

Market Comment

Sovereign bonds on demand amid disappointing economic data

- Due to technical issues yesterday's report could not be published. Please find today's report with the main financial markets drivers since the weekend.
- Positive news flows on trade talks:** China provided some additional waivers to several domestic state and private companies to buy U.S. soybeans. Meanwhile, the U.S. Treasury Secretary downplayed the cancellation of China's delegation visit to U.S. farms, although it said that China's Vice-Premier Liu He would be heading to Washington the second week of October.
- Manufacturing growth contracted further in the Eurozone:** PMI data were disappointing in September (45.6, consensus 47.3, previous month 47), especially in Germany (41.4, consensus 44, previous 43.5). Ifo business expectations also fell further in Germany to the lowest in a decade this month (90.8, consensus 92, previous 91.3), despite the fact that the business climate improved. On the other hand, the **U.S. manufacturing sector recovered:** PMI improved in September (51, consensus 50.4, previous 50.3) although services PMI moderated (50.9, consensus 51.4, previous 51.4). Meanwhile, U.S. consumer confidence worsened more than expected in September (125.1, consensus 133, previous 134.2).
- Central banks will keep supporting growth:** ECB's Draghi said the monetary authority is ready to cut interest rates again amid a lack of clear signs of economic recovery. Nonetheless, he encouraged governments to step up fiscal policies in those countries with room to do so. In the U.S., officials backed the adoption of a Fed Repo facility that should cap market strains due to liquidity mismatch, whereas Bullard said the Fed may need to ease monetary policy further to offset downside risks. Nonetheless, the PBoC downplayed any expectations of China embarking on an aggressive easing cycle, suggesting that the current monetary policy is appropriate. In this context, regarding market implied expectations of further monetary policy actions, the Fed fund futures priced in a 75% probability of a 25bps cut by the year end, while the OIS curve has postponed the ECB additional deposit cut for next year.
- The 10Y German yield consolidated yesterday's declines** after weak PMI, while the **UST bond dropped 6 bps today, dragged down by the U.S. consumer confidence.** Elsewhere, 10Y peripheral bond yields dropped sharply yesterday with their risk premia narrowing slightly. The Spanish risk premium extended its narrow win today as the **S&P rose Spain's rating one notch to A** with a Stable Outlook as the rating agency considers that Spain's economic growth remains above the EMU average, its fiscal adjustment process remains on track and there is ongoing improvement in the external sector. Currently, Spain's rating is at Baa1 by Moody's and A- by Fitch. Moreover, the yield on the 10Y Italian bond was steady, after declining 9 bps on Monday as the government settled a deficit target of around 2-2.1% of output and a 2020 GDP growth between -0.4% and -0.5%.
- In FX, the **GBP erased yesterday's depreciation after the U.K. Supreme Court declared unanimously that the suspension of Parliament was unlawful.** However, Boris Johnson pledged to leave the UK with or without a deal next month. The USD depreciated slightly against its G10 peers (DXY index -0.1%), trimming yesterday's gains. Meanwhile, EM currencies were mixed with the TRY and MXN appreciating against the USD (+0.3% and +0.1% respectively).
- The Euro Stoxx 50 remained steady after dropping 0.8% yesterday, dragged down by the deterioration of the European manufacturing activity. Moreover, the energy sector underperformed in both Europe and the U.S. as the price of crude oil fell 1.7% as Saudi Arabia is restoring its lost oil output.

UPDATE 17:30 CET 24 SEPTEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,64	-3,7	-8,1	11	-84
US	1,66	-6,2	-13,7	13	-102
GER (2-yr)	-0,74	0,7	-2,2	16	-13
Germany	-0,60	-2,2	-12,9	3	-89
France	-0,30	-1,1	-11,9	8	-101
Spain	0,12	-3,1	-16,8	-2	-130
Italy	0,83	0,0	-9,0	-49	-191
Portugal	0,14	-3,1	-16,8	-2	-158
Greece	1,33	-0,2	-16,9	-62	-307
Japan (2-yr)	-0,32	-2,3	-7,2	-2	-18
Japan	-0,23	-2,7	-8,2	0	-24
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,16	4,8	-2,5	-9	-208
Chile	2,47	-0,7	-2,1	-4	-178
Colombia	5,96	-2,6	-7,4	-2	-80
Mexico	6,86	-3,9	-34,5	-10	-178
Peru	3,71	-2,0	-0,5	-9	-165
Poland	2,05	0,3	-7,9	4	-77
Russia	7,14	0,1	-3,0	-15	-164
Turkey	14,09	-22,0	-53,0	-198	-171
India	6,78	3,2	4,9	21	-59
Indonesia	7,31	4,8	3,7	7	-71

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	1,1	1,0	4	-12
Italy	143	2,2	3,9	-52	-103
Portugal	75	-0,9	-3,9	-5	-69
Spain	72	-0,9	-3,9	-5	-41
2-yr sovereign spread vs Germany					
France	7	0,3	1,4	-4	-9
Italy	52	1,8	2,8	-39	-57
Portugal	18	-2,5	-2,6	-14	-8
Spain	21	-2,1	-5,3	-13	-16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	132	2,0	11	-4	-75
Chile	36	0,9	4	-1	-27
Colombia	91	1,3	11	-6	-68
Argentina	5531	372,4	-751	2519	4725
Mexico	112	1,2	9	-4	-43
Peru	51	0,9	7	1	-44
Poland	71	0,4	6	6	3
Russia	81	0,5	5	-19	-73
Turkey	378	3,4	4	-36	18
China	46	1,5	8	0	-21
India	74	-0,2	10	0	-40
Indonesia	88	0,7	11	-4	-49

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0,4	1	-5	-10
VSTOXX	16	0,4	0	-4	-8
EM EFT volatility Index	17	0,6	0	-6	-8
Dollar/euro volatility	5	0,1	0	-1	-2
EM FX volatility index	8	0,0	0	-1	-2
Credit spread (BAA) (change in bps)	223	6,2	1	-3	-23
US bonds volatility index	81	0,9	-4	-11	14
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,96	-	-8	7	-17
EZ Inflation expectations (5Y5Y)	1,22	-	-9	-4	-39
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	54	0,9	11	2	-28
EZ	58	1,4	8	-1	-46
UK	58	1,5	6	0	-36
Large Spanish	42	1,0	6	5	-46
Medium Spanish	88	0,9	3	1	-24
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	219	1,4	42	18	5
EZ Non-financial	74	1,3	10	4	-23
UK Non-financial	103	0,0	9	4	-15

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,46	0	-9	-10	-10
Euribor 3m	-0,40	0	-1	1	-9
Euribor 12m	-0,32	-1	-1	4	-20
Eonia Swap 3m	-0,46	0	0	2	-10
Eonia Swap 12m	-0,53	0	-1	6	-18
Libor 3m	2,11	0	-1	0	-69
Libor 12m	2,03	0	0	9	-98

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2992	0,0	-0,5	5,1	19
Dow Jones	26935	-0,1	-0,7	5,1	15
Nikkei	22099	0,1	0,4	6,7	10
FTSE 100	7292	-0,5	-0,4	2,8	8
EuroStoxx 50	3534	-0,1	0,4	6,0	18
IBEX	9126	0,4	1,4	5,5	7
DAX	12317	-0,2	-0,5	6,1	17
CAC	5629	0,0	0,2	5,7	19
MIB	21923	0,1	0,6	7,1	20
ASE Athens	868	0,6	0,7	4,4	42
MSCI Latam *	94691	-0,3	0,7	5,4	10
Ibovespa (Brazil)	104118	-0,5	-0,5	6,6	18
Mexbol (Mexico)	43307	-0,5	-0,3	8,6	4
Merval (Argentina)	27907	-4,3	-7,4	5,0	-8
MSCI EM Europe *	5915	-0,5	-1,9	3,9	12
Poland	2175	1,3	-0,8	3,4	-4
Micex 10 (Russia)	4749	-1,1	-2,1	3,4	13
Ise 100 (Turkey)	101847	1,8	0,4	4,8	12
MSCI EM Asia *	838	-0,5	-0,6	3,7	7
Shanghai Com (China)	2985	0,3	0,2	3,0	20
Jakarta (Indonesia)	6138	-1,5	-1,3	-1,6	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	139,6	-1,1	-1,7	10,1	21
JPM	118,3	-0,5	-0,2	11,6	21
Citi	68,6	-1,4	-1,3	10,7	32
BoA	29,3	-0,9	-2,3	10,5	19
MS	43,1	-1,1	-2,6	9,5	9
GS	209,1	-2,0	-3,1	6,6	25
EZ banks	72,6	-1,1	-0,9	10,7	5
BNP	43,7	-0,8	-0,5	9,0	11
Crédit Agricole	11,0	-1,5	-1,0	8,7	16
Deutsche Bank	6,9	-1,9	-5,4	8,8	-1
ING	9,4	-1,1	-0,7	12,0	0
Intesa	2,1	-0,2	0,5	12,2	10
SG	25,0	-1,6	-0,9	12,0	-10
Unicredit	10,7	-0,8	-1,7	13,2	8
UK banks	70,9	-1,1	-0,1	6,9	-3
HSBC	611,3	-0,3	-0,1	4,2	-6
RBS	205,5	-1,6	0,6	12,3	-5
Barclays	147,1	-1,4	-1,4	6,6	-2
Lloyds	53,5	-1,5	0,7	7,0	3
Large Spanish banks	56,2	-0,4	-0,5	7,6	-4
Santander	3,6	-0,5	-0,5	4,9	-8
BBVA	4,7	-0,3	-0,6	10,1	1
Medium Spanish banks	44,6	-0,3	0,1	8,9	-22
Caixabank	2,4	0,0	2,5	15,9	-26
Sabadell	0,9	0,1	0,0	14,0	-14
Bankinter	5,6	-0,5	-1,8	5,5	-20
Bankia	1,7	-0,4	1,8	3,5	-34

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,100	0,1	-0,7	-1,3	-4
GBPUSD	1,248	0,4	-0,2	1,7	-2
USDJPY	107,280	0,3	0,8	-1,8	2
DXY	98,492	-0,1	0,2	0,9	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	56,94	0,0	-0,8	-3,1	-34
USDBRL (Brazil)	4,17	-0,2	-2,3	-1,2	-7
USDCPL (Chile)	723,24	-0,1	-1,2	-0,7	-4
USDCOP (Colombia)	3441	-0,1	-1,64	-0,53	-5
USDMXN (Mexico)	19,46	0,1	-0,5	2,4	1
USDPEN (Peru)	3,35	0,3	-0,2	0,9	1
LACI	50,60	-0,1	-1,4	-0,2	-7
USDPLN (Poland)	3,98	0,3	-1,7	-1,5	-6
USDRUB (Russia)	63,86	0,0	0,9	3,4	9
USDTRY (Turkey)	5,70	0,3	0,0	1,0	-7
USDCNY (China)	7,12	0,0	-0,3	-0,3	-3
USDINR (India)	71,02	-0,1	1,1	0,9	-2
USDIDR (Indonesia)	14114	-0,2	-0,1	0,7	2
ADX	103,12	-0,2	-0,2	0,6	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	63,7	-1,7	-1,3	7	18
WTX	58	-1,6	-2,7	7	27
Copper	259	-0,2	-0,7	3	-1
Gold	1527	0,3	1,7	0	19
S&P Spot commodity *	420	0,7	-0,1	7	12
S&P Brent Spot *	542	0,8	0,3	8	18
S&P Metals Spot *	324	-0,3	0,1	3	2
S&P Agricultural *	274	0,5	0,5	3	-4

Source: Bloomberg, Datastream and Haver

* With one day delay