

Market Comment

Risky assets get boost by easing trade tensions and Central banks actions

- Market risk-on mood improved slightly during the week, led by easing trade tensions (see), the approval of a comprehensive easing package by the ECB (see) and upward surprise in US core inflation figures.
- The US Core CPI increased more than expected in August, suggesting inflation slowdown is transitory (2.4% YoY, consensus 2.3% YoY, previous 2.2% YoY), while energy prices continued to be a drag on headline CPI. Going forward, we expect these headwinds to abate, pushing prices closer to 2.0%. More importantly, at 2.4% YoY, core inflation is edging much closer to the Fed's target. Notwithstanding the structural challenge of persistent undershooting of the 2.0%, this report should give the Fed confidence that the inflation slowdown is transitory.
- Safe-haven bond yields in the US and Germany extended the rally that began last week after trade talks with China resumed, but interest rates are still below July's end levels. Both 10Y German and US Treasury yields swung sharply, declining after the ECB reinforced its forward guidance (ECB to sustain low interest rates and APP until inflation clearly trends toward 2%), but both (and the whole yield curves) recovered and ended higher in the week (10Y yields +23bps in US and +14bps in Germany), on the back of higher risk-on mood linked to easing trade tensions and some hopes that support from central banks would help to boost inflation (inflation expectations surged +7bps in the Eurozone and 5bps in the US).
- The 2Y yields rose across the board (+19bps in US and +17bps in Germany), yield curve flattens. Part of this movement was led by the increase in the US core CPI, which moderated markets' expectation of a more than 25bps cut in Fed interest rates this year (market implied probability of 25bps rate cut in September is 100%, but the probability of an additional rate cut this year declined to 70%). Markets have also moderated expectations for a further ECB deposit rate cut this year (probability of an additional 10bp depo cut is around 30% vs 78% last week, while 12-month Euribor increased by 5bp to -0.32%). In addition, in Europe, the introduction of the new tiering deposit system will make some peripheral banks, which have some room to park cash at the ECB at 0%, less prone to buy at the short end of the yield curve. The restart of ECB QE favored some tightening of peripheral bonds spread, Spanish and Portuguese risk premia narrowed by 5 bps (to 76bps and 77bps respectively) while the Italian risk premium tightened by -10bps (to 142bps). Central banks' support also benefited corporate and EM sovereign risk premia (HY spread narrowed by -11bps, EMBIG by -10bps).
- FX: the JPY and the USD depreciated on the back of lower risk aversion, while the EUR finally appreciated by +0.3% to 1.11 vs USD (after a short-lived depreciation following the ECB decision). The GBP remained broadly steady, but its volatility continued at high levels. Importantly, amid easing trade tensions, the RMB depreciated while EM slightly appreciated.
- The equity market increased across the board. The banking sector outperformed, especially European small banks, benefiting more from the tier system. Oil prices declined as the US is mulling over to easing Iran sanctions.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.73	1.1	19.0	15	-76
US	1.80	2.5	23.6	22	-89
GER (2-yr)	-0.70	1.9	16.6	17	-9
Germany	-0.50	1.4	13.6	11	-78
France	-0.21	2.2	12.6	16	-92
Spain	0.26	4.1	8.9	12	-115
Italy	0.92	4.9	3.9	-59	-183
Portugal	0.27	3.6	7.8	10	-145
Greece	1.62	6.1	2.1	-43	-278
Japan (2-yr)	-0.24	3.4	5.3	3	-10
Japan	-0.15	5.9	8.4	7	-16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.30	0.0	-1.6	4	-194
Chile	2.45	0.1	6.8	-7	-180
Colombia	6.03	-0.1	1.6	7	-72
Mexico	7.18	0.0	21.4	-6	-147
Peru	3.59	-0.4	-1.0	-9	-177
Poland	2.08	5.8	6.4	32	-74
Russia	7.11	-1.2	-3.6	-31	-167
Turkey	14.57	0.0	-50.0	11	-123
India	6.64	-3.3	3.3	0	-73
Indonesia	7.19	-6.5	-13.3	-27	-83

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	0.8	-1.0	5	-14
Italy	142	3.5	-9.7	-70	-104
Portugal	77	2.2	-5.8	-1	-67
Spain	76	2.7	-4.7	1	-37
2-yr sovereign spread vs Germany					
France	7	-1.0	-2.0	-4	-8
Italy	53	2.6	1.9	-41	-55
Portugal	15	0.2	-6.6	-14	-11
Spain	26	1.3	-5.2	-9	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	119	-4.1	-6	-14	-88
Chile	30	-1.0	-2	-10	-33
Colombia	79	-2.3	-5	-19	-80
Argentina	5452	137.4	-191	2491	4646
Mexico	99	-0.7	-2	-19	-56
Peru	42	-1.2	-4	-13	-53
Poland	65	0.0	0	0	-3
Russia	79	-2.5	-6	-25	-75
Turkey	373	-18.5	-3	-21	14
China	38	-1.9	-3	-14	-30
India	65	0.1	-1	-10	-48
Indonesia	76	-1.8	-4	-19	-62

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	-0.3	-1	-8	-11
VSTOXX	14	-0.5	-1	-8	-10
EMEFT volatility Index	17	0.1	-1	-10	-8
Dollar/euro volatility	5	-0.2	0	-1	-2
EM FX volatility index	8	-0.1	0	-1	-2
Credit spread (BAA) (change in bps)	210	-7.3	-15	-15	-36
US bonds volatility index	78	0.9	-1	-10	11
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.03	-	8	12	-11
EZ Inflation expectations (5Y5Y)	1.30	-	6	9	-30
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	42	-1.3	-3	-13	-40
EZ	59	-3.3	-3	-24	-70
UK	67	-2.4	-7	-14	-42
Large Spanish	34	-2.7	-1	-9	-53
Medium Spanish	87	-0.5	1	-1	-26
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	177	-3.8	-14	-34	-37
EZ Non-financial	63	-2.1	-3	-11	-34
UK Non-financial	95	-1.2	-1	-8	-24

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	-1	-1
Euribor 3m	-0.40	3	4	1	-9
Euribor 12m	-0.33	5	3	3	-21
Eonia Swap 3m	-0.45	1	6	1	-9
Eonia Swap 12m	-0.52	0	9	7	-16
Libor 3m	2.13	0	3	-3	-67
Libor 12m	2.01	0	12	4	-100

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3010	0.0	1.1	6.0	20
Dow Jones	27257	0.3	1.7	7.0	17
Nikkei	21988	1.1	3.7	6.5	10
FTSE 100	7354	0.1	1.0	2.9	9
EuroStoxx 50	3549	0.3	1.5	7.9	18
IBEX	9118	0.4	1.4	7.0	7
DAX	12465	0.4	2.2	8.5	18
CAC	5656	0.2	0.9	7.7	20
MB	22185	0.5	1.1	10.8	21
ASE Athens	857	0.7	-1.5	7.2	40
MSCI Latam *	94052	0.5	1.5	2.2	9
Ibovespa (Brazil)	104382	0.0	1.4	4.1	19
Mexbol (Mexico)	42925	0.6	0.5	11.1	3
Merval (Argentina)	29384	0.9	6.2	-1.8	-3
MSCI EM Europe *	5941	-0.5	0.7	3.4	12
Poland	2199	0.5	3.6	5.8	-3
Micex 10 (Russia)	4793	-0.6	-0.3	4.9	14
Ise 100 (Turkey)	103046	0.6	4.1	3.7	13
MSCI EM Asia *	841	0.1	1.4	6.0	8
Shanghai Com (China)	3031	0.0	1.1	7.9	22
Jakarta (Indonesia)	6335	-0.7	0.4	2.0	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	143.3	1.0	6.5	13.6	24
JPM	119.1	1.0	5.7	13.6	22
Citi	70.2	1.3	6.4	14.3	35
BoA	30.0	1.0	8.1	13.5	22
MS	44.8	1.2	6.3	14.0	13
GS	219.8	0.5	6.1	12.4	32
EZ banks	75.5	2.2	6.6	17.7	9
BNP	45.0	1.8	6.0	14.5	14
Crédit Agricole	11.4	1.8	6.0	14.3	20
Deutsche Bank	7.6	2.6	7.0	25.9	9
ING	9.8	2.3	7.8	16.6	4
Intesa	2.2	2.5	5.3	17.9	12
SG	26.0	1.8	7.8	21.2	-6
Unicredit	11.4	3.5	6.9	23.7	15
UK banks	73.0	3.3	8.2	8.0	0
HSBC	630.0	0.6	4.8	4.6	-3
RBS	208.7	5.5	11.0	5.2	-4
Barclays	156.0	4.9	11.3	12.4	4
Lloyds	54.2	4.4	8.4	11.4	5
Large Spanish banks	58.2	1.7	7.2	11.3	0
Santander	3.8	1.7	7.4	9.4	-5
BBVA	4.8	1.7	7.1	13.3	4
Medium Spanish banks	46.7	4.1	9.4	16.4	-19
Caixabank	2.4	6.4	11.6	18.5	-25
Sabadell	0.9	6.4	12.7	24.2	-10
Bankinter	6.0	2.8	9.8	15.7	-14
Bankia	1.7	2.4	3.6	10.6	-32

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.107	0.0	0.3	-0.7	-3
GBPUSD	1.243	0.8	1.2	3.1	-3
USDJPY	108.120	0.0	-1.1	-2.0	1
DXY	98.278	0.0	-0.1	0.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	56.17	-0.1	-0.6	6.9	-33
USDBRL (Brazil)	4.05	0.3	0.3	0.0	-4
USDCPL (Chile)	706.97	0.4	0.7	0.6	-2
USDCOP (Colombia)	3349	0.5	0.21	3.28	-3
USDMXN (Mexico)	19.37	0.3	0.8	1.6	1
USDPEN (Peru)	31.52	0.3	0.8	2.5	2
LACI	51.50	0.6	0.5	1.5	-5
USDPLN (Poland)	3.90	0.4	0.7	0.3	-4
USDRUB (Russia)	64.30	0.8	2.3	2.8	8
USDTRY (Turkey)	5.68	-0.4	0.5	-1.2	-7
USDCNY (China)	7.08	0.0	0.5	-0.8	-3
USDINR (India)	70.93	0.3	1.1	0.5	-2
USDIDR (Indonesia)	13967	0.2	1.0	2.0	3
ADXY	103.52	0.0	0.6	0.6	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	60.2	-0.3	-2.2	1	12
WTx	55	-0.5	-3.0	-1	21
Copper	267	1.9	2.2	3	2
Gold	1498	-0.1	-0.6	-1	17
S&P Spot commodity *	408	-0.2	-0.3	1	8
S&P Brent Spot *	508	-1.1	-3.1	1	11
S&P Metals Spot *	327	0.0	0.6	3	2
S&P Agricultural *	272	2.1	4.2	1	-4

Source: Bloomberg, Datastream and Haver

* With one day delay