

Market Comment

Expectations of further Fed rate cuts boosts bond buying

- **Risk-off mood prevailed in financial markets this week**, with key volatility indicators (VIX and the MOVE) hitting near two-month highs amid a string of **disappointing US activity data** and worsening trade tensions between the US and Europe following WTO's ruling.
- On the data front, both manufacturing and non-manufacturing PMIs disappointed in September with the former contracting further unexpectedly. Today's release of **US employment data were mixed**. Non-farm payrolls grew at a slower pace than expected in September, but August's data was upwardly revised by 38k (136k, consensus 145k, previous 168k). Moreover, the unemployment rate fell in September from 3.7% to 3.5%, while average hourly earnings slipped, which poses a less rosy outlook for US consumption.
- **Rising US growth concerns have raised market's expectations of Fed's interest rate cut in October** (90% probability of a 25bps cut, rising from 50% last Friday), while the chances of an additional cut by year-end remain at 50%. Elsewhere, the market expects the ECB to cut the deposit rate by another 10bps next year.
- **Sovereign bonds attracted fresh flows. Yields declined sharply in the US**, with the yield curve steepening (US2TY -23bps, US10TY -16bps). European yields offered some resistance to decline, as Draghi stressed the need for fiscal expansion in the wake of the ongoing debate amongst the ECB's governing council about further stimulus (10Y German yield -1.5bps). Nonetheless, markets' long term inflation expectations slumped further hitting a new record low in Europe (to 1.13% -5bps). Peripheral risk premia were broadly steady (Spain 71bps, Portugal 72bps, Italy 141bps).
- **Equity indices tumbled** but clawed back some losses based on rate-cut expectations (S&P500 -1.1%, Eurostoxx -3%). **Cyclical sectors led declines**, including banks (-5% on average in the US and Europe). Cyclical commodities declined, and **oil prices fell sharply** hitting levels below pre-Saudi-attack levels (Brent -5% to \$59 p/b), while precious metals acted as a safe-haven. Junk bonds spread increased.
- **The US dollar weakened slightly** (DXY -0.1%) due to growth concerns. Investors sought shelter in the JPY and the GBPUSD remained unchanged ahead of Boris Johnson's proposal for a Brexit deal. LatAm currencies gained (LACI index +1.3%), while the rest of the EM currencies showed minor changes, although the slowdown in the US poses a risk going forward.
- **Financial strains in US repo markets moderated**, although the SOFR rate inched up on September 30 (to 2.35%) due to the end of the quarter liquidity demand, it slid back to 1.84% during the week. The Fed reduced the liquidity injected into markets to 245bn (down from 440bn last week) in five overnight operations, which were fully subscribed, while it did not need to launch any 14-day repo facility. Mr. Clarida said the size of the Fed balance sheet will be discussed in the next FOMC meeting.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,41	1,6	-22,6	-3	-108
US	1,52	-1,0	-15,6	6	-116
GER (2-yr)	-0,78	0,3	-0,9	11	-17
Germany	-0,59	0,2	-1,5	9	-83
France	-0,29	0,1	-0,7	9	-100
Spain	0,12	-1,1	-3,0	-3	-130
Italy	0,82	-0,9	-0,6	1	-192
Portugal	0,13	-1,3	-3,4	-3	-159
Greece	1,35	-0,3	1,8	-23	-305
Japan (2-yr)	-0,33	-0,7	-1,4	-4	-19
Japan	-0,21	-1,5	2,4	7	-21
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,97	-1,7	-6,7	-31	-226
Chile	2,46	-0,1	-2,5	8	-179
Colombia	5,96	-0,3	-1,7	-8	-79
Mexico	6,70	-2,3	-18,8	-24	-194
Peru	3,67	-0,9	-9,4	4	-169
Poland	1,91	-2,7	-8,8	2	-91
Russia	7,07	-7,8	-6,4	-6	-171
Turkey	13,36	0,0	-12,0	-145	-244
India	6,69	7,6	-4,6	14	-68
Indonesia	7,23	-2,8	-7,9	-12	-79

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-0,1	0,8	0	-17
Italy	141	-1,1	0,9	-8	-109
Portugal	72	-1,5	-1,9	-11	-76
Spain	71	-1,3	-1,5	-12	-47
2-yr sovereign spread vs Germany					
France	8	-0,3	-0,4	-2	-8
Italy	51	-0,5	0,2	-3	-57
Portugal	16	-0,8	-2,1	-6	-10
Spain	26	-1,2	0,0	-7	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	138	-2,4	1	6	-69
Chile	37	-0,9	-1	2	-27
Colombia	94	-0,9	0	2	-65
Argentina	5549	-12,5	-349	-2095	4743
Mexico	115	-2,0	-1	5	-40
Peru	62	1,4	8	12	-33
Poland	67	0,0	0	2	-1
Russia	92	1,1	7	-4	-62
Turkey	364	-1,6	2	-35	5
China	49	-0,2	1	4	-18
India	74	0,1	1	3	-40
Indonesia	94	0,0	4	6	-44

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	18	-1,0	1	1	-7
VSTOXX	19	-1,7	3	2	-5
EMEFT volatility Index	20	-0,5	0	1	-5
Dollar/euro volatility	5	-0,3	0	0	-2
EMFX volatility index	8	0,0	0	0	-2
Credit spread (BAA) (change in bps)	234	1,0	14	4	-12
US bonds volatility index	88	-1,4	8	6	21
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,89	-	-1	-3	-24
EZ Inflation expectations (5Y5Y)	1,13	-	-5	-8	-48
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	61	1,2	3	13	-22
EZ	61	0,7	-1	6	-44
UK	62	0,6	3	-4	-32
Large Spanish	44	0,8	1	5	-43
Medium Spanish	97	1,1	2	12	-16
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	239	-17,5	0	43	26
EZ Non-financial	80	2,7	4	13	-17
UK Non-financial	109	2,6	3	12	-9

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,56	0	n.a.	n.a.	n.a.
Euribor 3m	-0,42	0	-1	2	-11
Euribor 12m	-0,34	-1	-1	4	-22
Libor 3m	2,06	0	-5	-7	-74
Libor 12m	1,96	0	-6	2	-105

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2930	0,7	-1,1	-0,3	17
Dow Jones	26358	0,6	-1,7	0,0	13
Nikkei	21410	0,3	-2,1	3,7	7
FTSE 100	7146	1,0	-3,8	-2,3	6
EuroStoxx 50	3440	0,6	-3,0	-0,3	15
IBEX	8936	0,4	-2,7	0,9	5
DAX	11987	0,5	-3,2	-0,3	14
CAC	5480	0,8	-2,9	-0,9	16
MIB	21442	0,6	-2,6	-1,4	17
ASE Athens	823	0,1	-5,4	-3,6	34
MSCI Latam *	92161	0,4	-2,9	2,0	7
Ibovespa (Brazil)	101465	-0,1	-3,4	0,3	15
Mexbol (Mexico)	42539	0,2	-0,7	0,5	2
Merval (Argentina)	30366	0,0	5,2	23,1	0
MSCI EM Europe *	5759	-0,5	-2,7	-1,1	9
Poland	2118	0,9	-3,1	0,7	-7
Micex 10 (Russia)	4681	-0,7	-1,9	-2,5	12
Ise 100 (Turkey)	103514	0,7	-1,6	3,4	13
MSCI EM Asia *	823	0,1	-1,2	1,7	5
Shanghai Com (China)	2905	0,0	-0,9	-1,8	16
Jakarta (Indonesia)	6061	0,1	-2,7	-3,2	-2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	133,4	0,5	-4,6	1,2	15
JPM	113,1	0,8	-4,0	2,9	16
Citi	67,1	0,6	-3,4	4,4	29
BoA	28,0	0,7	-4,6	1,9	14
MS	40,4	0,3	-5,8	-2,8	2
GS	197,0	-0,1	-5,7	-2,3	18
EZ banks	69,6	-0,1	-5,1	1,4	1
BNP	42,1	0,0	-4,7	2,1	7
Crédit Agricole	10,5	0,0	-5,3	1,4	12
Deutsche Bank	6,5	-1,3	-6,5	-3,9	-7
ING	9,1	0,2	-5,1	2,7	-3
Intesa	2,1	-0,2	-3,4	3,9	8
SG	23,3	-0,2	-6,6	-0,3	-16
Unicredito	10,2	-0,5	-6,0	-1,7	3
UK banks	68,8	0,2	-5,2	2,7	-6
HSBC	601,4	-0,3	-3,7	-0,4	-7
RBS	194,0	0,3	-7,2	5,4	-10
Barclays	142,6	0,4	-5,5	3,8	-5
Lloyds	51,9	0,5	-5,5	4,6	0
Large Spanish banks	54,2	-0,1	-5,0	3,9	-7
Santander	3,5	0,0	-5,1	3,0	-12
BBVA	4,5	-0,2	-5,0	4,6	-3
Medium Spanish banks	44,2	-0,3	-3,2	8,8	-23
Caixabank	2,3	-0,5	-4,8	11,5	-28
Sabadell	0,9	-0,7	-2,0	16,2	-13
Bankinter	5,6	0,1	-3,1	6,1	-21
Bankia	1,7	-0,7	-3,2	5,3	-35

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,097	0,0	0,0	-0,6	-4
GBPUSD	1,229	-0,4	0,3	0,3	-4
USDJPY	107,010	-0,1	0,9	-0,6	3
DXY	98,968	0,1	-0,1	0,5	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	57,73	0,0	-0,7	-3,0	-35
USDBRL (Brazil)	4,07	0,4	2,2	0,6	-5
USDCLP (Chile)	715,83	0,2	1,5	1,1	-3
USDCOP (Colombia)	3430	0,6	0,85	-0,98	-5
USDMXN (Mexico)	19,54	0,6	3,8	0,9	1
USDPEN (Peru)	3,37	0,0	0,3	0,2	0
LACI	50,94	0,5	1,3	0,5	-6
USDPLN (Poland)	3,94	0,3	1,7	-0,2	-5
USDRUB (Russia)	64,64	0,8	0,0	2,4	7
USDTRY (Turkey)	5,70	0,0	-0,4	-0,6	-7
USDCNY (China)	7,15	0,0	-0,4	0,0	-4
USDINR (India)	70,89	0,0	-0,5	1,7	-2
USDIDR (Indonesia)	14138	0,2	0,2	0,2	2
ADXY	103,25	0,1	0,1	0,8	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	58,9	2,1	-4,9	-3	9
WTx	53	1,6	-4,7	-5	17
Copper	254	-0,4	-1,8	-2	-4
Gold	1504	-0,1	0,4	-3	17
S&P Spot commodity *	397	0,0	-3,0	-2	6
S&P Brent Spot *	491	0,0	-5,5	-5	7
S&P Metals Spot *	318	0,3	-0,7	-1	0
S&P Agricultural *	281	0,0	2,3	7	-1

Source: Bloomberg, Datastream and Haver

* With one day delay