

Market Comment

Global risks ease

- Market mood improved this week** after the breakthrough in trade negotiations and the UK-EU Brexit plan agreement. Implied volatility in equity markets dropped (VIX to 14 from 17), also helped by better-than-feared company earnings results. However, caution remains as **downbeat retail data brought back late-cycle risk, while Brexit and the trade deal still face some hurdles.**
- Tensions in the protracted trade war between the US and China eased somewhat** after recent high level trade talks saw the US call off a 5% tariff hike on \$250 billion Chinese goods due Oct 15, while also consider lifting China's currency manipulator status. **Discussions over a 'three phase trade deal' are underway**, with officials working on finalizing the text of Phase-1 for Presidents' **Trump and Xi to sign on Nov 16-17 at the APEC summit in Chile.**
- The EU-UK reached an exit agreement on Brexit.** Now the UK Parliament has to back the agreement. If it were rejected, EU leaders would meet on Sunday to discuss a Brexit extension. All in all, the probability of no-deal exit has diminished significantly.
- Concerns over a global slowdown renewed:** China 3Q19 GDP slowed more than expected, the weakest pace of three decades (6.0% YoY, consensus 6.1% YoY, prior 6.2% YoY), driven by a broad-based decline. Moreover, IMF cut this week its 2019 global growth forecast from 3.2% to 3% underpinned by trade tensions, while Germany cut its 2020 growth forecast from 1.5% to 1%. Moreover, investors are increasingly cautious about the strength of the economy.
- Sovereign bonds yields edged up** (10Y US +2bp, 10Y Ger +6bps). On monetary policy, **markets expectations of a 25bps Fed rate cut in October rose to 80%**, but those of an additional cut moderated and postponed to summer 2020 (65% probability of a second cut in July 2020); **expectations of a further ECB rate cut continued to moderate** (54% probability of 10 bps cut in 2H20, down from 70% last Friday).
- Search for yield continued to compress peripheral risk premia.** Spain has been the laggard (-5bps to 62bps) due to political risk, Portugal risk premium fell below 60bps and Italy narrowed by -9bps (to 129bps) after the 2020 draft budget was published with deficit forecasts of 2.2% of GDP for 2020 and a moderation to 1.8% in 2021 and 1.4% in 2022.
- The dollar's strength halted.** The DXY index lost 0.8% on easing global risk (Brexit and trade). **The GBP appreciated sharply (2%),** but implied volatility remained high, as the Brexit plan still faces Parliament challenges this Saturday. **The euro also appreciated** (EURUSD +0.9% to 1.11). EM were mixed with the BRL and ARS depreciating, while the MXN and TRY appreciated, with the latter recovering from last week's depreciation after the temporary ceasefire and the lift of US sanctions.
- Equity inched up, led by better than expected 3Q19 company earnings, and lower risk aversion.** U.S. stock markets rose to near record highs. Most banks and industrial companies' results released have beaten estimates, especially given the low bar for growth expected (consensus expects 3% decline in S&P500 3Q19 growth)
- Tensions in the U.S. money markets re-emerged moderately** (U.S. general collateral repo rose above 2% from 1.89%) in response to a large Treasury coupon settlement. However, strains relaxed after the Fed injected USD 273bn during the week in several overnight and 14-day term repo auctions.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,58	-1,8	-1,0	-18	-91
<b>US</b>	1,75	-0,2	2,1	-5	-93
GER (2-yr)	-0,67	0,0	5,1	6	-6
<b>Germany</b>	-0,38	2,8	6,2	13	-62
France	-0,08	3,3	4,5	14	-79
Spain	0,24	1,8	0,8	2	-117
Italy	0,91	2,4	-2,7	4	-183
Portugal	0,20	1,9	-0,6	-4	-153
Greece	1,31	-7,4	-12,8	-9	-308
Japan (2-yr)	-0,23	1,5	5,9	4	-9
<b>Japan</b>	-0,13	2,0	4,8	5	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,58	1,4	-10,4	-58	-266
Chile	2,69	0,1	19,8	20	-156
Colombia	6,07	1,4	4,0	6	-68
Mexico	6,84	-2,5	8,1	-33	-180
Peru	3,50	-0,1	-0,4	-24	-187
Poland	2,04	3,5	3,5	-4	-79
Russia	6,70	-7,1	-12,2	-46	-209
Turkey	13,94	-95,0	-19,0	-43	-186
India	6,52	2,2	1,1	-11	-85
Indonesia	7,14	-0,9	-10,6	-10	-88

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	30	0,5	-1,7	1	-17
Italy	129	-0,4	-8,9	-9	-121
Portugal	58	-0,9	-6,8	-17	-90
Spain	62	-1,0	-5,4	-11	-55
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0,1	-2,2	-1	-11
Italy	43	1,6	-5,4	-6	-66
Portugal	10	-0,6	-4,3	-10	-16
Spain	22	0,0	-2,7	-3	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	129	-2,4	-8	7	-78
Chile	32	-1,7	-4	0	-31
Colombia	86	-1,3	-6	7	-72
Argentina	5338	96,2	692	-295	4531
Mexico	105	-2,6	-8	2	-50
Peru	56	-1,7	-4	11	-39
Poland	67	0,0	0	3	-1
Russia	76	-3,8	-12	0	-78
Turkey	379	-18,7	-17	3	20
China	42	-1,5	-5	3	-25
India	72	-1,2	-2	8	-41
Indonesia	85	-0,6	-6	8	-52

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0,1	-2	0	-12
VSTOXX	78	0,0	-2	-2	11
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	-0,1	0	0	-2
EM FX volatility index	16	0,0	-2	-1	-9
Credit spread (BAA) (change in bps)	223	0,0	-2	4	-23
US bonds volatility index	8	-0,1	0	0	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,96	-	2	-2	-18
EZ Inflation expectations (5Y5Y)	1,22	-	4	-7	-38
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	50	-0,8	-8	4	-32
EZ	54	0,9	-5	2	-51
UK	51	1,1	-9	-2	-44
Large Spanish	43	1,7	-1	6	-45
Medium Spanish	94	-2,0	-2	9	-18
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	207	-1,1	-13	24	-6
EZ Non-financial	74	-0,5	-4	10	-22
UK Non-financial	104	-0,5	-5	9	-15

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	1	-1	-10
<b>Euribor 12m</b>	-0,30	0	1	1	-18
Libor 3m	-0,46	0	0	-10	-11
Libor 12m	2,00	0	2	-16	-79

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2999	0,0	1,0	-0,3	20
Dow Jones	26960	-0,2	0,5	-0,7	16
Nikkei	22493	0,2	3,2	2,4	12
FTSE 100	7165	-0,2	-1,1	-2,0	6
<b>EuroStoxx 50</b>	3580	-0,2	0,3	1,5	19
IBEX	9312	-0,3	0,4	3,1	9
DAX	12644	-0,1	1,1	2,1	20
CAC	5638	-0,6	-0,5	0,3	19
MIB	22351	-0,1	0,8	1,8	22
ASE Athens	861	0,1	0,5	-1,4	40
<b>MSCI Latam *</b>	95158	-0,2	2,5	0,3	10
Ibovespa (Brazil)	105188	0,2	1,3	0,6	20
Mexbol (Mexico)	43452	-0,1	0,5	0,9	4
Merval (Argentina)	31995	0,0	0,6	6,4	6
<b>MSCI EM Europe *</b>	5900	0,4	2,0	-1,4	12
Poland	2164	-0,5	0,2	-1,9	-5
Micex 10 (Russia)	4830	0,5	2,3	-0,6	15
Ise 100 (Turkey)	98424	3,7	-0,6	-3,4	8
<b>MSCI EM Asia *</b>	850	0,2	3,3	1,4	9
Shanghai Com (China)	2938	-1,3	-1,2	-1,6	18
Jakarta (Indonesia)	6192	0,4	2,8	-0,7	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	142,1	0,3	2,9	-0,6	23
JPM	120,9	0,4	4,1	0,9	24
Citi	69,9	0,4	-0,3	-0,3	34
BoA	30,4	0,3	5,0	1,2	23
MS	43,6	0,3	3,9	-1,8	10
GS	206,6	0,0	0,9	-4,8	24
<b>EZ banks</b>	76,8	0,0	3,1	5,1	11
BNP	46,9	-0,1	2,6	7,1	19
Crédit Agricole	11,5	-0,1	2,8	4,5	22
Deutsche Bank	7,1	-0,2	4,8	-1,3	2
ING	10,2	0,1	3,3	7,7	8
Intesa	2,2	0,1	2,2	5,1	15
SG	26,0	-0,2	2,9	2,7	-7
Unicredit	11,5	0,8	5,5	5,7	16
<b>UK banks</b>	76,4	-0,2	2,2	8,1	5
HSBC	601,7	-0,8	-0,9	-1,3	-7
RBS	234,3	0,9	7,3	14,6	8
Barclays	164,8	0,5	2,7	11,4	10
Lloyds	60,4	-0,9	2,1	14,0	16
<b>Large Spanish banks</b>	58,4	0,6	1,5	4,0	0
Santander	3,9	0,2	2,0	6,8	-3
<b>BBVA</b>	4,8	0,8	1,1	1,6	3
<b>Medium Spanish banks</b>	49,6	0,3	3,3	11,4	-14
Caixabank	2,6	-0,3	1,3	11,6	-19
Sabadell	1,0	0,9	7,1	20,9	3
Bankinter	6,2	0,5	3,0	8,2	-12
Bankia	1,8	-0,3	3,1	10,0	-29

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,114	0,2	0,9	1,0	-3
GBPUSD	1,289	0,0	1,7	3,3	1
USDJPY	108,510	0,1	-0,2	-0,1	1
DXY	97,468	-0,1	-0,8	-1,1	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	58,35	0,0	-0,5	-3,1	-35
USDBRL (Brazil)	4,14	0,7	-0,7	-0,7	-6
USDCOP (Chile)	709,04	0,4	0,2	1,0	-2
USDCOL (Colombia)	3436	0,5	-0,15	-1,79	-5
USDMXN (Mexico)	19,17	0,1	0,8	1,2	2
USDPEN (Peru)	3,35	0,0	0,2	0,0	1
LACI	51,00	0,5	0,3	-0,1	-6
USDPLN (Poland)	3,85	0,1	1,4	2,3	-3
USD RUB (Russia)	64,05	0,1	0,2	0,2	8
USDTRY (Turkey)	5,79	0,8	1,7	-1,9	-9
USDCNY (China)	7,08	0,0	0,1	0,1	-3
USDINR (India)	71,15	0,0	-0,2	0,1	-2
USDIDR (Indonesia)	14148	0,0	-0,1	-0,6	2
ADXY	103,62	0,0	0,1	0,3	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	60,0	0,1	-0,9	-6	11
WTx	54	0,7	-0,7	-7	20
Copper	262	1,3	0,1	1	0
Gold	1490	-0,1	0,1	0	16
S&P Spot commodity *	407	0,4	-0,6	-2	9
S&P Brent Spot *	506	0,5	-1,1	-5	11
S&P Metals Spot *	321	0,1	-0,8	-1	0
S&P Agricultural *	288	0,8	0,4	5	2

Source: Bloomberg, Datastream and Haver

\* With one day delay