

Market Comment

Financial markets find support in Central banks.

- Equity rally while bond yield remained broadly steady as several central banks signaled a potential easing if needed.
- The Federal Reserve cut interest rate by 25bps p to 1.75-2.0% yesterday, as expected**, and made minor changes in the statement. Economic projections were little changed (2019 GDP 2.2% +0.1pp). Although median projection of the Fed Funds signaled no additional cuts, reflecting divided Board, a growing faction on the committee expecting one additional cut. Moreover, Mr. Powell left the door open for further cuts if needed. The Fed did not add additional measures to cope with the surge in repo markets, falling short of market expectations. However, Fed Chairman said in the short-term, resuming "organic" balance sheet growth and a repo facility could be needed (see). Regarding this, The Fed was forced to intervene again today (for the third day in a row) to address liquidity constraint in repo markets, injecting \$75bn in an oversubscribed auction.
- Other Central banks hinted potential easing actions.** Following the Fed, Bank of Japan today left the monetary policy unchanged but hinted potential increase in stimulus in October. The Bank of England tone was dovish, saying global growth and Brexit uncertainties weighed on UK growth, while hard-Brexit would worsen the problem. On the other hand, Swiss National Bank offered banks additional relief from its negative interest rates, increasing the amount of reserves that are not charged at negative rates.
- The US and Chinese officials will resume talks today**, aiming at finding a common ground on agriculture and intellectual property ahead of October high-level official meeting.
- Activity remain robust in the US**, today housing figures and Philadelphia Fed business outlook were above expectations, while weekly jobless claims grew less than expected. However, the OECD cut its world economic outlook below 3% (to 2.9 from 3.2%) due to trade conflict. This would be the weakest annual growth rate since the financial crisis, with downside risks continuing to mount.
- Sovereign yields were broadly steady**, as well as the peripheral risk premium
- Equity market rebounded, led by the banking sector in Europe**, while the declined equity volatility suggests the improvement in market mood. The European banks requested Eur 3.4bnt at today's first TLTROIII, which is a low demand compared to previous auctions.
- In FX, US dollar inched down, while JPY appreciated after the BoJ failed to cut rate today, while most EM slightly depreciated, especially the BRL as the central bank signaled further easing after cutting interest rate Yesterday
- Brent prices increased 1.6%. Although Saudi Arabia said that oil production should be restored by the end of the month, concerns about potential actions against Iran keep the volatility in this market

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.74	-2.2	2.1	23	-75
US	1.77	-2.6	-0.2	21	-91
GER (2-yr)	-0.72	0.3	-0.1	18	-11
Germany	-0.51	0.3	0.9	14	-79
France	-0.21	1.2	2.1	20	-92
Spain	0.25	2.1	2.8	15	-117
Italy	0.89	0.9	1.8	-49	-186
Portugal	0.27	2.4	3.0	14	-146
Greece	1.38	-2.5	-17.4	-62	-302
Japan (2-yr)	-0.29	-2.3	-1.6	0	-15
Japan	-0.21	-3.0	0.0	2	-22
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.10	-6.6	-20.2	-20	-214
Chile	2.49	0.0	4.2	-2	-176
Colombia	6.01	-0.5	-2.7	9	-75
Mexico	7.07	-9.5	-10.5	1	-157
Peru	3.75	1.1	15.1	-3	-162
Poland	2.06	-1.2	4.0	21	-76
Russia	7.14	-1.6	1.6	-23	-164
Turkey	14.53	16.0	-4.0	-134	-127
India	6.64	1.8	-2.6	6	-73
Indonesia	7.24	-0.6	-1.9	-12	-79

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	0.9	1.2	6	-13
Italy	139	0.6	0.9	-63	-107
Portugal	77	2.1	2.1	0	-67
Spain	76	1.8	1.9	1	-38
2-yr sovereign spread vs Germany					
France	6	0.1	-2.6	-6	-10
Italy	48	-0.6	-2.5	-45	-60
Portugal	19	-1.4	4.2	-13	-7
Spain	26	0.6	1.3	-10	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	119	-3.1	-5	-21	-89
Chile	31	-1.2	0	-7	-32
Colombia	79	-0.6	-2	-22	-80
Argentina	5373	-259.4	59	1925	4567
Mexico	100	-2.7	0	-18	-55
Peru	43	-0.8	0	-9	-51
Poland	64	-0.3	-1	-1	-4
Russia	75	-1.7	-7	-25	-79
Turkey	372	-4.3	-20	-30	12
China	39	-0.2	-1	-10	-29
India	65	0.4	0	-9	-48
Indonesia	77	-0.1	0	-16	-60

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0.0	0	-4	-12
VSTOXX	15	-0.7	0	-4	-9
EMEFT volatility Index	17	0.0	1	-3	-8
Dollar/euro volatility	5	-0.2	-1	-1	-2
EM FX volatility index	8	0.0	0	-1	-2
Credit spread (BAA) (change in bps)	221	2.6	-3	-8	-25
US bonds volatility index	80	-5.1	2	-7	13
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1.97	-	-4	6	-17
EZ Inflation expectations (5Y5Y)	1.27	-	-3	4	-33
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	2.2	6	-6	-34
EZ	52	0.0	0	-11	-53
UK	53	0.4	-2	-8	-41
Large Spanish	37	2.1	0	-2	-50
Medium Spanish	87	2.0	0	0	-25
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	198	14.2	18	-1	-15
EZ Non-financial	65	0.3	0	-7	-32
UK Non-financial	96	0.8	0	-5	-23

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.46	0	-9	-9	-10
Euribor 3m	-0.40	0	4	3	-9
Euribor 12m	-0.30	0	7	9	-19
Eonia Swap 3m	-0.45	1	2	3	-9
Eonia Swap 12m	-0.52	1	0	11	-16
Libor 3m	2.16	0	4	1	-64
Libor 12m	2.06	0	6	11	-95

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3014	0.2	0.1	3.9	20
Dow Jones	27208	0.2	0.1	4.8	17
Nikkei	22044	0.4	1.3	6.6	10
FTSE 100	7356	0.6	0.2	3.2	9
EuroStoxx 50	3553	0.7	0.4	6.0	18
IBEX	9136	1.2	0.6	6.0	7
DAX	12458	0.5	0.4	6.9	18
CAC	5659	0.7	0.3	5.9	20
MI	22128	0.8	0.2	8.0	21
ASE Athens	874	0.2	2.7	5.3	42
MSCI Latam *	94622	-0.3	1.1	5.8	10
Ibovespa (Brazil)	105209	0.6	0.8	6.0	20
Mexbol (Mexico)	43107	0.1	1.0	8.6	4
Merval (Argentina)	30031	-0.1	-3.1	10.3	-1
MSCI EM Europe *	5996	0.2	0.5	6.4	13
Poland	2192	-0.6	0.1	3.9	-4
Micex 10 (Russia)	4827	-0.7	0.1	4.9	15
Ise 100 (Turkey)	100339	-1.6	-2.1	4.5	10
MSCI EM Asia *	840	0.3	0.0	3.4	7
Shanghai Com (China)	2999	0.5	-1.1	4.1	20
Jakarta (Indonesia)	6244	0.1	-2.2	-0.8	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
US banks	142.8	-0.1	0.7	10.9	23
JPM	119.9	0.1	1.7	11.8	23
Citi	70.1	0.0	1.1	10.5	35
BoA	29.9	-0.2	0.9	12.0	21
MS	44.3	-0.2	-0.1	10.9	12
GS	216.2	-0.4	-1.1	8.1	29
EZ banks					
EZ banks	74.7	2.1	1.1	13.5	8
BNP	44.8	2.2	1.2	10.4	13
Crédit Agricole	11.3	1.9	0.9	11.1	19
Deutsche Bank	7.4	2.1	-0.7	16.9	6
ING	9.6	2.0	0.6	13.5	2
Intesa	2.2	1.8	2.0	13.7	12
SG	26.0	2.7	1.7	17.6	-7
Unicredito	11.2	2.3	1.5	16.8	13
UK banks					
UK banks	71.8	1.5	1.6	7.4	-2
HSBC	616.0	1.0	-1.6	3.2	-5
RBS	208.0	1.7	5.1	12.7	-4
Barclays	150.5	1.7	1.2	8.7	0
Lloyds	54.1	2.0	4.1	8.7	4
Large Spanish banks					
Large Spanish banks	57.5	2.4	0.6	10.3	-1
Santander	3.7	2.8	-0.1	6.7	-6
BBVA	4.8	2.0	1.2	13.7	3
Medium Spanish banks					
Medium Spanish banks	46.6	4.6	3.9	14.3	-19
Saixabank	2.4	3.8	6.6	18.6	-24
Sabadell	0.9	4.2	4.6	18.2	-12
Bankinter	6.0	4.5	1.8	12.6	-15
Bankia	1.8	7.9	5.0	11.4	-30

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.104	0.1	-0.2	-0.5	-4
GBPUSD	1.249	0.1	1.2	2.6	-2
USDJPY	107.970	0.4	0.1	-1.6	2
DXY	98.394	-0.2	0.1	0.2	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	56.61	-0.2	-0.9	-3.3	-33
USDBRL (Brazil)	4.14	-0.7	-1.9	-2.0	-6
USDCLP (Chile)	716.11	0.0	-0.9	-0.8	-3
USDCOP (Colombia)	3376	-0.1	-0.32	0.96	-4
USDMXN (Mexico)	19.39	0.1	0.2	2.0	1
USDPEN (Peru)	3.35	-0.1	-0.8	0.9	0
LACI	50.94	-0.2	-0.5	-0.4	-6
USDPLN (Poland)	3.93	0.1	-0.3	-0.2	-5
USD RUB (Russia)	63.88	0.5	1.4	4.1	9
USDTRY (Turkey)	5.71	-0.6	-0.9	0.4	-7
USDCNY (China)	7.10	-0.1	-0.2	-0.5	-3
USDINR (India)	71.33	-0.1	-0.3	0.5	-2
USDIDR (Indonesia)	14060	0.0	-0.5	1.5	2
ADXDR	103.16	-0.1	-0.3	0.2	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64.8	1.9	7.4	8	20
WTX	59	1.0	6.5	4	29
Copper	259	-0.1	-1.2	1	-1
Gold	1499	0.3	0.0	-1	17
S&P Spot commodity *	417	-0.9	3.4	4	11
S&P Brent Spot *	533	-1.4	5.1	5	16
S&P Metals Spot *	324	-0.1	-1.0	2	1
S&P Agricultural *	274	0.4	0.6	3	-4

Source: Bloomberg, Datastream and Haver
* With one day delay