

## Market Comment

## Financial markets find support in the relief of trade tensions and ECB stimulus.

- ECB delivered a strong stimulus package. The European monetary authority cut deposit rates by 10bps to -0.50% and announced the adoption of a two-tier deposit system for banks' reserve remuneration, in which part of the banks' holding of excess liquidity will be exempt from negative deposit rates. The ECB will resume quantitative easing measures in November, with an open-ended package amounting to EUR 20bn-worth of net asset purchase program per month. The Central Bank also improved the cost for the banks of the new TLTRO III, eliminating the +10bps spread over the main refinancing operation interest rates previously announced, and for banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The ECB also extend the maturity of the operations from two to three years. Although the magnitude of the deposit interest cut is below our expectations (-10bps, vs -20bps expected) and the amount of the net asset purchase also came short of our expectations and those of the market (EUR 20bp vs 25-30bps), these two factors were offset by a strong forward guidance in interest rates -the ECB opened the door to further interest rate cuts and linked interest rate hike to inflation- and unlimited time (open-ended) of the quantitative easing measures (APP). Regarding the economic projection. The ECB slightly revised downwards for growth in 2019-20 (to 1.1% and 1.2%, same as ours) and unchanged for 2021 (1.4%) and significantly lower for inflation (to 1.2%, 1% and 1.5% in 2019-21). Draghi suggested they are far from target. Risks remain downwards. This scenario does not incorporate a hard Brexit and excludes the trade escalation recently announced.
- US-China trade tensions eases slightly. Following China's decision to exempt 16 types of US products, President Trump said he would delay tariff hikes by two weeks on Chinese goods. The two countries seem to be lowering tensions ahead of a scheduled face-to-face talk in Washington in early October. Moreover, media reported that the US is considering an interim trade deal with China that delay tariff. However, investors remain cautiously optimistic regarding trade measures.
- On the economic front US core inflation rose above expectations (2.4% YoY, consensus 2.3% YoY, previous 2.2% YoY) while headline inflation was slightly lower (1.7% YoY, consensus 1.8% YoY, previous 1.8% YoY).
- The German bund swung sharply after the ECB's bold actions. The German 10Y yield declined 6bps right after the ECB's announcement, but recovered after Draghi's press conference ended, while the German 2Y yield surged 9bps led by market inflation expectations (5y5Y euro inflation up +9bps to 1.3%). Yet ECB easing measures boosted peripheral mid- and long-end bonds Italy's 10Y yield declined more than 13bps, with its risk premium declining in the same portion to 140bps. Yield declines in both Portugal and Spain were more contained (-4bps). Nonetheless, short-term peripheral yields increased across the board as Tier deposit may diminish the demand in this tenor.
- The euro also fluctuated. After the ECB decision, it depreciated 0.9% but trimmed decline ahead of next week's FOMC monetary policy decision. Market price in 100% probability of 25bps Fed interest rate cut. EM currencies appreciated, especially the Turkish lira (+1.6%) after the Turkey's Central Bank reduced the key rate to 16.5% from 19.75%, more than expected but the CBRT justified the movement with a faster than expected decline in inflation.
- Equity market increased slightly across the board, due to easing trade tensions and bold actions by the ECB. Nonetheless, defensive sectors led the upward trend. Oil prices declined as the US is mulling over to easing Iran sanctions.

UPDATE 17:45 CET 11 SEPTEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.71	3.3	18.1	4	-78
<b>US</b>	1.77	3.3	21.3	7	-91
GER (2-yr)	-0.72	11.8	14.5	15	-11
<b>Germany</b>	-0.52	4.8	7.8	5	-80
France	-0.23	2.8	5.7	8	-94
Spain	0.22	-3.4	-1.4	1	-120
Italy	0.87	-10.4	-7.8	-75	-188
Portugal	0.24	-3.1	-1.3	0	-149
Greece	1.55	-10.4	-3.6	-57	-284
Japan (2-yr)	-0.28	-0.7	1.0	1	-13
<b>Japan</b>	-0.21	-1.3	4.8	2	-22
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.32	0.0	1.5	13	-192
Chile	2.45	-0.5	6.7	-10	-180
Colombia	6.06	-1.4	2.0	3	-70
Mexico	7.14	-4.0	14.2	-6	-150
Peru	3.59	-0.3	-2.0	-8	-177
Poland	2.02	-5.1	3.9	15	-80
Russia	7.12	-3.4	-2.4	-27	-166
Turkey	14.57	-60.0	-36.0	11	-123
India	6.67	-1.3	8.9	14	-70
Indonesia	7.26	-2.5	-8.3	-29	-77

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

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	28	-2.0	-2.1	3	-15
Italy	138	-15.2	-15.6	-80	-108
Portugal	75	-7.9	-9.1	-5	-69
Spain	74	-8.2	-9.2	-4	-40
<b>2-yr sovereign spread vs Germany</b>					
France	8	-1.1	-1.0	-3	-7
Italy	51	-0.4	-4.8	-50	-58
Portugal	15	-7.5	-7.9	-15	-11
Spain	25	-8.3	-8.0	-12	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	123	-1.5	-3	-13	-84
Chile	31	-0.3	-2	-12	-32
Colombia	81	-1.4	-6	-20	-78
Argentina	5315	-208.5	-765	3007	4508
Mexico	100	0.2	-5	-25	-55
Peru	43	-1.8	-4	-15	-51
Poland	65	-0.1	0	0	-3
Russia	82	-2.7	-6	-31	-72
Turkey	392	-3.0	10	-7	32
China	40	-0.1	-3	-14	-28
India	65	0.3	-3	-10	-48
Indonesia	77	-0.1	-6	-21	-60

### RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.4	-2	-3	-11
VSTOXX	14	-1.0	-1	-4	-9
EM EFT volatility Index	17	-0.3	-1	-6	-8
Dollar/euro volatility	5	-0.7	0	0	-2
EM FX volatility index	8	0.0	0	0	-2
Credit spread (BAA) (change in bps)	217	-3.3	-12	-3	-29
US bonds volatility index	77	-0.1	-3	-1	10
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.00	-	4	4	-13
EZ Inflation expectations (5Y5Y)	1.30	-	5	6	-30
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	44	0.1	-4	-12	-38
EZ	63	0.3	-2	-21	-66
UK	70	-1.0	-8	-10	-40
Large Spanish	37	-0.2	0	-7	-50
Medium Spanish	87	-0.7	0	1	-25
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	180	-4.7	-16	-26	-33
EZ Non-financial	65	0.1	-2	-10	-31
UK Non-financial	96	0.4	-1	-8	-23

### INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	-1	-1	-1
Euribor 3m	-0.43	0	1	-3	-12
<b>Euribor 12m</b>	-0.37	0	0	-2	-26
Eonia Swap 3m	-0.46	4	5	0	-10
<b>Eonia Swap 12m</b>	-0.52	8	9	7	-16
Libor 3m	2.13	0	2	-4	-67
Libor 12m	2.01	0	7	-2	-100

### STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3013	0.4	1.2	3.0	20
Dow Jones	27231	0.3	1.9	3.6	17
Nikkei	21760	0.7	3.2	6.4	9
FTSE 100	7345	0.1	1.0	1.3	9
<b>EuroStoxx 50</b>	3539	0.6	1.6	5.4	18
IBEX	9082	0.3	1.0	4.5	6
DAX	12410	0.4	2.3	5.6	18
CAC	5643	0.4	0.9	5.2	19
MIB	22083	0.9	0.6	7.5	21
ASE Athens	851	-0.8	-2.8	3.9	39
<b>MSCI Latam *</b>	93587	0.5	2.0	2.6	8
Ibovespa (Brazil)	104505	1.0	2.2	1.2	19
Mexbol (Mexico)	42684	-0.2	-0.1	8.1	3
Merval (Argentina)	28530	-0.3	5.9	-6.0	-6
<b>MSCI EM Europe *</b>	5968	0.9	1.8	3.8	13
Poland	2189	0.0	3.9	2.3	-4
Micex 10 (Russia)	4822	-0.3	0.0	3.8	15
Ise 100 (Turkey)	102447	0.5	2.2	3.1	12
<b>MSCI EM Asia *</b>	840	0.8	2.4	4.9	7
Shanghai Com (China)	3031	0.7	1.5	8.4	22
Jakarta (Indonesia)	6342	0.1	1.2	1.5	2
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	141.4	0.3	4.6	7.1	22
JPM	117.6	0.3	4.6	7.5	20
Citi	69.2	0.4	4.3	6.7	33
BoA	29.5	0.1	4.8	6.3	20
MS	44.0	0.0	3.5	8.0	11
GS	219.1	1.1	5.8	7.3	31
<b>EZ banks</b>	73.8	0.1	4.5	11.8	7
BNP	44.2	-0.1	4.2	9.6	12
Crédit Agricole	11.2	0.2	4.5	10.1	18
Deutsche Bank	7.4	-0.9	4.7	16.3	6
ING	9.6	-0.6	5.9	10.7	2
Intesa	2.1	0.7	3.2	12.5	9
SG	25.6	-0.4	5.7	14.2	-8
Unicredito	11.0	2.1	2.8	15.1	11
<b>UK banks</b>	70.7	-0.4	4.6	2.8	-3
HSBC	626.2	0.1	4.6	1.9	-3
RBS	197.9	-1.0	3.9	-2.4	-9
Barclays	148.7	0.0	6.4	5.4	-1
Lloyds	51.9	-1.3	3.8	6.1	0
<b>Large Spanish banks</b>	57.2	0.8	5.4	6.3	-2
Santander	3.7	0.5	5.7	3.8	6
<b>BBVA</b>	4.7	1.1	5.2	8.6	2
<b>Medium Spanish banks</b>	44.8	-0.5	4.0	7.0	-22
Caixabank	2.2	-0.9	3.8	7.7	-29
Sabadell	0.8	-1.1	4.4	11.1	-15
Bankinter	5.9	0.5	6.1	7.1	-16
Bankia	1.7	-1.7	0.0	2.6	-34

### CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.107	0.5	0.3	-0.9	-3
GBPUSD	1.235	0.2	0.2	2.4	-3
USDJPY	107.990	-0.2	-1.0	-1.2	2
DXJ	98.318	-0.3	-0.1	0.5	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	56.19	0.0	-0.3	-1.0	-33
USDBRL (Brazil)	4.06	0.1	1.2	-2.3	-4
USDCLP (Chile)	709.33	0.8	0.8	-0.6	-2
USDCOP (Colombia)	3356	0.6	0.74	1.68	-3
USDMXN (Mexico)	19.43	0.4	1.6	-0.3	1
USDPEN (Peru)	3.33	0.1	0.9	1.5	1
LACI	51.36	0.2	1.2	-0.9	-5
USDPLN (Poland)	3.92	0.6	0.4	-1.0	-5
USDRUB (Russia)	64.79	1.1	2.2	0.2	7
USDTRY (Turkey)	5.66	1.5	0.5	-1.7	-7
USDCNY (China)	7.08	0.5	1.0	-0.5	-3
USDINR (India)	71.14	0.8	1.0	0.4	-2
USDIDR (Indonesia)	13994	0.5	1.2	2.4	3
ADXJ	103.55	0.6	1.0	0.1	-2

### COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	59.8	-1.7	-2.0	-3	11
WTX	55	-2.0	-2.9	-4	20
Copper	261	0.4	-0.6	-1	-1
Gold	1503	0.4	-1.1	0	17
S&P Spot commodity *	404	-1.5	0.0	0	8
S&P Brent Spot *	513	-2.8	-1.1	-1	12
S&P Metals Spot *	327	-0.3	0.7	2	2
S&P Agricultural *	266	-0.3	1.6	-2	-6

Source: Bloomberg, Datastream and Haver

\* With one day delay