

Market Comment

Cautiousness returns amid weak manufacturing data

- A weak 10Y Japanese bond auction prompted declines in sovereign debt worldwide, but disappointing manufacturing data trimmed early losses.
- On the data front, **ISM manufacturing unexpectedly fell deeper into contraction in September to a 10-year low** (47.8, consensus 50, prior 49.1) with new orders, employment, exports and prices paid all remaining below 50. Moreover, U.S. construction spending grew at a slower pace than expected in August (0.1% MoM, consensus 0.5% MoM, prior 0.1% MoM). Elsewhere, European manufacturing PMIs were mixed in September. German and the Eurozone's manufacturing PMI were upwardly revised, although still in the contraction area, while PMIs of Italy and France shrunk more than expected. Moreover, inflation in the Eurozone continue to be muted as the annual inflation declined 0.1% to 0.9%, whereas the annual core CPI slightly improved in line with expectations (1.0% YoY, consensus 1.0% YoY, prior 0.9% YoY).
- The **Bank of Japan** announced yesterday its plan to reduce its longer-term government securities purchases with the **intention to steepen the curve**, which may lead to a higher demand of ETFs as it further cut bond purchases. Japan's Government Pension Investment Fund supported the BoJ's plan by categorizing currency-hedged foreign bonds as domestic debt, which should reduce its demand for Japan's longer-term debt.
- U.S. and European **sovereign bonds** were mixed but they all **trimmed early losses** after the ISM indicated that U.S. factory activity is continuing to deteriorate. **The yield on the 10Y UST bond reverted drastically** (declining - 5bps, after increasing 7bps earlier this morning), **while the yield on 2Y dropped 8 bps**. In this context, market expectations of an additional Fed rate cut by the end of the year increased 10% to 83%. In Europe, 10Y Italian bonds underperformed with its risk premium widening 3 bps, whereas the rest of European sovereign bond erased early losses (10Y German bund yield +0.7 bps).
- The **DXY index halted its upward trend** (-0.2%) with disappointing U.S. manufacturing data, while **other safe-haven currencies gained** (JPY +0.3%). The pound fell 0.3% ahead of Boris Johnson's new plan for a Brexit deal to the EU. In addition, **EM currencies continue to weaken** (FXJPMECS -0.3%) with the TRY (-1.3%) leading the losses as geopolitical risks increase. LatAm currencies also slipped (LACI index -0.3%), especially the Peruvian sol (USDPEN -0.6%) led by political turmoil.
- U.S. and European **stock markets dropped** with industrials leading the path (S&P 500 -0.5% and Euro Stoxx 50 -1.2%) as concerns over the global economic growth weighed on market risk sentiment.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,55	-7,6	-8,0	4	-94
US	1,62	-4,7	-2,7	12	-107
GER (2-yr)	-0,77	-0,2	-3,4	16	-16
Germany	-0,56	0,7	3,6	10	-85
France	-0,26	1,0	3,1	14	-97
Spain	0,15	0,7	3,4	5	-126
Italy	0,86	3,5	2,4	-14	-189
Portugal	0,17	1,3	3,1	5	-155
Greece	1,36	1,4	3,0	-27	-304
Japan (2-yr)	-0,28	3,5	3,7	2	-14
Japan	-0,15	6,4	8,5	12	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,04	-0,5	-11,2	-39	-219
Chile	2,51	2,7	3,7	0	-174
Colombia	5,99	-0,4	4,7	-7	-76
Mexico	6,85	-2,4	-5,1	-12	-179
Peru	3,78	7,4	6,3	-1	-158
Poland	2,01	1,3	-4,2	17	-82
Russia	7,16	0,5	1,7	-6	-162
Turkey	13,30	15,0	-79,0	-235	-250
India	6,66	-3,8	-11,7	11	-71
Indonesia	7,29	0,5	-1,8	-4	-73

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	0,3	-0,5	4	-13
Italy	142	2,8	-1,2	-24	-104
Portugal	74	0,6	-0,5	-5	-70
Spain	72	0,0	-0,2	-5	-42
2-yr sovereign spread vs Germany					
France	7	-0,2	0,7	-3	-8
Italy	51	-0,5	-1,0	-21	-58
Portugal	14	-3,1	-3,2	-15	-12
Spain	26	0,9	5,4	-10	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	136	-1,8	4	-2	-71
Chile	37	-0,7	1	1	-26
Colombia	94	-1,4	3	-2	-65
Argentina	5463	-236,6	-68	234	4656
Mexico	116	-1,6	4	1	-39
Peru	55	-0,5	4	4	-39
Poland	67	0,0	-4	2	-1
Russia	87	2,5	5	-14	-67
Turkey	353	-2,4	-25	-78	-7
China	48	-1,4	1	1	-20
India	74	-0,2	0	2	-40
Indonesia	91	0,3	3	-1	-47

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	17	1,0	0	-2	-8
VSTOXX	17	1,4	1	0	-7
EM EFT volatility Index	19	0,0	1	-1	-6
Dollar/euro volatility	6	0,0	0	0	-1
EM FX volatility index	8	0,0	0	-1	-2
Credit spread (BAA) (change in bps)	226	4,5	7	0	-20
US bonds volatility index	77	-2,8	-6	-10	11
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,88	-	-5	-11	-25
EZ Inflation expectations (5Y5Y)	1,16	-	-6	-5	-45
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	57	-1,1	3	8	-25
EZ	60	-1,3	2	6	-45
UK	58	-0,7	0	-2	-36
Large Spanish	42	-0,7	0	5	-46
Medium Spanish	95	-0,5	7	7	-17
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	246	1,7	27	52	32
EZ Non-financial	77	0,1	3	9	-20
UK Non-financial	106	0,6	3	10	-12

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,45	0	0	-9	-10
Euribor 3m	-0,43	-1	-3	1	-12
Euribor 12m	-0,33	0	-1	5	-21
Eonia Swap 3m	-0,47	0	-1	4	-11
Eonia Swap 12m	-0,55	-1	-1	8	-19
Libor 3m	2,09	0	-1	-3	-71
Libor 12m	2,03	0	1	8	-98

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2963	-0,5	-0,1	1,3	18
Dow Jones	26715	-0,8	-0,3	1,2	15
Nikkei	21885	0,6	-1,0	5,7	9
FTSE 100	7363	-0,6	1,0	2,2	9
EuroStoxx 50	3526	-1,2	-0,2	2,9	17
IBEX	9181	-0,7	0,7	4,2	8
DAX	12287	-1,1	-0,2	2,9	16
CAC	5605	-1,3	-0,4	2,3	18
MIB	21986	-0,6	0,4	3,1	20
ASE Athens	862	-0,8	-0,7	-0,8	40
MSCI Latam *	94496	-0,4	-0,2	4,0	9
Ibovespa (Brazil)	104417	-0,3	0,5	3,2	19
Mexbol (Mexico)	42985	-0,1	-0,3	0,8	3
Merval (Argentina)	29958	3,1	7,7	21,7	-1
MSCI EM Europe *	5894	-0,5	-0,4	2,9	11
Poland	2153	-1,0	-1,0	0,8	-5
Micex 10 (Russia)	4795	0,2	0,9	1,8	15
Ise 100 (Turkey)	103877	-1,1	2,0	7,4	14
MSCI EM Asia *	827	0,0	-1,3	2,5	6
Shanghai Com (China)	2905	0,3	-2,7	0,7	16
Jakarta (Indonesia)	6138	-0,9	-1,1	-2,4	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	137,7	-1,0	-0,4	4,3	19
JPM	117,2	-0,4	-0,1	6,7	20
Citi	69,1	0,0	1,8	7,4	33
BoA	28,8	-1,3	-0,5	4,7	17
MS	41,6	-2,5	-2,2	0,3	5
GS	204,5	-1,3	-1,6	0,3	22
EZ banks	72,7	-1,4	0,1	7,0	5
BNP	44,1	-1,4	0,7	7,3	12
Crédit Agricole	11,0	-1,4	0,1	5,7	16
Deutsche Bank	6,7	-2,9	-3,4	1,6	-4
ING	9,5	-1,4	0,7	8,9	1
Intesa	2,2	-0,7	1,4	8,4	11
SG	24,6	-2,0	-1,5	6,8	-11
Unicredito	10,8	-0,6	0,5	6,9	9
UK banks	71,3	-1,1	0,7	7,2	-2
HSBC	620,1	-0,7	1,4	4,9	-4
RBS	201,7	-2,8	-2,1	8,8	-7
Barclays	150,2	-0,1	1,6	10,0	0
Lloyds	53,5	-1,1	0,0	7,4	3
Large Spanish banks	56,9	-1,2	1,4	8,5	-3
Santander	3,7	-1,2	1,7	7,3	-7
BBVA	4,7	-1,2	1,1	9,6	2
Medium Spanish banks	45,6	-0,8	1,9	10,1	-21
Caixabank	2,4	-1,2	1,5	15,5	-25
Sabadell	0,9	-0,2	3,2	14,1	-11
Bankinter	5,7	-1,0	1,4	8,3	-18
Bankia	1,7	-0,4	2,4	4,5	-33

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,093	0,3	-0,8	-0,4	-5
GBPUSD	1,225	-0,3	-1,9	0,8	-4
USDJPY	107,730	0,3	-0,6	-1,3	2
DXY	99,198	-0,2	0,9	0,3	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	57,69	-0,2	-1,4	3,1	-35
USDBRL (Brazil)	4,16	-0,2	0,0	-0,4	-7
USDCPL (Chile)	728,70	0,0	-0,6	-1,0	-5
USDCOP (Colombia)	3486	-0,2	-1,45	-1,26	-7
USDMXN (Mexico)	19,77	-0,2	-1,6	1,5	-1
USDPEN (Peru)	3,39	-0,6	-1,4	0,1	-1
LACI	50,18	-0,3	-1,1	0,6	-8
USDPLN (Poland)	4,01	0,0	-0,9	-0,6	-7
USD RUB (Russia)	65,35	-0,8	-2,1	2,1	6
USDTRY (Turkey)	5,72	-1,3	-0,5	1,9	-8
USDCNY (China)	7,15	0,0	-0,4	0,1	-4
USDINR (India)	71,08	-0,3	-0,1	0,5	-2
USDIDR (Indonesia)	14216	-0,1	-0,7	-0,1	1
ADXY	102,92	-0,2	-0,3	0,6	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	59,3	-2,4	-6,0	-2	10
WTx	54	-0,3	-5,9	-2	19
Copper	252	-1,8	-2,7	-1	-4
Gold	1484	0,8	-3,1	-2	16
S&P Spot commodity *	404	-1,5	-2,7	2	8
S&P Brent Spot *	504	-2,9	-4,6	0	10
S&P Metals Spot *	320	-0,1	-0,5	1	0
S&P Agricultural *	281	2,3	2,4	6	-1

* Source: Bloomberg, Datastream and Haver

* With one day delay