

Market Comment

## Bonds regain favor amid geopolitical risks, central bank easing

- Demand for sovereign bonds returned this week, with a heightened geopolitical risk (following the oil field attack), liquidity stress in the US repo market and central banks easing their rhetoric.
- **Oil saw a record jump after Saudi attack:** A coordinated drone attack on Saudi Arabia's key oil production facilities last weekend disrupted around 6% of global supplies, pushing Brent prices up nearly 20% to \$71.9/b. While prices have eased since, uncertainties about how long it would take for Saudi Arabia to restore supply and the geopolitical risk (especially on how Saudi Arabia and the US respond to the attack, which they blame on Iran) may limit the correction.
- **Global central banks maintain easing rhetoric.** After the Fed cut interest rates and left the door open to further cuts this past week ([see](#)), markets still price in 72% probability of a 25bps Fed interest rate cut in December, while expectations for an additional depo rate cut by the ECB remain on the table. Other central banks have also echoed similar messages: The BoJ and BoE hinted at easing measures if needed, while the SNB offered banks additional relief from its negative interest rates. Meanwhile, the Norwegian Central Bank said it is close to ending its tightening cycle. Several EM central banks have also eased monetary policy.
- **The US short term funding markets suffered liquidity stress during the week,** boosting the US repo and leading the Fed to inject short term funds through its system open market operations. The mismatch seems to be caused by an idiosyncratic factor rather than a real cash shortage (a combination of factors took place: tax payments, large Treasury coupon settlement and some disruption in the dollar market due to the oil strike). However, it seems that these types of episodes could be more recurrent in the future due to regulatory limitations for dealers, lower banks reserves and growing Treasury funding needs.
- **On the economic front,** the US economic indicators showed domestic demand remains robust, while EU confidence improved in the Eurozone but is still at low levels. On the contrary, indicators in China pointed to a significant slowdown in economic activities. Regarding global growth OECD its outlook below 3% (to 2.9 from 3.2%) due to trade conflict. These would be the weakest annual growth rates since the financial crisis, with downside risks continuing to mount.
- **Bond yields declined:** The US 10Y fell by 12bps (below 1.80%, while 10 German yield declined -7bps. The Spanish risk premium remained stable, despite the high probability of snap elections, while Italy's widened (by 5 bps to 139) after prospects of further government instability.
- In FX markets the US dollar remained broadly stable as the Fed rate cut this week was already priced in, regardless of the split between Fed members over Wednesday's decision. The GBP appreciated after Juncker said the Brexit deal was possible before October 1, but retreated after as some official downplay expectations. The GBPUSD implied volatility kept increasing, reflecting uncertainty. Most EM FX depreciated, especially the TRY dragged by a surge in oil prices (8% after the attack), while the BRL depreciated sharply (-2%) as the central bank signaled more easing.
- Equity markets showed minor changes, while implied volatility remained contained (VIX 14). European banks requested only EUR 3.4bn at first TLTRO-III, which is a very low demand compared to previous auctions

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.74	-0.1	-6.3	16	-75
<b>US</b>	1.77	-1.4	-12.6	18	-91
GER (2-yr)	-0.72	0.6	-1.1	17	-11
<b>Germany</b>	-0.52	-1.1	-6.9	11	-80
France	-0.22	-0.8	-5.2	18	-93
Spain	0.23	-1.9	-7.2	13	-119
Italy	0.90	1.6	2.0	-43	-184
Portugal	0.24	-2.1	-7.7	11	-148
Greece	1.35	-3.3	-23.8	-65	-305
Japan (2-yr)	-0.29	-0.3	-5.3	1	-15
<b>Japan</b>	-0.21	0.5	-5.4	3	-21
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.10	-6.6	-26.7	-10	-213
Chile	2.49	0.0	-0.8	-1	-176
Colombia	6.00	-0.4	-6.7	5	-75
Mexico	7.00	-4.9	-23.6	-2	-164
Peru	3.76	1.4	12.3	1	-160
Poland	2.03	-2.9	-11.6	8	-79
Russia	7.13	-0.3	1.4	-17	-165
Turkey	14.37	-16.0	-11.0	-150	-143
India	6.79	15.1	15.2	22	-58
Indonesia	7.25	1.0	5.5	-4	-78

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

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	30	0.3	1.7	6	-13
Italy	142	2.7	8.9	-54	-104
Portugal	76	-1.0	-0.8	0	-68
Spain	75	-0.8	-0.3	2	-39
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0.2	0.6	-7	-10
Italy	50	1.7	-1.3	-39	-58
Portugal	18	-0.5	-0.2	-12	-8
Spain	25	-0.8	-5.7	-9	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	117	-1.2	-2	-21	-90
Chile	31	-0.4	1	-8	-32
Colombia	78	-0.5	0	-22	-80
Argentina	5485	111.8	33	2245	4679
Mexico	99	-1.1	0	-19	-56
Peru	44	0.3	1	-9	-51
Poland	64	0.0	-1	-1	-4
Russia	74	-0.9	-6	-27	-80
Turkey	369	-2.6	-4	-42	9
China	39	-0.1	1	-9	-29
India	64	-0.5	-1	-10	-49
Indonesia	77	-0.2	2	-16	-60

### RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0.6	0	-2	-12
VSTOXX	14	-0.9	0	-3	-10
EM EFT volatility Index	17	-0.5	0	-2	-8
Dollar/euro volatility	5	0.0	0	-1	-2
EM FX volatility index	8	0.1	0	0	-2
Credit spread (BAA) (change in bps)	221	1.4	0	-4	-25
US bonds volatility index	78	-1.5	-7	-6	12
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1.99	-	-5	12	-14
EZ Inflation expectations (5Y5Y)	1.26	-	-5	2	-34
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	-0.7	6	-7	-35
EZ	52	0.1	3	-11	-53
UK	53	-0.5	0	-8	-41
Large Spanish	37	0.3	3	-2	-50
Medium Spanish	87	0.3	1	-1	-25
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	206	8.0	29	5	-7
EZ Non-financial	65	0.0	2	-7	-32
UK Non-financial	96	0.0	1	-5	-23

### INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.46	0	-9	-9	-10
Euribor 3m	-0.39	0	1	3	-8
<b>Euribor 12m</b>	-0.30	1	3	10	-18
Eonia Swap 3m	-0.45	0	1	3	-9
<b>Eonia Swap 12m</b>	-0.51	0	0	9	-16
Libor 3m	2.16	0	4	1	-64
Libor 12m	2.06	0	6	12	-95

### STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3015	0.3	0.2	3.1	20
Dow Jones	27184	0.3	-0.1	3.7	17
Nikkei	22079	0.2	0.4	7.1	10
FTSE 100	7367	0.1	0.0	2.3	9
<b>EuroStoxx 50</b>	3574	0.6	0.7	5.3	19
IBEX	9186	0.5	0.5	5.6	8
DAX	12468	0.1	0.0	5.6	18
CAC	5690	0.5	0.6	4.7	20
MIB	22214	0.4	0.1	6.6	21
ASE Athens	876	0.3	2.2	5.2	43
<b>MSCI Latam *</b>	94490	-0.1	0.5	5.7	9
Ibovespa (Brazil)	104522	0.2	1.0	3.3	19
Mexbol (Mexico)	43046	0.1	0.5	7.4	3
Merval (Argentina)	30491	0.3	1.2	9.0	1
<b>MSCI EM Europe *</b>	5949	-0.8	0.1	4.7	13
Poland	2170	-1.0	-1.4	3.1	-5
Micex 10 (Russia)	4807	-0.4	0.2	4.3	15
Ise 100 (Turkey)	100475	0.1	-2.5	5.2	10
<b>MSCI EM Asia *</b>	837	-0.4	-0.5	2.8	7
Shanghai Com (China)	3006	-0.2	-0.8	4.4	21
Jakarta (Indonesia)	6231	-0.7	-1.7	-1.0	1
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	142.9	0.6	-0.8	10.7	23
JPM	119.8	0.4	-0.3	11.4	24
Citi	70.1	0.6	-0.4	10.9	35
BoA	30.0	0.4	-0.7	11.2	22
MS	44.5	1.0	-1.5	11.3	12
GS	216.3	0.5	-1.6	7.8	29
<b>EZ banks</b>	75.1	0.6	-1.0	13.9	9
BNP	45.2	0.9	-0.4	11.2	14
Crédit Agricole	11.3	0.8	-1.3	11.5	20
Deutsche Bank	7.3	-0.4	-4.2	15.5	5
ING	9.7	1.2	-0.9	16.0	4
Intesa	2.2	0.2	-0.7	12.7	12
SG	26.1	0.6	0.6	18.2	-6
Unicredito	11.1	-0.2	-2.8	15.6	13
<b>UK banks</b>	72.5	1.1	-1.0	8.7	0
HSBC	615.8	0.0	-2.4	2.9	-5
RBS	214.9	3.3	2.9	18.1	-1
Barclays	150.6	0.1	-3.8	8.2	0
Lloyds	55.1	1.8	0.8	11.2	6
<b>Large Spanish banks</b>	57.9	0.7	-1.4	10.8	-1
Santander	3.8	0.9	-1.6	7.8	-5
<b>BBVA</b>	4.8	0.5	-1.2	13.6	4
<b>Medium Spanish banks</b>	46.0	-1.2	-2.4	13.1	-20
Caixabank	2.4	0.1	-0.5	19.5	-24
Sabadell	0.9	-0.1	-3.1	18.3	-12
Bankinter	5.9	-2.1	-3.8	10.2	-17
Bankia	1.7	-2.6	-1.4	8.4	-32

### CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.101	-0.3	-0.6	-0.7	-4
GBPUSD	1.248	-0.3	-0.1	2.9	-2
USDJPY	108.010	0.0	0.1	-1.3	2
DXJ	98.575	0.3	0.3	0.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	56.65	-0.1	-0.9	-2.9	-34
USDBRL (Brazil)	4.18	-0.3	-2.2	-3.6	-7
USDCLP (Chile)	717.08	-0.1	-1.4	-0.9	-3
USDCOP (Colombia)	3401	-0.5	-1.09	-0.70	-4
USDMXN (Mexico)	19.46	0.0	-0.3	1.1	1
USDPEN (Peru)	3.36	-0.2	-1.2	0.4	0
LACI	50.68	-0.4	-1.1	-1.1	-7
USDPLN (Poland)	3.98	-1.1	-1.8	-1.4	-6
USDRUB (Russia)	63.99	0.0	0.6	2.8	8
USDTRY (Turkey)	5.75	-0.5	-1.0	-0.5	-8
USDCNY (China)	7.09	0.1	-0.2	-0.4	-3
USDINR (India)	70.95	0.5	0.0	0.9	-2
USDIDR (Indonesia)	14055	0.0	-0.6	1.3	2
ADXY	103.34	0.2	-0.1	0.3	-2

### COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	64.9	0.7	7.7	8	21
WTX	59	1.2	7.2	6	29
Copper	260	0.2	-3.1	1	-1
Gold	1502	0.2	0.9	0	17
S&P Spot commodity *	419	0.4	3.6	5	12
S&P Brent Spot *	539	1.1	6.9	6	18
S&P Metals Spot *	325	0.3	-1.9	2	2
S&P Agricultural *	274	0.1	0.3	3	-4

\* Source: Bloomberg, Datastream and Haver

\* With one day delay