

Market Comment

Fed on deck with a cut baked in

- **Two day U.S.-China trade talks concluded in Shanghai today.** While the latest round lacked visible progress, it was vital as being the first face-to-face meeting after talks broke down in May and trade tensions escalated. **Talks continue in the U.S. in September.** Moving on, all eyes are on the FOMC meeting later today, where the Fed is widely expected to deliver a 25 bps insurance cut. More importantly, investors will eye Powell's post policy conference for cues on the interest rate trajectory.
- In Europe, weak macroeconomic data reinforced the region's gloomy economic outlook. **The Eurozone economy grew at a slower pace in the second quarter**, in line with expectations (0.2% q/q, consensus 0.2% q/q, previous quarter 0.4% q/q). Meanwhile, the Euro area **core CPI inflation eased in July** (0.9% y/y, consensus 1.0% y/y, previous month 1.1% y/y), signalling weak demand. In this context, market expectations of an ECB depo rate cut has increased slightly to 90% at its next meeting in September.
- In the U.S., the MNI Chicago PMI contracted more than expected in July (44.4, consensus 51, previous month 49.7), in turn further underscoring expectations of a Fed rate cut. Elsewhere, manufacturing PMI in China increased slightly in July, although still in the contraction area (49.7, consensus 49.6, previous month 49.4), while the non-manufacturing PMI disappointed (53.7, consensus 54, previous month 54.2).
- **Government bond yields inched down** with the Spanish and Portuguese bonds leading the gains. **The 10Y German bund yield hit fresh record low, hovering around -0.44%**, while peripheral risk premia narrowed slightly.
- **EURUSD depreciated amid a worsening Euro area economic outlook** while the GBPUSD appreciated, recovering partially from yesterday's losses. Short positions on the GBPUSD have increased recently, so has the GBPUSD 3 month implied volatility. In emerging markets, Latam currencies gained with the MXN appreciating +0.4% as the Mexican economy grew more than expected in the second quarter (0.1% q/q, consensus -0.2% q/q, previous quarter -0.2% q/q). The TRY extended its recent gains after the Turkey's central bank cut its year-end inflation estimation to 13.9% from 14.6%.
- Stock markets ended little changed, with investors largely on the sidelines ahead of Fed policy.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,82	-2,8	0,0	3	-67
US	2,03	-2,6	-1,1	1	-65
GER (2-yr)	-0,78	-1,9	0,2	-2	-17
Germany	-0,44	-4,0	-6,1	-12	-72
France	-0,18	-4,1	-6,8	-13	-89
Spain	0,29	-6,5	-6,0	-5	-113
Italy	1,54	-4,8	4,5	-43	-120
Portugal	0,35	-6,4	-7,1	-7	-138
Greece	2,04	-2,4	4,1	-26	-236
Japan (2-yr)	-0,20	0,6	0,0	2	-6
Japan	-0,15	-0,3	-0,6	-1	-16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,20	0,1	1,8	-9	-204
Chile	2,70	-2,6	-7,5	-43	-156
Colombia	6,04	-0,9	11,9	-10	-71
Mexico	7,51	-2,0	6,5	2	-113
Peru	4,05	14,6	21,3	-16	-132
Poland	2,18	-2,6	15,3	-19	-65
Russia	7,39	-4,7	4,3	-7	-139
Turkey	14,91	-5,0	-79,0	-82	-89
India	6,37	-2,0	-6,7	-51	-100
Indonesia	7,38	3,6	11,6	1	-65

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	26	-0,1	-0,7	-1	-17
Italy	198	-0,8	10,6	-31	-48
Portugal	79	-2,4	-1,0	5	-66
Spain	73	-2,5	0,1	7	-41
2-yr sovereign spread vs Germany					
France	7	-0,3	-0,4	0	-8
Italy	74	-2,1	5,0	-12	-34
Portugal	22	1,1	0,5	-8	-4
Spain	28	2,5	1,0	-1	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	125	1,3	-1	-24	-82
Chile	35	0,7	0	-3	-28
Colombia	85	0,6	0	-7	-74
Argentina	921	5,5	31	-43	115
Mexico	116	1,1	0	5	-39
Peru	49	0,4	-1	-4	-46
Poland	64	0,0	0	0	-3
Russia	100	0,0	-5	-14	-54
Turkey	351	2,1	-13	-45	-9
China	41	0,4	-1	-3	-27
India	59	0,6	-7	-21	-54
Indonesia	79	1,4	-5	-11	-58

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0,0	2	0	-12
VSTOXX	14	-0,1	1	2	-9
EMEFT volatility Index	17	0,0	1	0	-7
Dollar/euro volatility	5	-0,2	-1	-1	-2
EM FX volatility index	7	0,0	0	-1	-3
Credit spread (BAA) (change in bps)	217	2,6	1	-13	-29
US bonds volatility index	58	-0,7	-3	-9	-9
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,11	-	-4	5	-3
EZ Inflation expectations (5Y5Y)	1,32	-	3	12	-28
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	47	1,4	2	-2	-35
EZ	56	2,1	3	-5	-49
UK	61	3,8	8	8	-33
Large Spanish	41	1,6	4	-1	-46
Medium Spanish	81	0,4	-12	-11	-31
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	165	1,3	3	1	-48
EZ Non-financial	71	2,5	0	-2	-26
UK Non-financial	97	1,9	1	-4	-22

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	0	0	-1
Euribor 3m	-0,38	0	0	-3	-7
Euribor 12m	-0,30	0	2	-9	-19
Eonia Swap 3m	-0,43	-1	1	-3	-7
Eonia Swap 12m	-0,54	-1	1	-4	-18
Libor 3m	2,25	0	-2	-6	-54
Libor 12m	2,19	0	1	2	-82

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3014	0,0	-0,2	1,7	20
Dow Jones	27207	0,0	-0,2	1,8	17
Nikkei	21522	-0,9	-0,9	-1,0	8
FTSE 100	7600	-0,6	1,3	1,4	13
EuroStoxx 50	3467	0,1	-1,9	-0,9	16
IBEX	8976	-0,1	-3,8	-3,1	5
DAX	12190	0,3	-2,7	-2,7	15
CAC	5520	0,2	-1,5	-0,9	17
MIB	21378	0,5	-3,2	0,6	17
ASE Athens	900	1,1	2,9	2,9	47
MSCI Latam *	94170	-0,6	-0,6	-0,1	9
Ibovespa (Brazil)	102122	-0,8	-1,9	0,8	16
Mexbol (Mexico)	40894	-0,6	-0,7	-5,9	-2
Merval (Argentina)	42166	-0,7	6,0	1,6	39
MSCI EM Europe *	5940	-0,2	0,3	-0,8	12
Poland	2277	0,6	-2,5	-2,2	0
Micex 10 (Russia)	4799	0,1	1,7	-0,5	15
Ise 100 (Turkey)	102082	-0,6	-1,3	2,4	12
MSCI EM Asia *	845	-0,2	-1,1	-1,0	8
Shanghai Com (China)	2933	-0,7	0,3	-3,7	18
Jakarta (Indonesia)	6391	1,5	-0,2	0,5	3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	143,5	-0,2	-1,0	3,0	24
JPM	115,4	-0,2	-1,2	1,5	18
Citi	71,2	-0,7	-2,4	0,7	37
BoA	30,8	-0,2	0,6	4,8	25
MS	44,6	-0,1	-1,9	1,5	13
GS	221,4	0,0	-0,3	7,0	33
EZ banks	70,6	0,6	-2,9	0,7	2
BNP	42,4	2,0	-1,4	0,6	7
Crédit Agricole	10,8	1,0	-2,6	-0,3	14
Deutsche Bank	7,1	2,2	0,7	4,4	1
ING	10,0	-0,4	-2,4	-1,8	7
Intesa	2,0	-0,2	-3,6	5,0	1
SG	22,2	0,8	-4,0	0,0	-20
Unicredito	10,6	-0,4	-7,1	-0,3	7
UK banks	74,2	-1,8	-3,1	-2,0	2
HSBC	657,5	-1,1	0,2	-0,6	2
RBS	217,3	-1,4	-4,8	-2,1	0
Barclays	153,9	-2,4	-3,8	0,9	2
Large Spanish banks	53,6	-2,8	-6,0	-6,4	3
Santander	57,4	-0,8	-6,1	-6,8	-2
Santander	3,9	-0,6	-6,6	-6,2	-3
BBVA	4,6	-1,0	-5,5	-7,3	-1
Medium Spanish banks	44,6	0,0	-7,8	-10,2	-22
Caixabank	2,2	-0,1	-8,5	-12,0	-29
Sabadell	0,8	-0,4	-11,6	-14,3	-21
Bankinter	5,9	0,2	-6,2	-5,8	-16
Bankia	1,8	0,1	-8,1	-15,4	-30

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,113	-0,2	-0,1	-1,4	-3
GBPUSD	1,222	0,6	-2,1	-3,3	-4
USDJPY	108,580	0,0	-0,4	-0,1	1
DXY	98,123	0,1	0,4	1,3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43,89	0,1	-2,3	-3,5	-14
USDBRL (Brazil)	3,76	0,9	0,5	2,3	3
USDCLP (Chile)	701,44	0,0	-1,6	-3,1	-1
USDCOP (Colombia)	3291	0,4	-2,80	-2,55	-1
USDMXN (Mexico)	18,99	0,4	0,4	0,7	3
USDPEN (Peru)	3,30	0,0	-0,1	-0,1	2
LACI	54,61	0,3	-0,3	0,2	1
USDPLN (Poland)	3,85	0,1	-0,8	-2,3	-3
USDRUB (Russia)	63,45	0,1	-0,3	-0,9	9
USDTRY (Turkey)	5,54	0,3	2,9	1,9	-5
USDCNY (China)	6,88	0,0	-0,1	-0,4	0
USDINR (India)	68,80	0,1	0,3	0,2	1
USDIDR (Indonesia)	14022	0,0	-0,2	0,6	3
ADXY	104,92	0,0	-0,1	-0,4	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	65,2	0,8	3,2	0	21
WTx	58	0,7	4,6	-1	29
Copper	266	-0,4	-1,6	-1	1
Gold	1428	-0,2	0,2	3	11
S&P Spot commodity *	422	0,7	0,9	-1	13
S&P Brent Spot *	550	1,6	2,5	-1	20
S&P Metals Spot *	323	-0,9	-1,2	2	1
S&P Agricultural *	286	-1,0	-1,5	-3	1

Source: Bloomberg, Datastream and Haver

* With one day delay