

Market Comment

The roller coaster ride gets wilder.

- Risk-off mood increased this week**, sending safe-haven yield to hit new recent lows and boosting market volatility as trade tension escalated further. Following Trump's additional tariff threat last Friday, China retaliated by fixing the RMB weaker, thereby allowing the yuan trade above psychological 7 threshold against US dollar while suspending purchase of US agriculture products. In response, the US labeled China a currency manipulator. Separately, increasing hard-Brexit concerns, and the risk of snap elections in Italy have also dragged German 10Y yield to new record lows. The uncertain global backdrop coupled with idiosyncratic risks have prompted several EM central banks to surprise markets with aggressive rate cuts. India, Thailand, the Philippines, and Peru saw policy rate cuts this week.
- The PBoC led the CNYUSD to trade above the psychological level of 7 yuan per USD, fixing the yuan's reference rate at 7.0136 per dollar.** Investors expectations of a further depreciation increased as the CNY+12M future prices surged, reverberating RMB's August 2015 depreciation episode that caused a financial turmoil, and, in turn, sparking market volatility. However, we believe that this time is different as we expect that the Yuan's slide will not prompt a financial turmoil, but some volatility ([see](#)).
- Macroeconomic data were mixed this week.** Chinese exports unexpectedly rose in July despite intensifying trade tensions which softened markets jitters. Meanwhile, Chinese PPI inflation slipped into deflation territory in July for the first time in three years. However, European data were negative in general, in turn underscoring the gloomy economic outlook in the Eurozone, and thereby fueling market expectations of a more aggressive ECB depo rate cut in September.
- Market volatility surged.** The VIX soared to levels close to 25, after the yuan breached the 7 threshold. However, it moderated slightly over the week, ending at lower levels 19, after China authorities signalled that they would not pursue a deep depreciation of the Yuan.
- Sovereign bonds attracted fresh safe-haven demand**, with US and the German yields slumping across the curve. The US 10-2Y yield slope continued to flatten. The 10Y UST yield tumbled -16 bps, falling to 1.69%, hitting October 2016 lows, while the German 10Y yield fell -9bps, hitting a new record low of -0.58%. Moreover, yield on 10Y Gilts also hit its lowest level this week (+0.49%). Frictions inside Italy's government, spurred snap elections risk ([see](#)), boosting 10Y Italian yield. As a result, Italy's risk premium widened sharply (+33.5bps) to 237bps, but with limited spillover effect on Spain or Portugal risk premia.
- The DXY slightly weakened as trade tensions fueled flight to safety with the CHF and JPY** appreciating around 0.9% against the USD on safe haven appeal. EM FX depreciated across the board, led by Asian currency due to the CNY depreciation and higher-than-expected central banks easing in countries such India. Latam currencies dipped broadly across the board along with the ARS and the BRL leading the losses. On the other hand, the TRY appreciated, boosted by lower oil prices. Meanwhile, the JPY and CNY implied volatility jumped.
- Elsewhere, the pound fell by 0.7% amid concerns over a no-deal Brexit and an unexpected contraction of the UK economy in the second quarter (-0.2% q/q, consensus 0% q/q, prior quarter 0.5% q/q).
- Risky assets underperformed**, as market volatility increased. Equity markets declined, led by cyclical sectors, while lower yields dragged banking sector across the board. Moreover, commodity prices also reflected the increase in global growth concerns. Investors sought shelter in gold, while crude oil prices declined significantly amid concerns over global demand, despite Saudi Arabia's decision to cut September's output by 700,000 barrels per day.

UPDATE 16:45 CET 09 AUGUST 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,60	-2,1	-11,4	-23	-89
US	1,69	-3,1	-15,9	-37	-100
GER (2-yr)	-0,86	-1,1	-7,5	-13	-25
Germany	-0,58	-2,3	-8,8	-32	-87
France	-0,28	0,2	-4,0	-26	-99
Spain	0,25	2,9	0,6	-19	-116
Italy	1,79	25,4	24,7	5	-95
Portugal	0,28	3,1	-1,6	-23	-145
Greece	2,13	8,9	9,1	-15	-226
Japan (2-yr)	-0,27	-2,9	-6,4	-9	-12
Japan	-0,22	-2,3	-5,4	-10	-22
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,17	1,6	-6,4	-4	-207
Chile	2,51	-0,5	-11,0	-53	-174
Colombia	6,03	-1,4	4,7	3	-72
Mexico	7,21	-7,9	-22,8	-39	-144
Peru	3,83	-4,3	-8,3	-24	-153
Poland	1,95	-6,1	-15,0	-29	-88
Russia	7,39	2,2	-17,2	-1	-139
Turkey	14,46	-11,0	-45,0	-203	-134
India	6,50	9,5	14,6	-4	-87
Indonesia	7,32	-2,4	-25,1	-2	-71

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	2,5	4,8	6	-12
Italy	237	27,7	33,5	37	-9
Portugal	86	5,4	7,2	9	-58
Spain	84	5,2	9,4	13	-30
2-yr sovereign spread vs Germany					
France	10	-0,8	1,2	2	-5
Italy	117	27,4	37,2	33	8
Portugal	28	3,2	5,2	-1	2
Spain	37	2,2	7,6	9	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	130	-7,9	0	-6	-77
Chile	39	-2,3	2	2	-24
Colombia	95	-8,2	4	6	-63
Argentina	1087	-1,5	137	199	281
Mexico	119	-8,3	0	4	-36
Peru	53	-3,4	2	1	-42
Poland	65	0,0	0	2	-3
Russia	108	-3,8	11	-2	-46
Turkey	376	-8,2	14	-13	16
China	50	-3,7	7	7	-18
India	71	-0,2	6	-8	-43
Indonesia	93	-5,3	11	4	-45

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	19	1,9	1	6	-7
VSTOXX	19	0,6	0	6	-5
EMEFT volatility Index	22	1,2	1	5	-3
Dollar/euro volatility	5	0,0	0	0	-2
EM FX volatility index	8	-0,2	0	1	-1
Credit spread (BAA) (change in bps)	225	3,1	6	-1	-20
US bonds volatility index	79	-0,5	12	16	12
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,01	-	0	-7	-13
EZ Inflation expectations (5Y5Y)	1,25	-	3	2	-35
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	55	-2,6	5	5	-28
EZ	59	-0,6	3	1	-45
UK	62	-0,8	2	7	-32
Large Spanish	40	-1,5	-1	-2	-48
Medium Spanish	93	3,3	11	4	-19
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	196	-5,1	25	33	-17
EZ Non-financial	75	-1,3	4	5	-22
UK Non-financial	103	-0,3	3	6	-16

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,35	0	1	2	0
Euribor 3m	-0,40	-1	-2	-5	-10
Euribor 12m	-0,34	0	-4	-9	-23
Eonia Swap 3m	-0,46	0	-2	-5	-10
Eonia Swap 12m	-0,58	-1	-3	-8	-23
Libor 3m	2,18	0	-10	-16	-61
Libor 12m	1,98	0	-26	-30	-104

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2916	-0,8	-0,6	-2,6	16
Dow Jones	26137	-0,9	-1,3	-2,7	12
Nikkei	20685	0,4	-1,9	-3,9	3
FTSE 100	7261	-0,3	-2,0	-3,6	8
EuroStoxx 50	3333	-1,3	-1,3	-4,8	11
IBEX	8752	-1,3	-1,6	-5,4	2
DAX	11698	-1,2	-1,5	-5,5	11
CAC	5331	-1,1	-0,5	-4,3	13
MIB	20311	-2,5	-3,5	-7,9	11
ASE Athens	840	-0,8	-5,1	-2,5	37
MSCI Latam *	94200	1,1	1,3	-2,1	9
Ibovespa (Brazil)	104042	-0,1	1,3	-1,7	18
Mexbol (Mexico)	40205	-0,6	0,6	-6,1	-3
Merval (Argentina)	41749	1,6	0,9	-2,5	38
MSCI EM Europe *	5787	1,0	-2,0	-4,3	9
Poland	2124	-1,6	-4,2	-8,1	-7
Micex 10 (Russia)	4658	-0,7	-0,2	-5,4	11
Ise 100 (Turkey)	99586	0,4	-0,1	1,0	9
MSCI EM Asia *	803	1,0	-3,5	-4,5	3
Shanghai Com (China)	2775	-0,7	-3,2	-4,8	11
Jakarta (Indonesia)	6282	1,3	-1,6	-1,7	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	132,8	-1,0	-3,3	-4,1	15
JPM	109,1	-0,7	-3,4	-3,5	12
Citi	66,0	-1,2	-2,4	-7,3	27
BoA	28,1	-1,0	-4,4	-3,2	14
MS	40,8	-1,2	-3,2	-5,9	3
GS	204,6	-1,1	-2,3	-0,7	22
EZ banks	65,9	-2,7	-3,9	-8,4	-4
BNP	40,1	-1,6	-2,6	-6,1	2
Crédit Agricole	10,2	-1,6	-1,7	-7,4	8
Deutsche Bank	6,7	-2,7	-4,4	2,5	-4
ING	8,7	-2,5	-6,5	-15,8	-8
Intesa	1,9	-4,3	-4,6	-8,3	-4
SG	22,3	-2,0	-0,5	-0,7	-20
Unicredit	9,3	-6,0	-10,4	-18,7	-6
UK banks	69,7	-1,3	-3,4	-9,5	-4
HSBC	624,4	-1,6	-3,4	-6,3	-3
RBS	205,6	-0,9	1,3	-9,8	-5
Barclays	143,8	-1,5	-6,1	-8,1	-4
Lloyds	49,3	-1,0	-3,9	-15,0	-5
Large Spanish banks	54,5	-2,1	-2,9	-11,8	-7
Santander	3,6	-2,1	-3,7	-13,3	-9
BBVA	4,4	-2,0	-2,1	-10,5	-5
Medium Spanish banks	43,3	-2,4	-1,3	-13,6	-25
Caixabank	2,2	-2,9	-1,8	-14,9	-31
Sabadell	0,8	-2,2	1,0	-17,2	-22
Bankinter	5,7	-2,3	-2,0	-10,1	-19
Bankia	1,7	-2,9	-1,6	-18,5	-34

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,120	0,2	0,8	-0,5	-2
GBPUSD	1,208	-0,5	-0,7	-3,4	-5
USDJPY	105,600	0,4	0,9	2,7	4
DXY	97,514	-0,1	-0,6	0,4	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45,45	-0,5	-1,8	-7,9	-17
USDBRL (Brazil)	3,95	-0,7	-1,4	-4,8	-2
USDCPL (Chile)	712,69	-0,5	0,1	-3,7	-3
USDCOP (Colombia)	3390	-0,6	-0,12	-5,42	-4
USDMXN (Mexico)	19,44	-0,2	-0,7	-1,6	1
USDPEN (Peru)	3,38	-0,3	-0,8	-2,9	0
LACI	52,85	-0,4	-1,0	-3,8	-3
USDPLN (Poland)	3,86	0,2	0,5	-1,8	-3
USDRUB (Russia)	65,42	-0,6	-0,3	-3,5	6
USDTRY (Turkey)	5,50	-0,4	1,1	3,2	-4
USDCNY (China)	7,07	-0,2	-1,7	-2,7	-3
USDIND (India)	70,79	-0,1	-1,7	-3,1	-1
USDIDR (Indonesia)	14194	0,1	-0,1	-0,4	1
ADXY	103,06	-0,3	-0,9	-2,0	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	58,5	2,0	-5,5	-13	9
WTx	54	2,9	-2,9	-11	19
Copper	259	-0,7	0,8	-4	-2
Gold	1504	0,2	4,4	6	17
S&P Spot commodity *	394	1,7	-3,3	-9	5
S&P Brent Spot *	487	1,9	-7,5	-14	6
S&P Metals Spot *	319	2,4	1,7	-1	0
S&P Agricultural *	282	1,5	1,3	-4	-1

Source: Bloomberg, Datastream and Haver

* With one day delay