

Market Comment

Reinforced interest rate cut expectations move markets

- This week, financial markets continued to reassess Fed's interest rate cut expectations in the wake of recently released strong payrolls data, a resumption of US-China trade talks and yesterday's firmer CPI inflation figures. Powell's testimony on Wednesday reinforced markets expectations of a 25bps insurance-cut in July, but it has also contributed to significantly reduce markets expectations of a 50bps cut in July (currently at 18%).
- Long-term bond yields extended last Friday's increase (10Y USTY +9 bps; Bund 11bps), as the strong US payroll figures were followed by a positive surprise in US Core CPI inflation and softer demand in the US and German bond auctions given low expectations for 50bps rate cut in July FOMC. Moreover central bank easing rhetoric helped support market-based inflation expectations (5Y5Y forward inflation swap +5bps in US and Eurozone). Recent improvement in peripheral risk premium faltered, although they remained close to recent low levels, except in Italy (-13bps in the week to 194 bps) underpinned by positive economic data and attractive yield.
- During the week, limited depreciation of the US dollar (DXY -0.3%), on the back of strong CPI, and the determination shown by the ECB to boost inflation, mirroring Fed easing (Euro appreciated 0.2%). EM FX remained supported, as well as the EM sovereign and corporate debt. But some differentiation was seen among countries due to idiosyncratic factors. TRY(-2.1%) and MXN (-0.2%) depreciated and their sovereign debt spreads widened (+30bps, +7bps respectively). The former was driven by a change in the central bank governor, while the latter was led by resignation of Mexico's financial minister. The BRL appreciated (2%) and its sovereign debt spread narrowed (-18bps) after its Senate backed the Social Security reform.
- Brent prices rebounded sharply (+4% to \$67 per barrel) on supply concerns (Gulf of Mexico storms), U.S. inventories falling more than expected and geopolitical threats (Iran).
- Equity markets were mixed for the week, although the S&P is hovering close to its new record high level of 3000 level, despite companies profit warnings and higher yields. Nonetheless, the US small company equity index, a bellwether of the US domestic economy struggled to register gains. Banking sector outperformed in both the US and Europe led by higher yields.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,85	-1,3	-1,0	-3	-64
US	2,13	-1,2	9,2	0	-56
GER (2-yr)	-0,73	0,0	1,9	-5	-12
Germany	-0,22	0,9	10,7	-2	-50
France	0,05	2,9	13,0	-7	-66
Spain	0,54	6,8	22,1	-3	-87
Italy	1,72	1,9	-2,7	-71	-102
Portugal	0,62	5,5	18,8	-3	-110
Greece	2,35	9,1	20,8	-40	-204
Japan (2-yr)	-0,18	1,2	3,1	1	-4
Japan	-0,11	2,1	4,1	0	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,20	0,5	-18,1	-81	-204
Chile	3,06	-1,0	-4,8	-8	-120
Colombia	6,08	5,5	10,1	-26	-67
Mexico	7,66	1,2	32,8	-6	-98
Peru	4,07	0,2	-3,6	-24	-129
Poland	2,31	2,3	2,5	-19	-52
Russia	7,45	5,3	1,1	-28	-133
Turkey	16,54	15,0	94,0	-3	74
India	6,47	-2,7	-22,9	-55	-90
Indonesia	7,21	-1,9	-2,3	-51	-82

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	26	2,0	2,3	-5	-17
Italy	194	1,0	-13,4	-69	-53
Portugal	84	4,6	8,1	-1	-60
Spain	76	5,9	11,4	-1	-37
2-yr sovereign spread vs Germany					
France	7	-0,2	-1,0	0	-8
Italy	79	0,2	-5,6	-35	-30
Portugal	28	-1,0	-0,3	-9	2
Spain	31	0,7	1,7	1	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	130	0,0	-15	-35	-77
Chile	36	0,0	-1	-7	-27
Colombia	86	-1,6	-3	-18	-72
Argentina	898	15,8	8	-165	91
Mexico	117	0,8	7	-2	-38
Peru	51	0,0	0	-10	-43
Poland	64	1,5	-1	-3	-4
Russia	105	-4,1	-5	-18	-49
Turkey	397	4,0	30	-70	37
China	42	0,4	1	-7	-25
India	78	-0,5	0	-3	-35
Indonesia	86	-0,6	1	-14	-52

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0,2	-1	-3	-13
VSTOXX	12	-0,1	0	-3	-11
EM EFT volatility index	16	-0,3	0	-4	-9
Dollar/euro volatility	5	0,0	0	-1	-2
EM FX volatility index	7	-0,2	0	-1	-2
Credit spread (BAA) (change in bps)	219	1,2	-7	-22	-26
US bonds volatility index	63	0,6	-2	-5	-4
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,09	-	7	2	-5
EZ Inflation expectations (5Y5Y)	1,28	-	8	8	-33
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	-0,5	1	-9	-34
EZ	56	-1,2	1	-18	-48
UK	53	-1,6	1	-6	-41
Large Spanish	39	-2,3	1	-11	-48
Medium Spanish	88	-1,6	-5	4	-24
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	162	-0,5	1	-9	-34
EZ Non-financial	69	-1,2	1	-18	-48
UK Non-financial	97	-0,9	1	-7	-22

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	0	0	-1
Euribor 3m	-0,36	0	0	-5	-5
Euribor 12m	-0,28	0	-1	-11	-16
Eonia Swap 3m	-0,42	0	-1	-5	-6
Eonia Swap 12m	-0,50	0	0	-8	-15
Libor 3m	2,34	0	4	-11	-46
Libor 12m	2,29	0	11	-6	-73

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3.004	0,1	0,5	4,3	20
Dow Jones	27.230	0,5	1,1	4,7	17
Nikkei	21.686	0,2	-0,3	2,6	8
FTSE 100	7.511	0,0	-0,6	2,0	12
EuroStoxx 50	3.500	0,1	-0,8	3,3	17
IBEX	9.302	0,2	-0,4	0,7	9
DAX	12.334	0,0	-1,9	1,8	17
CAC	5.576	0,4	-0,3	3,7	18
MIB	22.226	0,3	1,1	8,6	21
ASE Athens	858	-0,6	-4,1	1,7	40
MSCI Latam *	96.767	-0,3	0,8	4,0	12
Ibovespa (Brazil)	104.764	-0,4	0,6	6,6	19
Mexbol (Mexico)	42.686	-0,5	-1,7	-2,5	3
Merval (Argentina)	42.945	0,2	2,8	4,9	42
MSCI EM Europe *	6.031	-0,6	-1,6	1,5	14
Poland	2.320	0,1	-0,9	1,6	2
Micex 10 (Russia)	4.844	-0,5	-1,2	1,1	16
Ise 100 (Turkey)	97.318	-2,1	-2,3	5,1	7
MSCI EM Asia *	848	0,5	-1,3	1,0	8
Shanghai Com (China)	2.931	0,4	-2,7	0,7	18
Jakarta (Indonesia)	6.373	-0,6	0,0	1,1	3

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	141,0	0,4	1,0	6,4	22
JPM	114,4	0,2	0,8	4,7	17
Citi	71,8	0,3	0,6	7,5	38
BoA	29,5	0,5	0,8	5,5	20
MS	44,6	1,0	1,0	4,7	13
GS	211,9	0,2	1,9	11,4	27
EZ banks	72,9	0,8	-0,5	7,3	6
BNP	42,7	0,4	-1,5	3,9	8
Crédit Agricole	11,1	0,8	-0,7	6,6	17
Deutsche Bank	6,8	2,5	-5,9	10,1	-3
ING	10,4	0,7	-0,5	4,2	11
Intesa	2,1	0,4	1,5	12,9	6
SG	22,9	1,8	0,4	4,8	-18
Unicredito	11,6	0,2	0,6	15,6	17
UK banks	77,4	0,3	0,2	3,4	6
HSBC	665,2	0,1	-1,1	2,5	3
RBS	231,8	0,9	2,5	8,4	7
Barclays	158,0	0,1	0,5	5,0	5
Lloyds	58,0	0,3	0,2	-0,7	12
Large Spanish banks	62,0	0,0	-1,7	2,1	6
Santander	4,2	0,1	-0,2	6,0	6
BBVA	4,9	-0,1	-3,0	-0,3	6
Medium Spanish banks	50,8	0,8	-0,4	0,5	-12
Caixabank	2,6	0,9	-1,5	-0,3	-19
Sabadell	0,9	0,0	-0,9	1,3	-6
Bankinter	6,4	1,0	0,6	2,1	-8
Bankia	2,1	1,4	-0,5	-2,3	-16

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,125	-0,1	0,2	-0,3	-2
GBPUSD	1,26	0,2	0,2	-1,1	-2
USDJPY	108,11	0,4	0,3	0,4	1
DXY	96,99	-0,1	-0,3	0,0	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	41,64	0,2	0,4	4,9	-10
USDBRL (Brazil)	3,75	0,3	2,0	3,3	4
USDCLP (Chile)	681,37	0,0	0,3	2,1	2
USDCOP (Colombia)	3189	0,3	0,7	2,4	2
USDMXN (Mexico)	19,05	0,1	-0,2	0,6	3
USDPEN (Peru)	3,28	0,1	0,3	1,5	3
LACI	55,22	0,2	0,7	2,3	2
USDPLN (Poland)	3,80	-0,1	-0,2	-0,7	-2
USDRUB (Russia)	63,16	-0,6	1,0	2,7	10
USDTRY (Turkey)	5,75	-1,3	-2,1	1,0	-8
USDCNY (China)	6,88	-0,2	0,2	0,5	0
USDINR (India)	68,68	-0,3	-0,4	1,0	2
USDIDR (Indonesia)	14,008	0,4	0,5	1,7	3
ADXY	105,02	-0,1	0,0	0,5	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	66,9	0,6	4,1	12	24
WTx	60	0,3	5,0	18	33
Copper	268	-0,2	0,7	1	2
Gold	1408	0,3	0,6	6	10
S&P Spot commodity *	434	-0,1	2,7	8	16
S&P Brent Spot *	564	-0,8	3,2	12	23
S&P Metals Spot *	322	-0,1	1,8	2	1
S&P Agricultural *	300	1,6	0,8	0	6

Source: Bloomberg, Datastream and Haver

* With one day delay