

Market Comment

## Risk-off mood intensifies as RMB breaches key 7 level

- Risk-off mood has intensified dramatically after the Chinese RMB, both on-shore and off-shored, breached the psychological critical level of 7.0 against the US dollar**, in the wake of further escalation in trade frictions with the US post Trump's plans to impose 10% tariffs on \$300 bn Chinese imports, alongside increased risk of a hard-Brexit. The fall in Chinese RMB prompted Trump to accuse China of currency manipulation, further compromising the prospects of a trade deal.
- On the data front, the U.S. ISM non-manufacturing index in July dropped more than expected (53.7, consensus 55.5, previous month 55.1), suggesting a growth at a slower pace. Meanwhile, the Eurozone services PMI in July was downwardly revised from 53.3 to 53.2 points.
- Investors are seeking shelter in bond markets**, especially in safe-haven, whereas peripheral risk premia widened slightly.
- 10Y sovereign bond yields extended its decline across the board, especially in the U.S.** (-7.8bps in US, -3.8bps in UK, -1.8bps in Germany). The 10Y US Treasury yield reached its lowest level since October 2016 (1.77%) **while the 10Y German Bund yield hit fresh record low (-0.51%)**. Elsewhere, yield on 10Y Gilts also hit its lowest level as political uncertainty in the U.K. remains high given the speculation of an early election and an increasing risk of a disorderly Brexit.
- The DXY fell (-0.5%) as trade tensions fueled flight to safety, while the CHF and JPY appreciated** around 0.8% and 0.4% respectively on safe haven appeal. The Euro appreciated (+0.70%), while the GBP continued to depreciate (-0.3%). Implied GBPUSD implied volatility continued to climb.
- RMB depreciation is weighing on EM FX, especially in Asian currencies and in commodity linked currencies**, as commodity prices are also dragged by the concerns over trade war. FXJPEMCS, the EM currencies index, fell -0.5%, MXN depreciated (-1.4% to 19.58) and TRY appreciated slightly as the CPI increased less than expected in July (16.65% y/y, consensus 16.9% y/y, previous month 15.72% y/y). The CNY depreciated 1.5% to 7.05 against the USD, but the CNY+12M futures point to much sharper depreciation ahead to 7.14 level.
- Global stock markets continue to tumble significantly between 2-3% on average** with cyclical sectors leading the losses while gold prices surged.

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DEBT MARKETS (10Y, %, CHANGES IN BP)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,60	-10,9	-25,5	-16	-88
<b>US</b>	1,77	-7,8	-29,8	-18	-92
GER (2-yr)	-0,81	-1,8	-4,5	-5	-20
<b>Germany</b>	-0,51	-1,8	-12,2	-15	-80
France	-0,24	-0,1	-10,0	-11	-95
Spain	0,24	-0,4	-11,6	-1	-117
Italy	1,55	0,7	-2,5	-13	-119
Portugal	0,28	-1,0	-13,9	-5	-144
Greece	2,05	0,8	0,9	-1	-235
Japan (2-yr)	-0,21	-1,0	-0,6	0	-7
<b>Japan</b>	-0,19	-2,8	-4,8	-4	-19
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,30	7,4	8,8	2	-193
Chile	2,55	-7,0	-16,8	-55	-170
Colombia	5,98	0,2	-1,6	10	-77
Mexico	7,43	-0,5	-8,4	12	-121
Peru	3,89	-1,7	-0,6	-21	-147
Poland	2,04	-5,7	-10,3	-23	-79
Russia	7,47	-9,1	7,3	4	-131
Turkey	14,91	0,0	5,0	-45	-89
India	6,39	4,1	-1,9	-36	-98
Indonesia	7,68	10,7	39,0	42	-35

COUNTRY RISK (BP, CHANGES IN BP)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	27	1,7	2,2	5	-15
Italy	206	2,4	9,6	2	-40
Portugal	79	0,7	-1,8	10	-65
Spain	76	1,5	0,7	15	-38
<b>2-yr sovereign spread vs Germany</b>					
France	8	-0,9	0,6	1	-7
Italy	82	2,8	6,1	1	-26
Portugal	24	0,8	3,5	-4	-2
Spain	31	1,2	5,0	6	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	133	3,1	10	-14	-75
Chile	38	1,3	4	1	-25
Colombia	95	4,7	13	6	-63
Argentina	976	26,0	51	86	169
Mexico	124	5,0	10	14	-31
Peru	53	1,8	4	1	-42
Poland	65	0,0	0	0	-3
Russia	106	9,1	6	-5	-48
Turkey	372	9,6	20	0	12
China	46	3,2	6	4	-22
India	68	3,6	10	-10	-45
Indonesia	89	7,3	11	4	-48

RISK INDICATORS					
Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	22	4,5	9	10	-3
VSTOXX	22	3,2	9	10	-2
EM EFT volatility Index	25	4,6	9	9	0
Dollar/euro volatility	6	0,7	1	1	-1
EM FX volatility index	8	0,8	1	0	-2
Credit spread (BAA) (change in bps)	227	7,8	15	0	-18
US bonds volatility index	66	1,4	8	-2	0
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,96	-	-12	-6	-17
EZ Inflation expectations (5Y5Y)	1,19	-	-14	3	-41
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	52	2,8	8	5	-30
EZ	59	2,2	6	3	-46
UK	61	1,8	7	10	-33
Large Spanish	42	1,4	4	4	-45
Medium Spanish	82	-0,6	0	-14	-31
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	174	3,1	14	15	-39
EZ Non-financial	73	2,4	5	5	-24
UK Non-financial	101	0,6	7	4	-18

INTERBANK MARKETS (% CHANGES IN BP)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	1	1	0
Euribor 3m	-0,38	0	-2	-3	-8
<b>Euribor 12m</b>	-0,31	0	1	-5	-19
Eonia Swap 3m	-0,45	0	-2	-3	-9
<b>Eonia Swap 12m</b>	-0,56	-1	-3	-5	-21
Libor 3m	2,24	0	2	0	-56
Libor 12m	2,12	0	4	6	-90

STOCK MARKETS (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2865	-2,3	-5,2	-4,4	14
Dow Jones	25941	-2,1	-4,7	-3,8	11
Nikkei	20720	-1,7	-4,1	-4,5	4
FTSE 100	7208	-2,7	-6,2	-5,2	7
<b>EuroStoxx 50</b>	3307	-2,0	-6,1	-6,7	10
IBEX	8764	-1,5	-4,9	-6,8	3
DAX	11650	-1,9	-6,2	-7,8	10
CAC	5237	-2,3	-6,5	-6,8	11
MIB	20728	-1,5	-4,5	-6,3	13
ASE Athens	851	-3,8	-4,9	-4,7	39
<b>MSCI Latam *</b>	92996	0,1	-1,1	-2,2	8
Ibovespa (Brazil)	100539	-2,1	-2,8	-3,0	14
Mexbol (Mexico)	39399	-1,4	-4,5	-9,3	-5
Merval (Argentina)	40688	-1,6	-4,9	-1,7	34
<b>MSCI EM Europe *</b>	5779	-2,1	-2,5	-5,2	9
Poland	2164	-2,4	-5,3	-8,2	-5
Micex 10 (Russia)	4633	-0,8	-3,1	-5,6	11
Ise 100 (Turkey)	98588	-1,1	-4,6	-0,8	8
<b>MSCI EM Asia *</b>	818	-1,7	-4,0	-4,7	5
Shanghai Com (China)	2821	-1,6	-4,1	-6,1	13
Jakarta (Indonesia)	6176	-3,2	-2,4	-2,9	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	132,5	-3,4	-7,8	-4,4	15
JPM	110,0	-2,6	-5,1	-2,5	13
Citi	65,3	-3,4	-9,0	-7,8	25
BoA	28,2	-4,2	-7,8	-3,1	14
MS	40,6	-3,6	-10,2	-7,7	2
GS	202,2	-3,4	-8,2	-1,9	21
<b>EZ banks</b>	67,7	-1,3	-6,1	-7,1	-2
BNP	40,3	-2,0	-5,4	-6,3	2
Crédit Agricole	10,3	-0,8	-6,4	-7,8	9
Deutsche Bank	6,9	-1,5	-2,5	-1,5	-1
ING	8,8	-4,6	-14,6	-15,2	-6
Intesa	2,0	0,6	-1,3	-3,0	1
SG	22,5	0,2	-1,9	0,3	-19
Unicredito	10,3	-0,5	-6,2	-11,5	5
<b>UK banks</b>	0,0	-100,0	-100,0	-100,0	-100
HSBC	625,4	-3,2	-6,2	-6,9	-3
RBS	197,7	-2,6	-13,9	-11,9	-9
Barclays	146,8	-4,1	-8,7	-5,8	-2
Lloyds	50,0	-2,5	-11,1	-14,2	-4
<b>Large Spanish banks</b>	55,2	-1,5	-7,8	-12,4	-5
Santander	3,7	-1,5	-8,3	-12,3	-7
<b>BBVA</b>	4,5	-1,5	-7,3	-12,5	-4
<b>Medium Spanish banks</b>	44,2	0,8	-3,5	-13,1	-23
Caixabank	2,2	0,5	-2,9	-15,3	-30
Sabadell	0,8	1,5	-5,0	-17,5	-22
Bankinter	5,8	0,9	-3,5	-8,3	-17
Bankia	1,7	0,5	-3,7	-18,4	-32

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,118	0,7	0,3	-0,9	-2
GBPUSD	1,213	-0,3	-0,7	-3,6	-5
USDJPY	106,150	0,4	2,5	1,6	3
DXY	97,559	-0,5	-0,5	0,8	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45,45	-1,8	-3,6	-8,0	-17
USDBRL (Brazil)	3,94	-1,2	-4,0	-3,5	-1
USDCPL (Chile)	722,25	-1,3	-3,5	-6,0	-4
USDCOP (Colombia)	3466	-2,3	-5,23	-7,63	-6
USDMXN (Mexico)	19,58	-1,4	-2,6	-2,9	0
USDPEN (Peru)	3,38	-0,6	-2,3	-2,5	0
LACI	52,62	-1,4	-3,4	-4,3	-3
USDPLN (Poland)	3,86	0,4	-0,3	-2,6	-3
USDRUB (Russia)	65,15	0,1	-2,6	-2,6	6
USDTRY (Turkey)	5,55	0,1	1,1	0,8	-5
USDCNY (China)	7,05	-1,5	-2,2	-2,5	-2
USDINR (India)	70,74	-1,6	-2,8	-3,1	-1
USDIDR (Indonesia)	14255	-0,5	-1,6	-0,8	1
ADXY	103,04	-1,0	-1,7	-2,1	-2

COMMODITIES (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	60,5	-2,3	-5,1	-4	12
WTx	55	-1,8	-3,9	-5	20
Copper	254	-1,1	-6,4	-5	-3
Gold	1459	1,2	2,2	3	14
S&P Spot commodity *	408	1,1	-2,6	-3	9
S&P Brent Spot *	527	2,3	-2,7	-3	15
S&P Metals Spot *	314	-1,8	-3,6	-1	-2
S&P Agricultural *	278	0,9	-3,6	-7	-2

Source: Bloomberg, Datastream and Haver

\* With one day delay