

Market Comment

Financial markets bounce back this week.

- Financial markets recovered from a weak start of the week, ahead of Mr. Powell's speech this afternoon**, led by the resumption of U.S.-China trade negotiations, the withdrawal of the Hong Kong extradition bill, lower hard Brexit risk, the new European-friendly government coalition in Italy and the solid U.S. services sector. The latter was offset by a weaker U.S. factory activity and payrolls ([see](#)).
- Expectations of further monetary policy easing also helped risky assets. Markets assign a 100% probability of 10 bps depo rate cut, but the probability of 20 bps cut remains close to 50%. A 25 bps Fed rate cut is also a virtual certainty in September. Moreover, today the PBoC announced that it will cut the required reserve ratio for all banks, injecting liquidity into an economy facing both a domestic slowdown and trade-war headwinds ([see](#)). In addition, BoJ's Kuroda suggested he is open to lower interest rates further into negative territory.
- Safe-haven assets declined as global market sentiment improved. Yields climbed sharply across the yield curve, especially in longer tenors** (10Y yields: +6.2 bps in the U.S. and +7.3 bps in Germany). In the European peripheral, Italy's risk premium narrowed sharply due to lower political uncertainty (-20 bps to 150) while the risk premium in Spain was broadly unchanged. EM risk premium also narrowed but only partially, reverting the deterioration seen in August.
- In FX markets, safe-haven currencies depreciated** (JPY -0.5%), while the USD halted its recent appreciation trend (-0.7%). **The GBP appreciated (+1.2%), while the implied volatility in the GBPUSD only inched down modestly, suggesting that concerns over the Brexit impact remain in place although the chance of an imminent Brexit has moderated this week.** EM FX appreciated across the board, with more liquid ones appreciating above 2% (TRY +1.9%, MXN +2.4% and BRL +2.1%). The TRY strengthened with positive developments in Turkey's inflation.
- Equity markets increased, with the banking sector outperforming led by a rebound in yields and yield slope**, while implied volatility declined (VIX 16, -3 pts). EM equity outperformed DM markets.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,53	0,4	2,6	-8	-96
US	1,56	0,0	6,2	-18	-113
GER (2-yr)	-0,87	0,2	6,1	-1	-26
Germany	-0,63	-3,3	7,3	-9	-91
France	-0,33	-4,3	6,9	-2	-104
Spain	0,17	-6,7	6,3	0	-125
Italy	0,87	-7,3	-12,6	-55	-187
Portugal	0,19	-5,4	6,9	1	-153
Greece	1,59	0,3	-3,8	-39	-281
Japan (2-yr)	-0,29	-0,9	0,2	-7	-15
Japan	-0,24	2,3	3,2	-5	-24
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,28	-2,0	-14,7	10	-195
Chile	2,38	-0,9	-13,6	-11	-188
Colombia	6,02	-1,2	-3,4	-6	-73
Mexico	6,97	-3,4	-0,9	-36	-167
Peru	3,61	-0,5	-18,7	-27	-175
Poland	1,99	0,8	15,4	-2	-83
Russia	7,14	-0,4	-7,5	-25	-164
Turkey	15,07	14,0	-58,0	39	-73
India	6,60	2,4	4,3	23	-77
Indonesia	7,32	-1,5	-0,8	-18	-70

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	-1,0	-0,4	6	-14
Italy	150	-4,0	-19,9	-46	-96
Portugal	82	-2,1	-0,4	9	-62
Spain	80	-3,4	-1,0	8	-34
2-yr sovereign spread vs Germany					
France	9	-0,1	-0,9	-1	-6
Italy	51	-4,8	-21,1	-32	-58
Portugal	21	-1,3	-7,7	-7	-5
Spain	31	-1,3	-5,0	-3	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	125	-1,8	-13	-12	-82
Chile	32	-1,0	-4	-10	-31
Colombia	83	-3,1	-12	-18	-75
Argentina	5643	-437,2	414	4566	4836
Mexico	101	-3,2	-13	-27	-54
Peru	46	-1,0	-5	-10	-49
Poland	65	-0,1	0	1	-3
Russia	85	-3,1	-15	-24	-69
Turkey	376	-5,7	-55	-13	17
China	41	-2,0	-6	-11	-27
India	66	-1,7	-6	-5	-47
Indonesia	80	-4,1	-12	-15	-58

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	-0,6	-3	-4	-10
VSTOXX	15	-0,6	-3	-6	-9
EM EFT volatility Index	18	-0,2	-2	-6	-7
Dollar/euro volatility	5	-0,2	-1	0	-2
EM FX volatility index	9	-0,1	0	0	-1
Credit spread (BAA) (change in bps)	220	0,0	-6	0	-25
US bonds volatility index	80	-1,7	-7	1	13
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,95	-	-4	-7	-18
EZ Inflation expectations (5Y5Y)	1,24	-	3	5	-37
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	45	-2,1	-5	-10	-37
EZ	62	-1,9	-2	-11	-67
UK	74	-4,2	1	-7	-36
Large Spanish	35	-2,1	-1	-7	-52
Medium Spanish	85	-2,5	-4	2	-27
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	191	-5,8	-3	4	-23
EZ Non-financial	66	-1,3	-1	-10	-31
UK Non-financial	96	-1,3	0	-9	-23

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	0	0	0
Euribor 3m	-0,44	0	0	-5	-13
Euribor 12m	-0,36	2	3	-4	-24
Eonia Swap 3m	-0,51	0	0	-5	-15
Eonia Swap 12m	-0,60	0	2	-3	-25
Libor 3m	2,11	0	-2	-7	-68
Libor 12m	1,90	0	-6	-10	-112

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2977	0,0	1,7	3,2	19
Dow Jones	26783	0,2	1,4	3,0	15
Nikkei	21200	0,5	2,4	3,3	6
FTSE 100	7268	0,0	0,9	1,0	8
EuroStoxx 50	3491	0,2	1,9	5,5	16
IBEX	8984	-0,1	1,9	2,7	5
DAX	12171	0,4	1,9	4,5	15
CAC	5598	0,1	2,1	6,3	18
MIB	21965	0,0	3,0	6,9	20
ASE Athens	869	-0,6	0,1	3,8	42
MSCI Latam *	92644	1,0	2,0	0,3	7
Ibovespa (Brazil)	102888	0,6	1,7	0,1	17
Mexbol (Mexico)	42856	0,3	0,5	6,0	3
Merval (Argentina)	26932	0,0	9,4	-34,2	-11
MSCI EM Europe *	5902	0,7	3,0	2,5	12
Poland	2121	0,7	-0,7	-0,8	-7
Micex 10 (Russia)	4807	-0,3	2,1	3,2	15
Ise 100 (Turkey)	99206	-1,1	2,6	1,2	9
MSCI EM Asia *	830	1,2	2,9	4,3	6
Shanghai Com (China)	3000	0,5	3,9	8,3	20
Jakarta (Indonesia)	6309	0,6	0,3	3,1	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	134,7	-0,3	2,0	2,1	16
JPM	112,5	0,1	2,4	4,1	15
Citi	66,1	-0,4	2,7	1,4	27
BoA	27,9	-0,8	1,4	0,0	13
MS	42,3	-0,4	2,0	4,3	7
GS	207,0	0,0	1,5	0,6	24
EZ banks	70,9	0,4	4,4	7,0	3
BNP	42,5	0,0	3,5	6,3	8
Crédit Agricole	10,7	0,4	3,1	6,0	14
Deutsche Bank	7,1	0,0	7,9	7,6	2
ING	9,1	1,1	5,0	4,5	-3
Intesa	2,1	0,5	3,7	8,2	7
SG	24,1	-0,2	4,7	9,2	-13
Unicredito	10,7	0,2	6,4	9,6	8
UK banks	67,4	-0,2	1,3	-4,3	-7
HSBC	600,0	0,2	1,5	-4,4	-7
RBS	187,6	-1,5	1,1	-8,2	-13
Barclays	140,1	0,2	2,5	-5,1	-7
Lloyds	50,0	-0,1	0,3	-0,5	-4
Large Spanish banks	54,2	-0,1	3,4	-0,2	-7
Santander	3,5	0,0	2,5	-2,4	-11
BBVA	4,5	-0,1	4,2	1,9	-3
Medium Spanish banks	42,7	-0,9	3,2	-2,0	-26
Caixabank	2,1	-0,7	4,1	-2,7	-32
Sabadell	0,8	-0,9	3,1	4,0	-20
Bankinter	5,5	-1,4	3,1	-5,2	-22
Bankia	1,7	0,1	3,1	-0,2	-33

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,104	0,1	0,6	-1,4	-4
GBPUSD	1,231	-0,2	1,2	1,3	-4
USDJPY	106,770	0,2	-0,5	-0,5	3
DXY	98,237	-0,2	-0,7	0,7	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	55,78	0,4	6,7	-18,3	-32
USDBRL (Brazil)	4,06	1,3	2,1	-2,2	-4
USDCLP (Chile)	710,79	0,6	1,5	0,7	-2
USDCOP (Colombia)	3359	0,6	2,47	2,63	-3
USDMXN (Mexico)	19,58	0,8	2,4	0,2	0
USDPEN (Peru)	3,35	0,3	1,2	1,0	0
LACI	51,24	1,0	2,7	-2,4	-6
USDPLN (Poland)	3,93	0,0	1,3	-1,9	-5
USDRUB (Russia)	65,82	0,6	1,4	-0,7	5
USDTRY (Turkey)	5,72	-0,5	1,9	-4,0	-8
USDCNY (China)	7,12	0,4	0,5	-0,8	-3
USDCNR (India)	71,73	0,2	-0,4	-1,2	-3
USDIDR (Indonesia)	14101	0,4	0,7	0,9	2
ADXY	102,88	0,3	0,6	-0,3	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	60,0	-1,5	-0,7	7	12
WTx	55	-1,9	0,2	8	22
Copper	261	-0,4	3,2	2	-1
Gold	1519	0,0	-0,1	1	18
S&P Spot commodity *	404	0,1	1,8	4	8
S&P Brent Spot *	519	0,4	2,9	9	13
S&P Metals Spot *	325	0,7	2,2	4	2
S&P Agricultural *	262	0,1	-1,2	-6	-8

Source: Bloomberg, Datastream and Haver

* With one day delay