

Market Comment

Risk aversion continues to ease in light of trade developments

- Market risk-on mood extended, led by positive prospects for U.S.-China trade deal and positive economic data. Nonetheless, disappointing company earnings slightly weighed on the S&P 500.
- The U.S. is considering **rolling back the 15% tariffs** on \$112b of Chinese imports, including clothing, and flat screen monitors, which were imposed in September. Moreover, China is pressing the U.S. to eliminate more tariffs, such as the 25% tariff rate on about \$250b that began in 2018. In exchange, China would agree to purchase up to \$50b of U.S. farm goods within two years and implement commitments on market openness and IP protections.
- Today's U.S. economic data were positive: **non-manufacturing ISM PMI expanded more than expected** in October driven by the increase in activity, new orders and employment (54.7, consensus 53.5, previous 52.6). The better-than-forecast figures tempered concerns that the widespread weakness in manufacturing will spill over to the service sector. September's U.S. trade deficit declined in line with expectations (-\$52.5b, consensus -\$52.4b, previous -\$55b). Elsewhere, UK services PMI recovered in October, while **China's services PMI (Caixin) inched down as expected** (51.1, consensus 51.1, previous 51.3).
- Yields on sovereign bonds continued to rise** on trade optimism, alongside the better-than-expected ISM non-factory figures. The 10Y UST bond yield climbed significantly, hitting the highest level since September, with the yield curve steepening (2Y +5bps, 10Y +9bps). European sovereign bonds increased to a lesser extent (10Y Ger +4bps) with peripheral risk premia narrowing. Separately, today's Fed 14-day and overnight repo auctions were fully subscribed (\$31.1b and \$71.04b respectively).
- The DXY index extended yesterday's gains** (+0.5%), reverting the trend of the past few sessions, which suggests some profit taking. Nonetheless, other safe-haven currencies depreciated (USDJPY -0.5%) as market risk sentiment improved, alongside the euro. The sterling slipped (GBPUSD -0.2%), ignoring the recovery of the UK services PMI. Regarding emerging markets, the LatAm currencies index gains were limited by Chile. The **Chilean peso fell to the weakest level since 2003** (USDCLP -1.1%) led by the ongoing social unrest. The Chinese yuan strengthened amid hopes of a limited trade deal. **The on-shore yuan reached levels close to the 7 USD threshold**, while off-shore yuan breached that level intraday, despite the PBOC's 5 bps cut in one-year Medium-Term Lending Facility rate to 3.25%.
- The S&P 500 trimmed early gains (-0.1%) as **mixed earnings** offset trade optimism, although hovering above levels of 3000. Nonetheless, European stock markets continued to inch up with cyclical sectors leading the gains (Euro Stoxx 50 +0.3%).

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,63	5,2	-0,7	23	-85
US	1,87	8,8	2,7	34	-82
GER (2-yr)	-0,63	1,5	-0,3	15	-2
Germany	-0,31	4,3	4,3	28	-55
France	-0,01	3,1	3,9	27	-72
Spain	0,33	1,8	3,9	20	-109
Italy	1,02	2,7	3,5	19	-172
Portugal	0,25	1,2	1,7	11	-148
Greece	1,21	1,3	-3,2	-15	-319
Japan (2-yr)	-0,23	2,9	-3,4	10	-9
Japan	-0,12	5,4	-2,0	9	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,44	2,9	-6,7	-54	-279
Chile	2,96	-4,8	3,4	51	-129
Colombia	6,08	4,1	-1,6	11	-68
Mexico	6,84	3,2	-1,4	9	-180
Peru	3,70	1,3	-6,9	6	-166
Poland	2,01	4,2	-0,1	11	-81
Russia	6,51	0,1	-1,5	-55	-227
Turkey	12,30	5,0	-45,0	-106	-350
India	6,52	4,3	0,0	-17	-85
Indonesia	6,95	-3,0	-8,3	-28	-107

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-1,2	-0,4	-1	-17
Italy	133	-1,6	-0,8	-9	-117
Portugal	55	-3,1	-2,6	-17	-93
Spain	64	-2,5	-0,4	-8	-54
2-yr sovereign spread vs Germany					
France	5	-0,7	0,7	-3	-11
Italy	45	-1,1	-0,5	-7	-64
Portugal	8	-3,0	-2,7	-8	-18
Spain	21	-1,9	-2,2	-4	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	115	-3,1	-3	-23	-93
Chile	39	-2,4	1	3	-24
Colombia	76	-3,1	-2	-18	-83
Argentina	6414	3,2	-386	865	5608
Mexico	86	-3,5	-3	-29	-69
Peru	48	-2,5	-3	-13	-46
Poland	66	0,0	-1	-1	-2
Russia	74	-1,3	1	-17	-80
Turkey	326	-5,4	2	-38	-33
China	38	-2,4	0	-11	-29
India	72	-0,6	0	-1	-41
Indonesia	74	-2,4	-2	-20	-63

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	0,2	0	-4	-12
VSTOXX	60	0,0	-7	-23	-6
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	0	-1	-3
EM FX volatility index	18	1,1	1	-1	-7
Credit spread (BAA) (change in bps)	208	-8,8	-7	-20	-37
US bonds volatility index	7	0,1	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,05	-	6	14	-9
EZ Inflation expectations (5Y5Y)	1,25	-	3	13	-36
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	47	-0,5	0	-14	-36
EZ	52	-1,1	0	-9	-53
UK	45	-1,7	-2	-16	-49
Large Spanish	38	-1,4	0	-6	-50
Medium Spanish	90	0,1	-1	-7	-22
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	225	-7,7	18	-14	12
EZ Non-financial	71	-1,8	-2	-9	-26
UK Non-financial	101	-1,4	0	-8	-17

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	-1	n.a.	n.a.
Euribor 3m	-0,40	-1	0	2	-9
Euribor 12m	-0,28	0	0	6	-16
Libor 3m	-0,45	0	0	1	-10
Libor 12m	1,91	0	-5	-15	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3076	-0,1	1,3	4,2	23
Dow Jones	27487	0,1	1,5	3,4	18
Nikkei	23252	1,8	1,2	8,6	16
FTSE 100	7392	0,3	1,2	3,3	10
EuroStoxx 50	3675	0,3	1,5	6,6	22
IBEX	9406	-0,1	0,1	5,0	10
DAX	13147	0,1	1,6	9,4	25
CAC	5845	0,4	1,8	6,5	24
MBI	23374	0,3	3,1	8,9	28
ASE Athens	873	-0,7	0,0	6,0	42
MSCI Latam *	96871	0,5	0,3	5,1	12
Ibovespa (Brazil)	108557	-0,2	0,9	5,9	24
Mexbol (Mexico)	43423	-0,9	-1,0	0,0	4
Merval (Argentina)	37156	-0,3	14,2	16,8	23
MSCI EM Europe *	6247	0,8	2,6	8,5	18
Poland	2272	0,4	2,0	7,1	0
Mcex 10 (Russia)	5107	0,9	2,5	9,3	22
Ise 100 (Turkey)	100525	0,4	0,7	-2,8	10
MSCI EM Asia *	874	1,6	2,3	6,2	12
Shanghai Com (China)	2992	0,5	1,3	3,0	20
Jakarta (Indonesia)	6264	0,9	0,0	3,7	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	154,1	0,7	2,8	13,9	33
JPM	130,0	0,9	2,8	13,4	33
Citi	75,1	-0,1	2,7	10,1	44
BoA	32,9	1,6	2,7	16,1	34
MS	49,1	0,5	4,8	20,4	24
GS	219,9	0,0	1,1	9,5	32
EZ banks	79,9	1,4	1,8	14,3	16
BNP	49,1	1,3	2,2	16,1	24
Crédit Agricole	12,1	0,8	1,1	14,2	28
Deutsche Bank	6,9	1,2	-4,0	6,8	2
ING	10,6	2,0	2,4	15,9	12
Intesa	2,3	1,3	2,8	11,5	20
SG	27,0	1,5	2,4	15,3	-3
Unicredito	12,0	1,9	2,4	17,4	21
UK banks	75,0	0,7	0,2	8,8	3
HSBC	598,8	0,5	1,8	-0,5	-7
RBS	217,7	0,5	-0,7	11,6	0
Barclays	169,6	0,9	-1,2	18,6	13
Lloyds	58,3	0,8	0,0	12,0	12
Large Spanish banks	59,0	1,5	-1,2	8,3	1
Santander	3,8	1,7	-4,4	7,5	-5
BBVA	4,9	1,4	1,8	9,1	7
Medium Spanish banks	51,6	1,6	4,8	16,6	-10
Caixabank	2,8	2,9	9,5	21,3	-12
Sabadell	1,0	1,7	1,9	18,1	4
Bankinter	6,5	0,9	2,5	17,0	-7
Bankia	1,8	1,7	8,4	10,4	-28

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,107	-0,5	-0,4	0,8	-3
GBPUSD	1,286	-0,2	0,0	4,3	1
USDJPY	109,140	-0,5	-0,2	-2,0	1
DXY	97,995	0,5	0,3	-0,8	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,66	0,1	-0,3	-3,2	-37
USDBRL (Brazil)	3,99	0,6	0,1	1,6	-3
USDCOP (Chile)	748,48	-1,1	-2,9	-4,4	-7
USDCOL (Colombia)	3322	0,0	1,68	3,42	-2
USDMXN (Mexico)	19,22	-0,3	-0,5	1,5	2
USDPEN (Peru)	3,34	-0,1	0,0	1,3	1
LACI	51,22	0,0	-0,4	0,4	-6
USDPLN (Poland)	3,85	-0,5	-0,3	2,1	-3
USD RUB (Russia)	63,57	-0,1	0,6	1,7	9
USDTRY (Turkey)	5,75	-0,3	-0,3	-1,0	-8
USDCNY (China)	7,01	0,3	0,2	2,0	-2
USDINR (India)	70,69	0,1	0,2	0,3	-1
USDIDR (Indonesia)	13969	0,3	0,5	1,2	3
ADXY	104,44	0,2	0,6	1,1	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,8	1,1	1,9	8	17
WTx	57	1,0	2,9	8	26
Copper	269	0,9	0,3	5	2
Gold	1482	-1,8	-0,4	-2	16
S&P Spot commodity *	419	0,6	1,3	5	12
S&P Brent Spot *	529	0,7	1,5	6	15
S&P Metals Spot *	321	0,6	0,2	4	4
S&P Agricultural *	285	-0,8	0,1	2	0

Source: Bloomberg, Datastream and Haver

* With one day delay