37	-0.3	-1	-8	-26
Colombia	89	-0.9	0	-21	-70
Argentina	888	-14.1	-15	-261	82
Mexico	115	3.3	4	-13	-40
Peru	52	-0.2	0	-13	-43
Poland	63	-1.5	-2	-4	-5
Russia	110	-1.0	0	-16	-44
Turkey	389	-4.0	22	-81	30
China	43	0.1	1	-11	-25
India	79	0.3	0	-4	-35
Indonesia	88	-0.2	2	-18	-49

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0.8	1	-3	-12
VSTOXX	13	0.1	1	-2	-11
EM EFT volatility Index	17	-0.5	0	-2	-8
Dollar/euro volatility	5	-0.1	0	-1	-2
EM FX volatility index	8	-0.2	0	-1	-2
Credit spread (BAA) (change in bps)	224	1.7	-3	-15	-21
US bonds volatility index	63	-0.3	-5	-3	-4
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.09	-	9	3	-4
EZ Inflation expectations (5Y5Y)	1.23	-	9	-1	-38
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	50	1.6	2	-11	-32
EZ	73	2.6	1	-23	-56
UK	68	2.5	1	-9	-41
Large Spanish	43	2.6	3	-10	-45
Medium Spanish	90	-5.1	-7	5	-23
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	163	1.6	2	-11	-32
EZ Non-financial	70	2.6	1	-23	-56
UK Non-financial	97	0.7	0	-10	-22

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	0	-1
Euribor 3m	-0.36	0	-1	-4	-5
Euribor 12m	-0.25	1	-1	-8	-14
Eonia Swap 3m	-0.41	0	0	-5	-6
Eonia Swap 12m	-0.50	-1	1	-9	-14
Libor 3m	2.34	0	3	-11	-46
Libor 12m	2.27	1	7	-7	-74

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,990	0.4	-0.2	3.6	19
Dow Jones	26,870	0.3	-0.4	3.1	15
Nikkei	21,533	-0.1	-0.5	1.9	8
FTSE 100	7,534	0.0	-1.0	2.2	12
EuroStoxx 50	3,501	-0.2	-1.1	3.4	17
IBEX	9,246	-0.3	-1.6	-0.5	8
DAX	12,375	-0.5	-1.9	2.7	17
CAC	5,568	-0.1	-0.9	3.5	18
MI	22,041	0.7	0.6	7.6	20
ASE Athens	862	2.5	-3.3	2.2	40
MSCI Latam *	96,252	-0.3	2.3	4.7	12
Ibovespa (Brazil)	106,423	1.8	4.3	9.2	21
Mexbol (Mexico)	42,714	-0.2	-1.8	-2.1	3
Merval (Argentina)	42,332	1.4	2.5	16.1	40
MSCI EM Europe *	6,047	-0.6	-0.4	2.5	14
Poland	2,313	0.0	-1.4	1.3	2
Micex 10 (Russia)	4,921	0.1	1.5	2.1	18
Ise 100 (Turkey)	98,585	1.8	-0.8	4.8	8
MSCI EM Asia *	841	-0.2	-2.7	2.6	8
Shanghai Com (China)	2,915	-0.4	-3.3	2.2	17
Jakarta (Indonesia)	6,411	0.9	0.4	3.2	3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	138.5	-0.7	-0.1	3.5	20
JPM	113.0	-0.3	0.2	2.4	16
Citi	70.9	-0.9	0.1	5.7	36
BoA	29.1	-0.9	0.1	3.6	18
MS	43.4	-0.8	-1.3	0.3	9
GS	206.0	-0.8	0.0	6.1	23
EZ banks	72.0	0.7	0.5	5.0	4
BNP	42.7	0.3	0.3	2.9	8
Crédit Agricole	11.0	0.3	0.4	4.5	16
Deutsche Bank	6.5	0.4	-5.8	9.5	-6
ING	10.3	0.4	-0.4	1.8	9
Intesa	2.0	1.5	2.8	10.4	5
SG	22.5	1.0	0.6	0.9	-19
Unicredito	11.5	0.8	3.0	12.0	16
UK banks	77.1	-0.1	0.2	1.8	3
HSBC	666.7	-0.6	-0.7	1.3	6
RBS	228.0	-0.1	2.0	5.5	5
Barclays	156.8	0.2	1.2	2.4	4
Lloyds	58.0	0.3	-0.5	-0.7	12
Large Spanish banks	61.8	0.2	-1.0	0.3	6
Santander	4.2	0.7	-0.2	3.3	5
BBVA	4.9	-0.1	-1.7	-2.4	7
Medium Spanish banks	50.1	0.8	0.3	-3.2	-13
Caixabank	2.6	1.0	0.4	-4.3	-19
Sabadell	0.9	1.7	1.2	-1.8	-6
Bankinter	6.3	0.2	0.6	-2.0	-10
Bankia	2.1	1.1	-1.5	-6.6	-18

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.126	0.5	-0.2	-0.5	-2
GBPUSD	1.25	0.3	-0.5	-1.4	-2
USDJPY	108.44	0.4	-0.6	0.0	1
DXY	97.10	-0.4	0.3	0.3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	42.04	-0.5	0.0	6.8	-10
USDBRL (Brazil)	3.77	0.8	1.6	3.3	3
USDCLP (Chile)	685.07	0.7	-0.9	1.8	1
USDCOP (Colombia)	3212	0.2	-0.5	1.5	1
USDMXN (Mexico)	19.24	-0.4	-1.2	-0.1	2
USDPEN (Peru)	3.29	0.3	0.1	1.5	3
LACI	54.81	0.2	-0.1	1.9	1
USDPLN (Poland)	3.79	0.5	-0.8	-0.6	-1
USDTRY (Turkey)	63.17	1.0	0.2	2.5	10
USDTRY (Turkey)	5.70	0.6	-1.4	1.3	-7
USDCNY (China)	6.87	0.2	0.1	0.8	0
USDINR (India)	68.57	0.0	0.5	1.6	2
USDIDR (Indonesia)	14132	0.0	-0.1	0.8	2
ADXY	105.16	0.3	-0.1	0.8	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	66.4	3.4	4.0	7	23
WTX	60	3.3	4.2	12	32
Copper	268	2.2	0.1	1	2
Gold	1410	0.9	-0.6	6	10
S&P Spot commodity *	422	0.2	0.3	4	13
S&P Brent Spot *	545	0.0	0.4	3	19
S&P Metals Spot *	316	-0.1	0.0	1	-1
S&P Agricultural *	294	-1.1	-1.6	1	3

Source: Bloomberg, Datastream and Haver

* With one day delay