

Market Comment

Investors await tomorrow's FOMC policy decision. Fed Preview

- **Financial markets were steady** ahead of tomorrow's FOMC meeting decision (see preview below), with markets pricing in a **94% probability of a 25bps rate cut**.
- There were some **mixed news flows on the trade front**. A U.S. administration official said that a limited trade deal may not be completed for signing next month in Chile. Nonetheless, the U.S. is considering a 12-month extension of some tariff waivers granted to China in December last year.
- Regarding the Brexit news flow, the **UK parliament** is currently debating the elections bill calling for **snap elections** on December 12, although one of the amendments to the elections bill is discussing bringing forward the elections date to December 9.
- U.S. Treasury Secretary Mnuchin is open to loosening regulations that toughen liquidity rules for big banks to ease stress in short-term funding markets. Separately, today's Fed **14-days repo auction was 1.06 times over-subscribed** (submitted \$47.9bn, accepted \$45bn), while the overnight repo was fully subscribed.
- **European sovereign bond yields inched down**, whereas UST bonds were steady (10Y GER - 2.2bps, 10Y US -1bps) as investors await tomorrow's FOMC decision and the U.S. 3Q19 GDP.
- **FX showed minor changes**. The pound strengthened slightly (GBPUSD +0.2%) after the main opposition party in the UK said it would back an early general election, which will take place between December 9 and 12. The GBPUSD 3M implied volatility trimmed yesterday's increase (-2%). The DXY index erased early gains led by an **unexpected fall of U.S. consumer confidence in October** (125.9, consensus 128, previous 126.3), while the euro appreciated slightly (EURUSD +0.1%) in light of Brexit developments. Moreover, EM currencies were mixed with the Chilean peso leading the losses (USDCLP -0.4%) as the turmoil continues.
- **The S&P 500 continued to hit fresh record highs** with defensive sectors outperforming others, while European stocks edged lower in general.

Central Bank Annex

UPDATE 17:45 CET 29 OCTOBER 2019

DEBT MARKETS (10Y, %, CHANGE IN BPS)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,63	-1,0	3,9	0	-85
US	1,83	-0,9	7,3	15	-85
GER (2-yr)	-0,64	-0,9	2,2	13	-3
Germany	-0,35	-2,2	1,4	22	-60
France	-0,06	-2,6	0,9	23	-77
Spain	0,29	-2,2	2,4	14	-113
Italy	0,99	-1,5	6,5	17	-175
Portugal	0,23	-2,6	1,3	6	-150
Greece	1,24	0,7	-5,1	-10	-316
Japan (2-yr)	-0,20	0,7	3,3	12	-6
Japan	-0,10	2,0	2,3	13	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,51	0,8	-9,4	-53	-272
Chile	2,88	3,6	-4,2	40	-137
Colombia	6,06	1,6	-7,0	8	-69
Mexico	6,84	-3,7	-3,0	-5	-180
Peru	3,76	-1,5	11,1	-1	-160
Poland	2,01	-0,8	2,7	1	-81
Russia	6,53	2,7	-5,9	-61	-225
Turkey	12,75	0,0	-106,0	-73	-305
India	6,52	1,7	-2,5	-22	-85
Indonesia	7,04	0,1	-6,2	-28	-99

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-0,4	-0,5	1	-17
Italy	134	0,7	5,1	-5	-116
Portugal	58	-0,4	-0,1	-16	-90
Spain	64	0,0	1,0	-8	-54
2-yr sovereign spread vs Germany					
France	4	-0,3	-0,8	-4	-11
Italy	46	-2,3	2,5	-5	-63
Portugal	11	-4,1	0,0	-7	-15
Spain	24	-2,4	-1,3	-2	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	117	-1,5	-11	-19	-90
Chile	38	0,6	1	1	-25
Colombia	78	-1,6	-8	-16	-81
Argentina	6800	686,9	976	903	5994
Mexico	89	-3,5	-14	-28	-66
Peru	51	-0,7	-4	-2	-44
Poland	67	0,0	0	0	-1
Russia	74	-0,5	-2	-11	-81
Turkey	324	-12,8	-57	-39	-35
China	39	0,3	-1	-10	-29
India	72	-0,1	0	-1	-41
Indonesia	76	-1,5	-5	-14	-62

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	0,1	-1	-4	-12
VSTOXX	67	0,0	-11	-13	1
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	-1	-1	-3
EM FX volatility index	17	0,9	0	-4	-8
Credit spread (BAA) (change in bps)	218	0,9	-1	-2	-28
US bonds volatility index	7	0,0	-1	-1	-3

Inflation expectations (% change in pp)

level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	1,99	-	-2	9	-14
EZ Inflation expectations (5Y5Y)	1,22	-	1	4	-38

Banking 5y CDS (bps) *

level	Daily	Weekly	Monthly	YTD	
US	47	-1,8	-2	-11	-36
EZ	52	-0,2	1	-10	-53
UK	47	0,0	2	-12	-47
Large Spanish	31	-0,4	-2	-6	-50
Medium Spanish	98	-0,4	1	-3	-21

Corporate 5y CDS (bps) *

level	Daily	Weekly	Monthly	YTD	
US Non-financial	208	0,3	1	-31	-6
EZ Non-financial	73	0,2	0	-3	-24
UK Non-financial	101	-0,2	-1	-5	-17

INTERBANK MARKETS (% change in BPS)

level	Daily	Weekly	Monthly	YTD	
ESTR Index	-0,55	0	0	n.a.	n.a.
Euribor 3m	-0,41	0	0	1	-10
Euribor 12m	-0,28	0	0	5	-16
Libor 3m	-0,46	0	0	-1	-11
Libor 12m	1,94	0	-1	-18	-86

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3045	0,2	1,6	2,8	21
Dow Jones	27124	0,1	1,3	1,1	16
Nikkei	22974	0,5	1,9	5,0	15
FTSE 100	7301	-0,4	1,2	-1,7	9
EuroStoxx 50	3621	-0,1	0,5	2,1	21
IBEX	9394	-0,4	0,1	2,3	10
DAX	12941	0,0	1,5	4,5	23
CAC	5739	0,1	1,4	1,7	21
MIB	22685	0,0	0,9	3,0	24
ASE Athens	873	0,1	0,0	0,4	42
MSCI Latam *	96602	0,6	1,5	1,8	12
Ibovespa (Brazil)	107676	-0,5	0,3	2,5	23
Mexbol (Mexico)	43888	0,3	1,2	2,4	5
Merval (Argentina)	33144	-0,1	-0,4	14,8	9
MSCI EM Europe *	6091	-0,3	2,6	2,9	15
Poland	2228	0,7	0,7	1,9	-2
Micex 10 (Russia)	4983	1,0	1,9	4,4	19
Ise 100 (Turkey)	99838	0,0	2,0	-5,1	9
MSCI EM Asia *	854	0,7	0,9	2,5	9
Shanghai Com (China)	2954	-0,9	0,0	0,8	18
Jakarta (Indonesia)	6281	0,5	1,3	0,8	1

Banking sector

level	Daily	Weekly	Monthly	YTD	
US banks	149,7	-0,1	2,3	7,1	29
JPM	126,5	0,0	1,4	7,5	30
Citi	73,1	-0,7	1,5	5,3	40
BoA	32,0	0,6	2,7	9,1	30
MS	46,7	-0,4	2,8	8,9	18
GS	217,1	-0,3	3,6	3,9	30
EZ banks	78,4	-0,1	0,2	6,9	14
BNP	47,9	-0,3	0,1	8,4	21
Crédit Agricole	11,9	-0,6	1,0	7,4	27
Deutsche Bank	7,2	-0,2	0,4	4,1	4
ING	10,3	0,1	0,0	8,0	10
Intesa	2,3	-0,1	0,0	5,3	17
SG	26,3	-0,2	-0,6	5,4	-5
Unicredito	11,7	1,1	0,2	8,4	18
UK banks	74,8	-1,0	-3,2	3,1	3
HSBC	588,0	-1,1	-3,7	-5,8	-9
RBS	218,3	-2,4	-9,3	4,4	1
Barclays	171,5	0,6	3,7	13,6	14
Lloyds	58,2	-1,2	-3,7	5,9	12
Large Spanish banks	59,6	-0,7	-0,5	4,4	2
Santander	4,0	-0,6	-0,2	6,9	0
BBVA	4,8	-0,7	-0,8	2,1	5
Medium Spanish banks	49,2	0,0	-2,3	7,8	-14
Caixabank	2,5	-0,3	-1,2	5,4	-20
Sabadell	1,0	0,5	-2,5	13,6	1
Bankinter	6,3	0,8	-1,1	10,5	-10
Bankia	1,7	-2,5	-7,5	-0,9	-33

CURRENCIES (% change in BPS)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,111	0,1	-0,1	1,5	-3
GBPUSD	1,289	0,2	0,1	4,8	1
USDJPY	108,890	0,1	-0,4	-0,9	1
DXY	97,688	-0,1	0,2	-1,4	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,47	0,1	-1,4	-3,6	-37
USDBRL (Brazil)	4,00	-0,1	2,2	4,1	-3
USDCLP (Chile)	727,08	-0,4	-0,5	0,0	-5
USDCOP (Colombia)	3382	0,0	1,45	2,28	-4
USDMXN (Mexico)	19,13	0,0	0,1	3,0	3
USDPEN (Peru)	3,34	-0,2	0,3	1,3	1
LACI	51,42	-0,1	0,7	2,2	-5
USDPLN (Poland)	3,84	0,3	0,0	4,4	-3
USDRUB (Russia)	63,86	-0,1	-0,2	1,3	9
USDTRY (Turkey)	5,73	0,0	1,4	-1,0	-8
USDCNY (China)	7,07	0,0	0,2	0,8	-3
USDINR (India)	70,84	0,1	0,1	-0,4	-2
USDIDR (Indonesia)	14035	0,0	0,0	1,0	3
ADXY	103,85	0,0	0,1	0,7	-1

COMMODITIES (%)

level	Daily	Weekly	Monthly	YTD	
Brent	61,8	0,4	3,5	0	15
WTx	56	-0,1	2,9	0	23
Copper	267	-0,1	1,9	3	2
Gold	1490	-0,2	0,2	0	16
S&P Spot commodity *	414	-0,5	1,8	1	11
S&P Brent Spot *	521	-0,8	3,0	0	14
S&P Metals Spot *	328	0,1	1,5	2	3
S&P Agricultural *	285	-0,3	-0,5	4	0

Source: Bloomberg, Datastream and Hiver

* With one day delay

Central Bank Annex

Fed preview

- At their October meeting, for the third time this year, we expect the Fed will lower rates by 25bps, as elevated trade uncertainty and weakening investment outlook continue to weigh on the committee's outlook.
- Markets have aligned with the October interest rate cut, but have lowered their expectations for an additional cut in December.
- The committee will likely remain split over how to approach future interest rate decision. The hawks, fearing that overly accommodative conditions could fuel financial instability, and the centrists, wanting to allow for time to evaluate the impact of increased accommodation, will likely support a pause. After fulfilling the "mid-cycle" adjustment, the doves, despite concerns that delaying rate cuts could jeopardize the current expansion, may support a temporary pause if trade tensions between the U.S. and China remain in abeyance.
- On the balance sheet, in an effort to disentangle the current efforts to replenish bank reserves with the stance of monetary policy, the committee will likely maintain its current policy course announced over the intermeeting period. However, we expect that options for addressing the uptick in money market volatility such as the scope of the reserve shortfall, the impact of liquidity and capital requirements, regulatory guidance, standing repo facility and the presence of regime changes in reserve preferences will be discussed at the meeting.