

Market Comment

Risk-off mood prevails as trade tensions escalate

- The main market drivers this week were FOMC meeting and Trump's China tariff threat. The former had a broadly muted impact on financial markets, as, while it fueled some volatility, markets soon recovered. However, **Trump's surprise threat triggered a dramatic risk-off mood.**
- As expected, **the Fed cut interest rates by 25bp** to 2-2.25%, an insurance cut, citing "implications of global developments for the economic outlook as well as muted inflation pressures". They also announced the end of the reduction of the balance sheet (two months earlier). However, the assessment of incoming data was rather benign and Powell framed the Fed's action as a "mid-cycle adjustment", in turn disappointing markets expectations that this was the beginning of a long series of cuts. Nonetheless, after Trump's China tariff threat the latter seems to be less certain. **Assuming trade policy uncertainty remains and global economic growth continues to weaken, our baseline assumes the Fed will cut rates by 25bp again in September (see). After the renewed tariff threat, market has increased its expectations for a Fed cut in September to 91% (from 63%), and the probability of three additional rate cuts by the end of 2020 to 77%.**
- On the data front, **U.S. job data were in line with expectations.** Unemployment rate remained the same (3.7%) and non-farm payrolls continued to grow in July (164K, consensus 165K, previous month downwardly revised 193K). Despite the downward revision of June's payrolls from 224K to 193K, it did not add downward pressure on sovereign bond yields. Elsewhere, the Eurozone's weak macroeconomic data reinforced the region's gloomy economic outlook and the expectations of an ECB depo rate cut in September.
- Safe-haven bonds surged. **The US 10Y yield slumped** (-13 bps since yesterday and -20bps over the week, falling to 1.87%, hitting 2016 lows), while the **German 10Y yield fell 10bps, hitting a new record low** of -0.48%. Moreover, **the 30Y German bond yields reached negative levels for the first time.**
- Safe-haven currencies (JPY and CHF) appreciated sharply while most EM FX depreciated slightly. Chinese off-shore yuan saw sharp depreciation yesterday, while CNH implied volatility jumped amid concerns that USDCNY could breach the psychological 7 threshold. In commodities, **gold jumped** reflecting heightened global growth concerns.
- Equity implied volatility shot up (VIX 18, +6 points), and **equity markets tumbled** across the board between 2-3% on average, **led by the banking sector.** Shares of US retailers and apparel firms suffered, given that the consumer goods sector is most exposed to the new round of US tariffs.
- Elsewhere, markets are increasing the odds of a hard brexit, judging by the sharp increase in the 3M implied volatility in the GBPUSD. The GBP depreciated (2% against both the USD and EUR since Friday), hitting levels close to 2016 lows.
- Ahead of next week Fitch rating decision, Italy's risk premium widened sharply, as Salvini continued push for tax cuts in order to back the budget, increasing friction inside government coalition and the risk of snap elections.

UPDATE 15:55 CET 02 AUGUST 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,73	-0,6	-12,4	-3	-76
US	1,87	-1,9	-19,6	-8	-81
GER (2-yr)	-0,78	-0,5	-3,0	-3	-17
Germany	-0,48	-2,7	-10,1	-13	-76
France	-0,22	-2,9	-9,4	-11	-93
Spain	0,26	-3,5	-11,3	5	-116
Italy	1,55	-3,4	-1,9	-4	-120
Portugal	0,31	-3,6	-13,1	1	-141
Greece	2,05	-0,1	-1,5	-1	-235
Japan (2-yr)	-0,20	-1,8	0,7	2	-6
Japan	-0,16	-3,3	-1,5	-1	-17
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,22	-5,0	-0,6	-11	-202
Chile	2,67	0,2	-5,4	-42	-158
Colombia	6,00	-1,0	7,0	8	-75
Mexico	7,46	-3,5	-5,8	14	-118
Peru	4,01	-1,8	11,1	-14	-135
Poland	2,11	-8,2	-0,4	-20	-72
Russia	7,54	10,7	15,1	7	-125
Turkey	14,91	-9,0	0,0	-64	-89
India	6,35	-7,0	-17,2	-48	-102
Indonesia	7,57	5,4	35,4	28	-46

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	26	-0,2	0,7	2	-17
Italy	202	-0,7	8,2	10	-44
Portugal	79	-0,9	-3,0	15	-66
Spain	74	-0,9	-1,3	18	-40
2-yr sovereign spread vs Germany					
France	8	-0,8	0,8	1	-7
Italy	78	0,2	5,3	8	-30
Portugal	22	-1,0	2,7	-4	-4
Spain	29	0,1	4,4	4	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	129	3,2	6	-17	-78
Chile	37	2,1	2	-1	-26
Colombia	91	4,5	9	1	-68
Argentina	950	23,8	-22	46	143
Mexico	119	2,9	6	8	-36
Peru	51	1,6	1	-2	-44
Poland	65	0,0	1	0	-3
Russia	97	-1,9	-3	-13	-57
Turkey	362	5,3	9	-6	3
China	43	1,9	3	0	-25
India	65	0,6	5	-14	-49
Indonesia	82	3,4	3	-5	-56

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	18	0,5	6	6	-7
VSTOXX	18	3,8	5	6	-6
EM EFT volatility Index	20	0,4	4	4	-4
Dollar/euro volatility	5	0,1	0	0	-2
EM FX volatility index	7	0,1	0	-1	-3
Credit spread (BAA) (change in bps)	228	1,9	14	1	-18
US bonds volatility index	65	9,4	6	4	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,01	-	-11	1	-13
EZ Inflation expectations (5Y5Y)	1,25	-	-11	11	-36
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	49	1,7	5	2	-33
EZ	56	0,8	5	-1	-48
UK	60	-0,4	8	8	-35
Large Spanish	41	0,0	4	1	-47
Medium Spanish	82	0,7	-4	-14	-30
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	171	5,0	12	11	-42
EZ Non-financial	71	0,5	4	1	-26
UK Non-financial	100	1,2	6	3	-19

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	1	1	-1
Euribor 3m	-0,38	0	-1	-3	-7
Euribor 12m	-0,30	0	1	-6	-19
Eonia Swap 3m	-0,44	-1	-2	-3	-8
Eonia Swap 12m	-0,55	-1	-2	-4	-19
Libor 3m	2,27	0	1	-5	-53
Libor 12m	2,19	0	1	-1	-82

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2941	-0,4	-2,8	-1,8	17
Dow Jones	26453	-0,5	-2,7	-1,9	13
Nikkei	21087	-2,1	-2,6	-2,5	5
FTSE 100	7445	-1,8	-1,4	-2,2	11
EuroStoxx 50	3404	-2,5	-3,4	-3,9	13
IBEX	8951	-1,0	-3,0	-4,7	5
DAX	11942	-2,5	-3,8	-5,3	13
CAC	5408	-2,7	-3,6	-3,8	14
MIB	21221	-1,6	-2,8	-3,1	16
ASE Athens	888	-0,8	-0,3	-0,4	45
MSCI Latam *	92947	-0,3	-1,2	-1,2	8
Ibovespa (Brazil)	102837	0,7	0,0	0,8	17
Mexbol (Mexico)	40137	-0,5	-1,3	-7,7	-4
Merval (Argentina)	41411	0,0	-1,4	0,3	37
MSCI EM Europe *	5906	-0,8	-0,1	-2,7	12
Poland	2226	-0,7	-3,5	-5,1	-2
Micex 10 (Russia)	4705	-1,1	-1,1	-2,9	12
Ise 100 (Turkey)	100411	-1,5	-2,4	1,1	10
MSCI EM Asia *	832	-0,9	-2,8	-3,7	6
Shanghai Com (China)	2868	-1,4	-2,6	-4,9	15
Jakarta (Indonesia)	6340	-0,8	-1,0	-0,7	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	137,0	-0,9	-5,3	-1,2	18
JPM	112,7	-0,2	-3,0	-0,1	15
Citi	67,6	-1,2	-6,4	-4,6	30
BoA	29,3	-0,7	-4,9	0,8	19
MS	42,2	-1,8	-7,8	-4,2	6
GS	209,3	-1,1	-5,8	1,6	25
EZ banks	69,1	-3,3	-4,9	-3,5	0
BNP	41,3	-3,7	-3,9	-3,1	4
Crédit Agricole	10,4	-4,2	-5,3	-4,7	10
Deutsche Bank	7,0	-1,4	-1,8	0,9	0
ING	9,4	-4,7	-10,0	-9,0	0
Intesa	2,0	-1,4	-1,9	-0,4	2
SG	22,7	-3,4	-1,6	1,7	-18
Unicredito	10,5	-1,9	-7,8	-6,0	6
UK banks	72,2	-3,1	-5,7	-6,1	-1
HSBC	647,6	-2,8	-2,2	-3,6	0
RBS	202,5	-6,7	-11,1	-9,4	-7
Barclays	153,4	-1,6	-4,2	-1,0	2
Lloyds	51,7	-2,3	-7,8	-11,3	0
Large Spanish banks	56,5	-2,0	-6,2	-9,4	-3
Santander	3,8	-2,2	-6,7	-9,4	-5
BBVA	4,6	-1,7	-5,7	-9,3	-2
Medium Spanish banks	44,1	-1,9	-4,8	-11,9	-23
Caixabank	2,2	-1,6	-1,9	-12,6	-30
Sabadell	0,8	-2,0	-7,8	-16,8	-23
Bankinter	5,8	-1,6	-5,0	-7,2	-17
Bankia	1,7	-3,6	-5,8	-18,0	-32

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,110	0,1	-0,3	-1,6	-3
GBPUSD	1,214	0,1	-2,0	-3,5	-5
USDJPY	106,720	0,6	1,8	1,0	3
DXY	98,221	-0,2	0,2	1,5	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44,66	-0,7	-2,9	-5,9	-16
USDBRL (Brazil)	3,87	-0,7	-2,3	-1,0	0
USDCLP (Chile)	711,21	-0,8	-2,3	-4,5	-2
USDCOP (Colombia)	3358	-0,5	-3,57	-4,81	-3
USDMXN (Mexico)	19,30	-0,3	-1,3	-1,5	2
USDPEN (Peru)	3,33	0,0	-0,8	-1,1	1
LACI	53,51	-0,7	-2,1	-2,5	-1
USDPLN (Poland)	3,87	0,3	-0,9	-2,9	4
USDRUB (Russia)	65,22	-1,3	-2,9	-3,0	6
USDTRY (Turkey)	5,58	0,5	1,6	0,8	-5
USDCNY (China)	6,93	-0,5	-0,8	-0,8	-1
USDIND (India)	69,60	-0,8	-1,0	-1,0	0
USDIDR (Indonesia)	14185	-0,5	-1,2	-0,5	1
ADXY	104,26	0,1	-0,6	-0,9	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,6	3,5	-1,3	-2	16
WTx	56	3,2	-0,9	-3	23
Copper	259	-2,7	-3,3	-3	-2
Gold	1439	-0,4	1,4	1	12
S&P Spot commodity *	403	-4,6	-3,2	-4	8
S&P Brent Spot *	515	-7,0	-4,5	-5	12
S&P Metals Spot *	320	-0,7	-1,0	1	0
S&P Agricultural *	276	-1,9	-3,8	-8	-3

Source: Bloomberg, Datastream and Haver

* With one day delay