

Market Comment

## Risk sentiment worsens with renewed trade war fears.

- This week's risk sentiment worsened with today's announcement from China of retaliatory tariffs on another \$75b worth of U.S. goods. Global stocks edged up as strong U.S. retail earnings and hopes of a more stable government in Italy outweighed the escalation of trade tensions.
- On the trade front, earlier this week, the U.S. granted Huawei another 90 days to buy from American suppliers. However, today China announced new tariffs on 75b worth of U.S. goods which will be effective in two batches, on September 1 and December 15, including agricultural products, crude oil, small aircraft and cars.
- Mixed news on the data front: Concerns over a global slowdown were reinforced by weak manufacturing data around the world, both U.S. and the Eurozone flash manufacturing PMI in contraction levels, alongside more pessimistic consumers in the Eurozone. However, U.S. labor-market and existing home sales strengthened.
- The minutes of the Fed's July meeting showed that the decision to cut rates by 25 bps was not unanimous as several members did not support it. In this context, investors' expectations of an aggressive rate cut in September eased but expectations of additional rate cuts by the end of the year persist. Powell said the U.S. economy is in a favorable place with current U.S. expansion entering its 11th year but faces significant risks. Elsewhere, the ECB minutes from July's meeting suggested a broad stimulus package next month, which could include rate cuts and asset purchases, instead of a gradual approach. A 10 bps ECB depo rate cut is a virtual certainty but expectations of 20 bps depo rate cut declined.
- Safe debts were in demand today driven by the trade war escalation and Powell's statement at the Jackson Hole gathering that the Fed will act as appropriate to sustain the expansion. Nonetheless, sovereign bonds dropped in general this week, except for Italy, as expectations of an aggressive rate cut faded supported by less dovish-minded comments from Fed officials. The 10Y German bund yield edged up by 2 bps., while the 10Y U.S. Treasury yield inched down by 0.9 bps. The 10-2Y slope continue to flatten as the 2Y U.S. Treasury yield rose significantly by 5.3 bps. with the 10Y U.S. Treasury yield briefly falling this week below 2Y yields. Regarding peripheral bonds, Italy's risk premium narrowed sharply by 11 bps after the resignation of its PM Conte as hopes of a more stable government coalition increased. However, the risk premia in Spain and Portugal widened.
- The DXY index dropped after the Powell's speech at the Jackson Hole gathering. The JPY gained on safe haven appeal, alongside the euro which, erasing early losses driven by its muted private sector. However, the pound outperformed other G10 peers as Brexit deal hopes rise following Boris Johnson's meetings in Paris and Berlin. In EM, the FXJPEMCS index slipped with Latam currencies declining across the board. Moreover, the Chinese Yuan dropped to a 11-year low against the dollar with the CNY+12M futures edging up amid trade uncertainty.
- In commodities, investors sought shelter in gold, the prices of which trimmed early losses amid trade uncertainty. Meanwhile, oil prices reverted their gains as concerns over a decline in demand driven by slowing economic outweighed the drop in the U.S. crude inventories.
- Global stocks rebounded from the drop of last week but trimmed early gains after Trump said he will respond to the latest round of Chinese tariffs later today. Utilities and consumer discretionary led the gains this week in the S&P500 amid strong U.S. retail earnings. Equity implied volatility are at levels below 20.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,53	-8,3	5,3	-29	-96
<b>US</b>	1,55	-6,8	-0,9	-50	-114
GER (2-yr)	-0,89	-2,8	2,1	-11	-28
<b>Germany</b>	-0,68	-3,2	0,9	-34	-96
France	-0,37	-1,2	4,2	-26	-108
Spain	0,13	-0,7	5,3	-21	-128
Italy	1,31	0,0	-8,8	-19	-144
Portugal	0,16	-1,0	5,0	-26	-156
Greece	1,95	-1,5	-1,7	-5	-245
Japan (2-yr)	-0,29	0,8	-2,0	-9	-15
<b>Japan</b>	-0,23	0,5	-0,3	-8	-23
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,22	-1,2	5,3	4	-201
Chile	2,51	-0,7	1,9	-26	-174
Colombia	5,99	1,4	7,4	7	-76
Mexico	6,98	-0,8	2,0	-47	-166
Peru	3,79	-0,4	7,8	-4	-157
Poland	2,01	-2,4	27,8	-1	-81
Russia	7,30	1,0	-10,6	-5	-148
Turkey	16,07	-9,0	124,0	37	27
India	6,57	1,4	2,9	14	-80
Indonesia	7,24	-0,9	-18,0	-2	-78

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

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	31	2,0	3,3	8	-12
Italy	198	3,2	-9,7	15	-48
Portugal	84	2,2	4,1	8	-60
Spain	81	2,5	4,4	13	-32
<b>2-yr sovereign spread vs Germany</b>					
France	10	-0,3	-1,6	3	-5
Italy	89	4,8	-11,1	19	-20
Portugal	31	2,4	-0,3	9	5
Spain	34	2,1	-1,5	7	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	136	-1,0	-5	10	-72
Chile	37	-0,2	-3	1	-26
Colombia	97	-1,1	-5	13	-61
Argentina	3012	-57,8	126	2122	2206
Mexico	115	-0,6	-5	-1	-40
Peru	50	-0,9	-4	0	-44
Poland	65	0,0	0	1	-3
Russia	100	0,2	-5	-4	-54
Turkey	414	4,2	0	51	54
China	46	-0,1	-9	5	-21
India	74	-1,0	0	7	-40
Indonesia	92	-0,1	-8	8	-46

### RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	18	1,6	0	6	-7
VSTOXX	19	0,6	-2	6	-5
EM EFT volatility Index	21	0,9	-3	4	-4
Dollar/euro volatility	6	-0,1	0	0	-2
EM FX volatility index	9	0,1	0	2	-1
Credit spread (BAA) (change in bps)	232	6,8	7	17	-13
US bonds volatility index	83	-1,4	-6	22	17
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,90	-	-1	-25	-23
EZ Inflation expectations (5Y5Y)	1,26	-	2	-3	-35
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	52	-0,9	-6	7	-30
EZ	59	-1,0	-9	6	-45
UK	59	-0,1	-8	5	-36
Large Spanish	37	-0,1	-6	-1	-51
Medium Spanish	87	-0,1	1	-6	-25
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	201	-1,4	-18	38	-13
EZ Non-financial	70	-0,5	-6	-1	-27
UK Non-financial	100	-0,7	-4	4	-19

### INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	0	0	-1
Euribor 3m	-0,41	1	1	-4	-10
<b>Euribor 12m</b>	-0,36	3	3	-4	-24
Eonia Swap 3m	-0,47	-1	0	-3	-12
<b>Eonia Swap 12m</b>	-0,60	-2	3	-5	-24
Libor 3m	2,13	0	2	-13	-66
Libor 12m	1,97	0	2	-24	-104

### STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2892	-1,0	0,1	-4,2	15
Dow Jones	25945	-1,2	0,2	-4,9	11
Nikkei	20711	0,4	1,4	-4,6	3
FTSE 100	7120	-0,1	0,0	-5,1	6
<b>EuroStoxx 50</b>	3354	-0,6	0,7	-5,1	12
IBEX	8694	-0,3	0,3	-6,8	2
DAX	11674	-0,6	1,0	-6,8	11
CAC	5356	-0,6	1,0	-4,5	13
MIB	20635	-0,9	1,5	-6,5	13
ASE Athens	832	-1,6	5,0	-4,9	36
<b>MSCI Latam *</b>	89851	-0,9	1,0	-5,1	4
Ibovespa (Brazil)	98557	-1,5	-1,3	-5,3	12
Mexbol (Mexico)	40076	-0,2	1,9	-2,7	-4
Merval (Argentina)	27683	-1,1	-9,0	-30,4	-9
<b>MSCI EM Europe *</b>	5695	0,2	1,8	-3,8	8
Poland	2104	-0,2	1,9	-9,9	-8
Micex 10 (Russia)	4604	-0,2	1,7	-2,5	10
Ise 100 (Turkey)	97276	2,0	1,6	-6,0	7
<b>MSCI EM Asia *</b>	808	-0,7	1,4	-5,4	3
Shanghai Com (China)	2897	0,5	2,6	-0,9	16
Jakarta (Indonesia)	6256	0,0	0,0	-2,3	1
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>					
JPM	128,8	-1,2	-0,4	-11,1	11
Citi	107,1	-1,5	-0,6	-8,4	10
Citi	63,2	-1,1	-0,4	-13,4	21
BoA	26,9	-1,0	-0,4	-12,2	9
MS	39,8	-1,2	-0,4	-12,5	0
GS	199,9	-1,3	0,2	-10,0	20
<b>EZ banks</b>					
BNP	66,1	-1,1	0,4	-9,2	-4
BNP	40,3	-1,6	-0,8	-6,2	2
Crédit Agricole	10,2	-1,0	-0,8	-8,1	8
Deutsche Bank	6,4	-1,4	3,6	-8,9	-8
ING	8,5	-1,3	-1,4	-17,7	-10
Intesa	1,9	-1,2	2,0	-5,7	-1
SG	22,5	-0,2	2,1	-2,7	-19
Unicredito	9,6	-1,2	1,1	-15,8	-3
<b>UK banks</b>					
HSBC	589,0	-0,8	-1,4	-10,3	-9
RBS	184,1	0,3	1,1	-19,3	-15
Barclays	138,6	-0,5	-0,9	-13,3	-8
Lloyds	50,0	0,6	0,7	-12,2	-4
<b>Large Spanish banks</b>					
Santander	52,6	-1,1	-2,4	-14,0	-10
Santander	3,5	-1,0	-2,6	-15,6	-12
<b>BBVA</b>	4,3	-1,2	-2,1	-12,4	-8
<b>Medium Spanish banks</b>					
Caixabank	41,3	-0,8	-1,4	-14,6	-28
Caixabank	2,0	-0,8	-2,6	-16,4	-35
Sabadell	0,8	-1,4	-1,9	-15,4	-24
Bankinter	5,4	-0,7	-1,3	-14,1	-23
Bankia	1,6	-0,6	0,0	-15,8	-36

### CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1,112	0,4	0,3	-0,2	-3
GBPUSD	1,226	0,1	0,9	-1,8	-4
USDJPY	105,650	0,7	0,7	2,4	4
DXD	97,821	-0,4	-0,3	0,1	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	55,19	-0,1	-0,7	-22,3	-32
USDBRL (Brazil)	4,09	-0,3	-2,0	-7,6	-5
USDCPL (Chile)	716,13	-0,4	-1,1	-3,6	-3
USDCOP (Colombia)	3393	-0,1	1,07	-5,72	-4
USDMXN (Mexico)	19,80	0,1	-0,7	-3,7	-1
USDPEN (Peru)	3,38	-0,1	0,0	-2,5	0
LACI	50,90	-0,2	-0,9	-7,1	-6
USDPLN (Poland)	3,93	0,1	-0,4	-2,9	-5
USDRUB (Russia)	65,91	-0,4	0,9	-4,0	5
USDTRY (Turkey)	5,76	0,2	-3,1	-0,9	-8
USDCNY (China)	7,09	0,0	-0,7	-3,1	-3
USDCNY (India)	71,67	0,2	-0,7	-3,7	-3
USDIDR (Indonesia)	14215	0,2	0,2	-1,5	1
ADXY	102,72	-0,1	-0,4	-2,2	-3

### COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	58,5	-2,3	-0,2	-7	9
WTx	54	-3,3	-2,5	-4	18
Copper	254	-0,5	-1,9	-6	-3
Gold	1528	1,8	0,8	7	19
S&P Spot commodity *	398	-0,5	0,5	-5	6
S&P Brent Spot *	506	-0,6	2,3	-6	11
S&P Metals Spot *	315	-1,0	-1,2	-4	-1
S&P Agricultural *	268	0,3	-1,5	-8	-6

Source: Bloomberg, Datastream and Haver

\* With one day delay