

Market Comment

All eyes on trade talks

- Market risk appetite improved**, although volatility remains ahead of the trade talks conclusion. There has been **confusing news-flow** since yesterday, with China offering to buy more U.S. agricultural goods if the U.S. refuses to hike tariffs, while the U.S. might include some commitment in terms of the exchange rate in the deal. Separately, U.S. President Trump said he will meet China Vice Premier Liu He tomorrow.
- On the data front, **U.S. core CPI undershot estimates in September** (0.1% MoM, consensus 0.2% MoM, previous 0.3% MoM). Meanwhile, U.S. employment showed some resilience as its jobless claims fell more than expected. In Europe, French industrial production fell unexpectedly in August (-0.9% MoM, consensus 0.3% MoM, previous 0.3% MoM), alongside British industrial production (-0.6% MoM, consensus 0.1% MoM, previous 0.1% MoM).
- Both the Fed and ECB minutes of their September meetings had a mute impact on markets. The Fed's minutes suggested that only a minority is expecting a further easing, while market expectations of a Fed rate cut by the end of this month hover at around 75%. Moreover, there was a long debate regarding the inflation framework, and certain consensus is building around the adoption of an average inflation target. There was practically no debate regarding the optimal level of bank balance sheet.
- Yield on sovereign bonds soared on hopes of a limited U.S.-China trade deal**, especially the back-end yields (both 10Y UST and German bond yields +8bps). UK bonds led the losses with the 10Y yield dropping significantly by 13bps driven by trade and Brexit deal optimism, while peripheral risk premia were flat.
- The **dollar weakened** (DXY index -0.4%), while the yuan appreciated against the USD (+0.2%) amid the potential currency pact between the U.S. and China. The JPY underperformed its G10 peers and the euro gained (+0.4%) despite weak industrial production data in the Eurozone. The **sterling jumped** (+1.4%) on prospects of a deal between the two leaders of the UK and Ireland. Elsewhere, EM currencies benefited from a better market risk appetite with the TRY leading the gains (+0.8%)
- In commodities, gold prices declined (-0.7%), whereas oil prices extended yesterday's gains (Brent +0.7%), despite US crude oil inventories declined less than expected last week.
- Global equities recovered from recent losses (both S&P 500 and EuroStoxx 50 +0.9%), especially cyclical sectors with the **banking sector rising 2.5% on average**.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,52	5,6	13,2	-15	-97
US	1,66	7,8	12,7	-7	-102
GER (2-yr)	-0,71	4,4	7,0	13	-10
Germany	-0,47	7,9	12,1	8	-71
France	-0,14	7,6	14,7	10	-85
Spain	0,23	7,6	9,6	-3	-119
Italy	0,96	8,8	13,0	-6	-179
Portugal	0,20	6,6	5,5	-8	-152
Greece	1,45	2,6	9,5	-20	-295
Japan (2-yr)	-0,30	0,4	2,0	-2	-16
Japan	-0,20	-0,3	-0,7	2	-21
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,89	-3,5	-10,4	-43	-235
Chile	2,43	1,2	-3,1	-1	-182
Colombia	6,00	4,9	3,5	-9	-75
Mexico	6,75	2,7	2,2	-34	-189
Peru	3,53	-1,8	-15,5	-9	-184
Poland	1,94	3,5	-0,2	-23	-89
Russia	6,85	-10,7	-30,0	-30	-193
Turkey	14,13	60,0	77,0	-124	-167
India	6,47	1,3	-14,7	-11	-90
Indonesia	7,27	-0,9	0,8	1	-76

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	33	-0,3	2,6	2	-14
Italy	143	0,9	0,9	-14	-107
Portugal	67	-1,3	-6,6	-16	-81
Spain	70	-0,3	-2,5	-11	-48
2-yr sovereign spread vs Germany					
France	8	-1,1	-0,1	-2	-8
Italy	50	-0,5	-1,6	-5	-58
Portugal	13	-1,8	-3,7	-9	-13
Spain	23	-2,1	-3,6	-8	-14
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	139	-3,7	-1	16	-68
Chile	37	-0,2	-1	5	-27
Colombia	94	-1,3	-1	12	-65
Argentina	5048	-248,0	-513	237	4242
Mexico	115	-1,4	-2	16	-40
Peru	61	-0,9	1	16	-34
Poland	67	0,0	0	2	-1
Russia	91	-1,6	1	5	-63
Turkey	386	6,3	20	0	26
China	48	-1,7	-1	9	-19
India	74	0,0	0	8	-40
Indonesia	92	-1,8	-2	14	-46

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	18	-0,5	-1	3	-7
VSTOXX	79	0,0	-9	3	13
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	0	0	-2
EM FX volatility index	20	-1,3	-1	2	-5
Credit spread (BAA) (change in bps)	222	-7,8	-8	1	-24
US bonds volatility index	8	0,0	0	0	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,91	-	3	-5	-22
EZ Inflation expectations (5Y5Y)	1,17	-	5	-6	-44
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	60	-1,9	1	17	-22
EZ	61	-1,6	0	9	-44
UK	63	-0,6	2	6	-31
Large Spanish	45	-0,7	1	9	-43
Medium Spanish	96	-0,1	1	12	-16
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	226	-2,4	-30	39	13
EZ Non-financial	80	-1,6	3	15	-17
UK Non-financial	110	-0,5	3	15	-9

INTERBANK MARKETS (% change in BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,55	0	0	n.a.	n.a.
Euribor 3m	-0,42	0	1	2	-11
Euribor 12m	-0,33	1	0	4	-21
Libor 3m	-0,47	0	0	-10	-11
Libor 12m	1,98	0	-5	-13	-81

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2945	0,9	1,2	-1,2	17
Dow Jones	26567	0,8	1,4	-1,3	14
Nikkei	21552	0,4	1,0	0,7	8
FTSE 100	7186	0,3	1,5	-1,1	7
EuroStoxx 50	3494	0,9	2,2	-0,1	16
IBEX	9104	1,3	2,3	0,3	7
DAX	12164	0,6	2,0	-0,9	15
CAC	5569	1,3	2,4	-0,4	18
MIB	21756	1,0	2,1	-0,5	19
ASE Athens	839	0,9	2,0	-1,2	37
MSCI Latam *	92198	0,8	0,4	-1,1	7
Ibovespa (Brazil)	102334	1,1	0,8	-0,7	16
Mexbol (Mexico)	42860	0,8	1,0	0,6	3
Merval (Argentina)	31143	2,7	2,6	9,5	3
MSCI EM Europe *	5777	0,1	-0,2	-2,2	9
Poland	2123	-0,5	1,1	-3,0	-7
Micex 10 (Russia)	4706	0,2	-0,2	-2,1	12
Ise 100 (Turkey)	98780	-0,9	-3,9	-2,4	8
MSCI EM Asia *	822	-0,1	0,0	-1,6	5
Shanghai Com (China)	2948	0,8	1,5	-2,4	18
Jakarta (Indonesia)	6024	-0,3	-0,5	-4,8	-3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	136,4	2,3	2,8	-2,9	18
JPM	115,0	2,1	2,5	-1,6	18
Citi	69,2	2,6	3,7	0,2	33
BoA	28,7	2,8	3,1	-2,3	16
MS	41,2	2,0	2,5	-5,4	4
GS	200,9	2,1	1,9	-6,8	20
EZ banks	71,7	3,0	2,9	-3,2	4
BNP	43,7	2,8	3,7	-1,9	11
Crédit Agricole	10,7	2,3	2,0	-4,6	14
Deutsche Bank	6,5	2,7	-1,6	-13,2	-7
ING	9,5	4,4	4,3	-1,1	1
Intesa	2,1	2,2	2,8	1,2	11
SG	24,0	3,3	2,8	-6,1	-14
Unicredito	10,6	4,0	3,6	-3,0	7
UK banks	69,7	1,7	1,5	-0,7	-4
HSBC	598,0	-1,1	-0,8	-2,5	-8
RBS	195,9	3,0	1,2	-1,0	-10
Barclays	149,2	2,9	5,0	1,0	7
Lloyds	52,7	3,9	2,0	0,7	2
Large Spanish banks	55,9	2,7	3,0	-1,8	-4
Santander	3,6	2,6	3,6	-2,3	8
BBVA	4,6	2,7	2,4	-1,4	-0
Medium Spanish banks	46,0	4,1	3,6	1,7	-20
Caixabank	2,4	4,7	4,7	6,2	-24
Sabadell	0,9	4,6	2,5	5,9	-10
Bankinter	5,8	4,3	4,6	-1,0	-17
Bankia	1,7	3,4	1,8	-2,8	-33

CURRENCIES (% change in BPS)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,102	0,4	0,5	-0,2	-4
GBPUSD	1,238	1,4	0,4	0,2	-3
USDJPY	107,910	-0,4	-0,9	-0,3	2
DXY	98,700	-0,4	-0,2	0,4	3
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	57,96	0,0	-0,4	-3,3	-35
USDBRL (Brazil)	4,11	0,0	-0,6	-0,6	-6
USDCOP (Chile)	719,64	0,6	-0,3	-1,1	-4
USDCOL (Colombia)	3454	0,4	-0,09	-2,68	-6
USDMXN (Mexico)	19,46	0,6	1,0	0,2	1
USDPEN (Peru)	3,35	0,4	0,6	-0,3	0
LACI	50,79	0,4	0,2	-0,8	-6
USDPLN (Poland)	3,91	0,6	1,0	0,2	-5
USD RUB (Russia)	64,46	0,7	1,1	1,4	8
USDTRY (Turkey)	5,83	0,8	-2,2	-1,0	-9
USDCNY (China)	7,12	0,2	0,2	-0,1	-2
USDINR (India)	71,07	0,0	-0,4	0,9	-2
USDIDR (Indonesia)	14150	0,2	0,2	-0,7	2
ADXY	103,45	0,2	0,3	0,5	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	58,7	0,7	1,7	-6	9
WTx	53	1,2	1,5	-7	17
Copper	261	1,8	2,4	0	-1
Gold	1495	-0,7	-0,7	1	17
S&P Spot commodity *	400	0,2	0,7	-2	7
S&P Brent Spot *	494	0,0	0,6	-6	8
S&P Metals Spot *	320	-0,2	0,6	-3	0
S&P Agricultural *	283	0,1	0,9	6	0

Source: Bloomberg, Datastream and Haver

* With one day delay