

Market Comment

## Fed delivers a 'mid-cycle' rate cut

- The Fed delivered a 25 bps interest rate cut, as expected but the post policy statement increases the uncertainty over further interest rate cuts (see).** Markets have slightly moderated their expectations of an additional interest rate cut. They now attribute a 60% chance of a rate cut in September, down from 70% yesterday. Meanwhile, markets implied probability of two additional rate cuts by 2020 is currently around 80% (down from around 90% before yesterday's policy). Thus markets have lowered rate cut expectations but they still remain high. Moving on, investors will closely watch tomorrow's U.S. job data.
- The Bank of England kept rates on hold** despite market growing increasingly concerned over the risk of a hard-Brexit. Moreover, the BoE lowered its forecast for economic growth this year driven by Brexit uncertainty and global trade tensions. In this context, the 3M GBPUSD implied volatility surged further.
- US macro data, released today, was disappointing. The ISM manufacturing PMI expanded less than expected in July** (51.2, consensus 52.0, previous month 51.7). The expansion softened, led by weaker new orders, production and employment indexes, suggesting further moderation in coming months. Furthermore, U.S. initial jobless claims rose slightly more than expected last week ended July 27 (215K, consensus 214K and previous month 206K).
- Core sovereign bond yields fell, while peripheral risk premia increased, especially in Italy.** Despite the Fed slightly disappointed markets' expectations of a more dovish stance, **the UST 10Y yield fell below 2%, dragged by weaker-than-expected ISM figures. In Europe, the 10Y German Bund yield continues to hit historical lows (-0.46%),** while the 10Y Gilt yield extended its fall. Elsewhere, Italy's risk premia widened after its Deputy Prime Minister Salvini said the League would not support a budget without tax cuts, renewing concerns about potential frictions with Europe.
- The USD strengthened further across the board, especially against EM currencies,** as the Fed Chairman Powell signaled that the July rate cut is not the start of an easing cycle as market expected. Regarding the G10 board, the GBPUSD depreciated the most as concerns over a disorderly Brexit remains high while the JPYUSD appreciated slightly.
- After the Fed decision, US equity markets declined sharply (1%), led by disappointment on the extent of easing signaled by the Fed. The decline in US equities extended to Asian markets. However, **U.S. stock markets have recouped their losses today amid strong corporate earnings with tech companies leading the gains.** On the other hand, equity markets in Europe showed minor changes.

UPDATE 17:27 CET 01 AUGUST 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,82	-5,6	-4,8	5	-67
<b>US</b>	1,96	-5,7	-12,4	-2	-73
GER (2-yr)	-0,77	0,5	-1,3	-2	-16
<b>Germany</b>	-0,46	-1,6	-9,3	-13	-74
France	-0,19	-1,0	-8,8	-14	-90
Spain	0,28	-0,5	-7,8	-1	-114
Italy	1,55	0,8	3,3	-29	-119
Portugal	0,34	-0,8	-9,0	-3	-139
Greece	2,05	1,0	3,6	-14	-235
Japan (2-yr)	-0,18	1,9	2,3	3	-4
<b>Japan</b>	-0,13	2,3	2,1	2	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,25	2,5	0,6	-8	-198
Chile	2,67	-0,4	-10,8	-43	-158
Colombia	6,05	8,3	9,8	7	-70
Mexico	7,48	-2,0	3,8	8	-116
Peru	4,01	1,4	12,1	-16	-136
Poland	2,19	0,8	12,6	-16	-64
Russia	7,43	4,2	11,7	-3	-135
Turkey	15,00	9,0	-37,0	-65	-80
India	6,42	5,3	-8,9	-42	-95
Indonesia	7,52	13,9	32,3	17	-51

### COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	26	0,5	0,4	-1	-17
Italy	201	2,4	12,6	-16	-45
Portugal	79	0,8	0,3	10	-65
Spain	74	1,2	1,6	12	-40
<b>2-yr sovereign spread vs Germany</b>					
France	8	0,2	1,6	1	-7
Italy	76	1,0	6,0	-2	-33
Portugal	22	0,0	3,2	-7	-4
Spain	28	-0,5	1,7	1	-9
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	126	0,8	2	-20	-81
Chile	35	-0,4	0	-2	-28
Colombia	86	1,7	4	-2	-72
Argentina	926	4,6	-6	-2	119
Mexico	116	0,4	2	9	-39
Peru	49	-0,2	0	-3	-46
Poland	65	0,2	1	0	-3
Russia	99	-0,7	-3	-11	-55
Turkey	357	6,3	-1	-11	-3
China	41	0,0	0	0	-27
India	64	4,6	-1	-15	-49
Indonesia	78	-0,9	-5	-8	-59

### RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-2,1	1	1	-11
VSTOXX	14	-0,5	1	2	-10
EM EFT volatility Index	17	-0,7	0	0	-8
Dollar/euro volatility	5	0,1	0	0	-2
EM FX volatility index	7	0,0	0	-1	-3
Credit spread (BAA) (change in bps)	219	5,7	5	-10	-26
US bonds volatility index	55	-2,6	-6	-13	-11
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,08	-	-4	7	-5
EZ Inflation expectations (5Y5Y)	1,28	-	-3	12	-32
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	0,4	4	0	-35
EZ	55	-0,5	5	-3	-49
UK	60	-1,2	8	7	-34
Large Spanish	41	-0,7	5	0	-47
Medium Spanish	82	0,5	-6	-13	-31
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	166	0,8	7	6	-47
EZ Non-financial	70	-0,4	1	-1	-26
UK Non-financial	99	2,0	4	0	-20

### INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	0	1	0
Euribor 3m	-0,38	0	0	-3	-7
<b>Euribor 12m</b>	-0,30	0	2	-7	-18
Eonia Swap 3m	-0,43	0	-2	-3	-8
<b>Eonia Swap 12m</b>	-0,54	0	0	-3	-18
Libor 3m	2,27	0	-1	-8	-53
Libor 12m	2,19	0	1	-1	-82

### STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3007	0,9	0,1	1,1	20
Dow Jones	27127	1,0	-0,1	1,3	16
Nikkei	21541	0,1	-1,0	-1,0	8
FTSE 100	7573	-0,2	1,1	0,2	13
<b>EuroStoxx 50</b>	3478	0,3	-0,9	-0,9	16
IBEX	9021	0,6	-2,9	-2,8	6
DAX	12211	0,2	-1,2	-2,5	16
CAC	5540	0,4	-0,7	-0,7	17
MIB	21505	0,5	-1,8	0,5	17
ASE Athens	895	-0,5	1,0	2,4	46
<b>MSCI Latam *</b>	93253	-1,0	-1,8	-1,4	8
Ibovespa (Brazil)	103487	1,6	0,8	2,9	18
Mexbol (Mexico)	40755	-0,3	-0,4	-6,2	-2
Merval (Argentina)	42299	0,6	6,1	1,2	40
<b>MSCI EM Europe *</b>	5951	0,2	0,9	-1,7	13
Poland	2241	-1,6	-3,0	-4,3	-2
Micex 10 (Russia)	4748	-1,0	-0,2	-1,7	13
Ise 100 (Turkey)	101900	-0,2	-0,1	1,7	12
<b>MSCI EM Asia *</b>	840	-0,7	-1,7	-2,4	7
Shanghai Com (China)	2909	-0,8	-1,0	-4,4	17
Jakarta (Indonesia)	6382	0,1	-0,1	0,0	3
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	143,3	0,0	0,1	3,2	24
JPM	116,4	0,3	0,6	2,3	19
Citi	70,4	-1,0	-1,3	0,0	35
BoA	30,8	0,5	1,6	5,7	25
MS	44,6	0,1	-0,6	1,7	12
GS	219,4	-0,3	-0,3	6,5	31
<b>EZ banks</b>	70,9	0,4	-2,7	1,4	3
BNP	42,6	1,0	-0,9	1,8	8
Crédit Agricole	10,8	0,2	-2,2	0,5	15
Deutsche Bank	7,1	0,3	-0,7	4,5	1
ING	9,7	-3,8	-7,3	-4,7	3
Intesa	2,0	1,5	-1,5	5,6	3
SG	23,3	4,7	1,2	5,0	-16
Unicredito	10,7	-0,1	-6,9	0,9	8
<b>UK banks</b>	74,3	0,2	-2,8	-2,7	2
HSBC	664,7	1,2	1,5	-0,6	3
RBS	215,9	-0,5	-5,3	-3,0	0
Barclays	155,6	1,0	-2,5	1,2	3
Lloyds	52,6	-1,4	-7,3	-8,7	1
<b>Large Spanish banks</b>	57,5	0,3	-5,6	-6,1	-1
Santander	3,9	0,0	-5,6	-6,0	-3
<b>BBVA</b>	4,6	0,6	-5,5	-6,2	0
<b>Medium Spanish banks</b>	44,8	0,3	-7,9	-8,4	-22
Caixabank	2,3	0,8	-7,4	-9,4	-29
Sabadell	0,8	-0,5	-12,3	-13,3	-21
Bankinter	5,9	0,7	-6,9	-4,2	-16
Bankia	1,8	-0,1	-7,6	-12,8	-30

### CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,106	-0,1	-0,8	-2,0	-4
GBPUSD	1,213	-0,2	-2,6	-3,7	-5
USDJPY	108,220	0,5	0,4	-0,3	1
DXY	98,620	0,1	0,8	2,0	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44,31	-1,0	-2,1	-4,8	-15
USDBRL (Brazil)	3,82	-0,3	-1,2	0,6	1
USDCPL (Chile)	704,30	-1,0	-1,2	-3,4	-1
USDCOP (Colombia)	3329	-1,5	-3,36	-3,56	-2
USDMXN (Mexico)	19,17	-0,1	-0,8	-0,6	2
USDPEN (Peru)	3,31	-0,3	-0,5	-0,6	2
LACI	53,98	-0,4	-1,2	-1,3	-1
USDPLN (Poland)	3,89	-0,5	-1,8	-3,4	-4
USDRUB (Russia)	63,91	-0,4	-1,1	-0,9	9
USDTRY (Turkey)	5,58	0,1	2,1	1,5	-5
USDCNY (China)	6,90	-0,3	-0,4	-0,4	0
USDINR (India)	69,06	-0,4	0,0	-0,2	1
USDIDR (Indonesia)	14116	-0,7	-1,0	0,2	2
ADXY	104,70	0,1	-0,2	-0,5	-1

### COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	63,6	-2,4	0,3	2	18
WTx	57	-3,0	1,5	1	25
Copper	265	-0,4	-1,8	0	1
Gold	1416	0,1	0,1	0	10
S&P Spot commodity *	422	0,2	1,2	2	13
S&P Brent Spot *	554	0,6	2,8	4	21
S&P Metals Spot *	322	-0,2	-1,1	2	1
S&P Agricultural *	281	-1,7	-2,5	-4	-1

Source: Bloomberg, Datastream and Haver

\* With one day delay