

Market Comment | Europe joined US rally as trade concerns eased

Global Financial Markets Unit
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- After yesterday's rally in US equities, **European stocks added to the positive mood** in financial markets, rising strongly today, although they have still not recovered completely from the recent drop. The main trigger of this positive movement was the increasing odds of “productive negotiations” between parties that could avoid a trade war. Another signal of easing concerns is the receding prices of typical safe-haven assets such as the JPY and gold. Nonetheless this source of uncertainty is expected to remain in coming months.
- **Bond markets are still very cautious**, and core yields stayed hovering around their recent lowest levels. Inflation expectations continued in their recent lower bound and market expectations for the pace of normalization of the main central banks have receded (albeit only slightly) after the latest episode of volatility (according to market's expectations). Meanwhile, European peripheral bonds continued narrowing their risk premiums.
- In this context, **the USD was able to recover some ground after the sharp drop early this week**. The euro moderated its recent appreciation, and after being very close to breaking the 1.25 threshold against the USD returned to hover around 1.24 as the session went by.
- **The USD appreciation halted the positive tone of some EM currencies**, but only with smooth movements, given the good performance of oil prices due to geopolitical outlook ([see](#)). In fact, currencies closely related with oil prices, such as the Colombian peso still continued their recent appreciation path.

Table 1

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Debt markets (10Y % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.30	2.6	-4.9	8	38
US	2.92	-3.3	-7.7	5	36
GER (2-yr)	-0.61	0.7	-2.5	7	0
Germany	6.50	2.0	-6.1	-15	4
France	0.73	-2.5	-9.3	-20	9
Spain	1.24	-2.3	-7.0	-44	-46
Italy	1.88	-3.6	-2.1	-28	-31
Portugal	1.67	-4.8	-6.2	-37	-34
Greece	4.36	-6.2	17.5	-3	26
Japan (2-yr)	-0.15	0.4	0.4	0	2
Japan	0.04	-0.5	-1.5	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	9.40	7.0	13.6	34	66
Chile	4.50	0.0	-0.1	-6	-2
Colombia	6.66	-6.5	-4.1	16	22
Mexico	7.40	-3.8	-16.2	22	-18
Peru	4.55	0.6	-2.9	-2	-32
Poland	3.23	-0.3	-10.2	-21	-9
Russia	7.75	0.3	-5.0	0	-49
Turkey	12.39	-4.0	11.0	81	103
India	7.34	-28.8	26.3	-33	5
Indonesia	6.83	-3.1	9.4	31	53
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	23	-0.5	-1.2	-5	-6
Italy	137	-1.6	6.0	-13	-28
Portugal	117	-2.8	1.9	-22	-31
Spain	73	-0.3	1.1	-29	-34
2-yr sovereign spread vs Germany					
France	13	-0.3	0.5	2	-4
Italy	33	-0.9	-0.4	6	4
Portugal	47	0.0	2.2	-22	-21
Spain	30	1.1	0.4	6	3
Emerging Markets					
5-yr sovereign CDS *					
level	Daily	Weekly	Monthly	YTD	
Brazil	166	-5.0	15	10	6
Chile	54	-2.0	8	7	5
Colombia	111	-2.9	11	8	6
Mexico	114	-3.0	7	9	7
Peru	85	-2.6	11	9	13
Poland	48	-0.4	-1	0	0
Russia	122	0.3	10	11	4
Turkey	200	2.6	20	32	36
China	67	-1.8	9	8	16
India	76	0.4	9	6	7
Indonesia	106	-1.6	13	17	20
Risk indicators					
level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in ppt)					
VIX	20	-0.9	2	4	10
VSTOXX	19	-3.1	4	1	6
EM EFT volatility index	26	0.7	3	5	9
Dukerscore volatility	7	0.0	0	2	0
EM FX volatility index	8	0.1	0	0	0
Credit spread (BAA) (change in bps)	187	3.5	9	18	10
US bonds volatility index	55	-1.5	3	10	5
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5YSY)	2.40	-	1	4	8
EZ Inflation expectations (5YSY)	1.68	-	0	5	-6
Floating 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US	58	-0.6	7	6	16
EZ	62	0.6	12	11	23
UK	53	0.0	9	9	13
Large Spanish	55	-1.2	11	8	20
Medium Spanish	75	-1.1	6	7	1
Corporate 5Y CDS (bps) *					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	162	-0.6	6	16	6
EZ Non-financial	71	0.6	12	11	23
UK Non-financial	105	-0.2	7	5	12
Interbank markets (% change in ppt)					
level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	0	0	0
Euro3m	-0.33	0	0	0	0
Euro3m 12m	-0.19	0	0	0	-1
Libor 3m	2.29	0	7	35	60
Libor 12m	2.67	1	4	22	57
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,670	0.4	-1.7	-3	-1
Dow Jones	24,426	0.9	-1.2	-3	-2
Nikkei	21,317	2.7	-0.3	-3	-6
FTSE 100	6,995	1.5	-0.9	-3	-9
Eurostoxx 50	3,317	1.2	-2.8	-4	-5
IBEX	9,474	1.0	-2.1	-4	-6
DAX	11,971	1.6	-2.7	-4	-7
CAC	5,116	1.0	-2.6	-4	-3
MIB	22,210	0.9	-2.6	-2	2
ASE Athens	795	0.6	-1.4	-6	-3
MSCI Latam *	90,181	0.7	0.4	-3	5
Bovespa (Brazil)	85,016	-0.1	-1.0	-3	-9
Mexbol	46,958	0.2	-0.3	-3	-6
MSCI EM Europe *	5,474	-1.4	-1.0	-5	2
Poland	2,246	0.3	-1.1	-7	-9
Moor 10 (Russia)	4,415	0.5	-1.6	-1	7
Ise 100 (Turkey)	116,197	-0.2	-0.2	-1	-1
MSCI EM Asia *	3,936	1.0	-2.2	-1	1
Shanghai Com (China)	3,167	1.1	-3.8	-4	-5
Jakarta (Indonesia)	6,209	0.0	-1.3	-6	-2
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	111.5	1.1	-2.7	-5	3
Citi	70.5	1.1	-3.3	-8	-5
BoA	30.6	0.5	-4.3	-4	2
MS	54.8	0.6	-4.7	-2	5
GS	256.8	0.7	-2.4	-4	0
EZ banks					
BNP	104.0	0.9	-4.2	-7	-5
Crédit Agricole	59.5	1.3	-3.4	-8	-4
Deutsche Bank	13.2	0.7	-3.3	-5	-5
ING	11.3	1.1	-10.6	-15	-29
Intesa	13.6	1.1	-3.9	-8	-11
Intesa	2.9	0.1	-4.3	-5	6
SG	43.9	1.4	-3.5	-6	2
Unicredit	16.6	0.7	-3.8	-4	6
UK banks					
HSBC	86.5	0.4	-3.8	-5	-6
HSBC	672.0	1.0	-3.9	-7	-12
RBS	257.6	-0.3	-2.2	-4	-7
Barclays	206.2	0.1	-4.5	-2	1
Lloyds	65.0	0.6	-4.2	-5	-4
Large Spanish banks	78.3	0.6	-3.3	-8	-8
Santander	5.3	0.7	-1.9	-7	4
BBVA	6.3	0.4	-4.7	-9	-11
Medium Spanish banks	75.2	0.2	-3.5	-7	-2
CajaBank	3.8	0.3	-3.0	-4	-4
Sabadell	1.7	-0.3	-1.9	-5	-1
Bankinter	8.3	0.2	-4.2	-9	4
Banque	3.6	0.1	-4.9	-11	-11
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent					
WTX	70.2	0.1	4.2	4	5
WTX	65	-0.3	3.1	3	8
Copper	298	0.6	-1.6	-7	9
Gold	1343	-0.8	2.4	1	2
S&P Spot commodity *	453	-0.4	1.6	0	2
S&P Brent Spot *	592	-0.4	3.6	4	4
S&P Metals Spot *	365	0.0	-1.3	-6	-7
S&P Agriculture *	292	-0.8	-0.2	-2	3
* With one day delay					
Source: Bloomberg, Datastream and Haver					

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