

# Market Comment | Trade strains increase, but with mild effects on markets

Global Financial Markets Unit  
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- **Trade frictions between the US and China came under the spotlight after China announced it would take retaliatory measures following the US decision to impose new tariffs** of 10% on \$200 billion worth of imports from China [\(see\)](#). Moreover, **the increase in China's trade surplus did not help to reduce tensions** [\(see\)](#). However, trade strains had only a mild impact on financial markets this week, with commodity prices suffering the main negative impact, while Chinese equities rose on the prospect of trade talks between China and the US [\(see\)](#) to counteract increasing strains.
- Nonetheless, **trade concerns kept the US 10Y yield broadly steady**, although the 2Y yield increased, underpinned by firm June inflation [\(see\)](#) in the US, coupled with comments from the Fed's Chair supporting a gradual tightening cycle. As a result, the US yield curve continued to flatten. **The sovereign yield also remained steady in Germany**, while yields declined on the periphery, led by Italy after its finance minister reinforced its commitment to following EU fiscal rules at yesterday's Eurogroup meeting [\(see\)](#). In this context, peripheral risk premia narrowed across the board.
- In FX markets, **the US dollar appreciated against other major G-10 currencies, with both the Euro and the Japanese yen declining**. Regarding EM markets, **the Chinese renminbi slightly extended its depreciation**, due to heightening trade concerns, driving Asian currencies slightly lower. On the other hand, **Latam currencies were broadly steady**, with the ARS recovering some ground after the sharp decline, while the MXN remained steady, after last week's sharp appreciation. **Idiosyncratic factors dragged the TRY down.**
- **Commodity markets registered the main negative impact of trade tensions.** Both metal and agricultural commodities declined sharply this week, while oil prices declined as Libya resumed normal oil production.
- **Equity markets rose across the board**, with some exceptions, underpinned by expectations of positive 2Q18 company earnings results. Expectations that China may slow down its deleveraging process may also have helped to support equity markets.

Table 1  
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Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.58	-0.6	-4.3	-	56
US	2.83	-1.5	0.9	-14	37
GER (2-yr)	0.64	-0.3	1.8	-5	-3
Germany	0.34	-2.2	-1.2	-20	-19
France	0.62	-2.1	-2.4	-22	-21
Spain	1.28	-2.5	-4.8	-15	-35
Italy	2.56	-6.8	-15.9	-25	46
Portugal	1.74	-1.0	-6.7	-21	-27
Greece	3.86	-1.6	-11.1	-73	-25
Japan (2-yr)	-0.13	0.0	0.2	0	1
Japan	0.04	0.7	-1.4	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.35	-10.5	4.8	-48	109
Chile	4.58	-0.3	-1.0	-1	7
Colombia	6.60	4.6	3.6	1	16
Mexico	7.75	2.3	8.2	-18	18
Peru	5.15	-0.6	-6.7	-19	28
Poland	3.18	-1.0	-0.7	-8	-14
Russia	7.67	0.0	-13.2	3	3
Turkey	17.38	-38.0	65.0	174	602
India	7.79	1.9	-7.9	-14	41
Indonesia	7.49	-3.5	-13.6	19	120
Country risk (sp. change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	28	0.1	-1.2	-2	-7
Italy	222	-4.6	-14.7	-5	65
Portugal	140	1.2	-5.5	-1	-8
Spain	93	-0.3	-3.6	5	-17
2-yr sovereign spread vs Germany					
France	19	-1.6	-0.8	8	2
Italy	131	-2.8	-17.5	-20	95
Portugal	51	-3.3	-5.5	2	-3
Spain	33	-1.0	-9.2	-9	6
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	246	-4.3	-13	-17	85
Chile	57	-1.8	-4	0	8
Colombia	111	-1.3	1	-14	6
Argentina	433	-5.7	5	55	195
Mexico	113	-4.9	-7	-38	6
Peru	84	-1.6	-5	-5	12
Poland	60	-0.2	4	6	12
Russia	125	-2.2	-11	-13	7
Turkey	329	2.0	39	38	165
China	67	-4.8	-3	12	17
India	99	-2.4	-4	12	30
Indonesia	122	-3.8	-10	-4	37
Risk indicators					
Volatility indicators (change in pp)					
level	Daily	Weekly	Monthly	YTD	
VIX	13	0.1	-1	0	3
VSTOXX	13	-0.4	-2	0	0
EM EFT volatility index	18	-0.2	-2	0	1
Dollar/rupee volatility	7	0.2	0	0	0
EM FX volatility index	10	0.1	1	1	2
Credit spread (BAA) (change in bp)	193	1.5	-3	5	15
US bonds volatility index	49	-1.29	-2	-2	-1
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.42	-	0	-4	10
EU Inflation expectations (5Y5Y)	1.71	-	-2	-3	-3
Banking by CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US	54	-1.9	-2	-2	12
EZ	88	-2.3	-6	-11	48
UK	62	-1.1	1	6	21
Large Spanish	86	-2.1	-5	0	50
Medium Spanish	97	0.9	-2	1	22
Corporates by CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	158	-1.9	-2	-2	12
EZ Non-financial	80	-2.3	-6	-11	48
UK Non-financial	106	-1.2	2	3	13
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
EDMIA Index	0.36	0	0	0	1
Earlibor 3m	0.32	0	0	0	1
Earlibor 12m	-0.18	0	0	0	1
Libor 3m	2.34	0	0	0	64
Libor 12m	2.75	0	-1	1	67
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,798	0.0	1.4	0.8	4
Dow Jones	24,987	0.2	2.2	0.9	1
Nikkei	22,597	1.8	3.7	1.6	11
FTSE 100	7,669	0.2	0.7	0.5	0
EuroStoxx 50	3,453	0.2	0.1	-0.8	-1
IBEX	9,729	-0.4	-1.8	-1.7	-3
DAX	12,529	0.3	0.3	2.8	-3
CAC	3,426	0.4	0.9	-0.5	-3
MI8	21,891	0.5	0.2	1.5	0
ASX Allseas	762	1.3	2.0	-1.0	-7
MSCI Latam*	64,402	0.9	0.9	2.6	-2
Ibovespa (Brazil)	75,647	-0.3	0.8	4.9	-3
Mercol (Mexico)	48,537	-0.3	0.9	3.8	-3
Merval (Argentina)	25,688	-0.1	-3.4	-11.8	-14
MSCI Europe*	5,282	-0.5	-1.9	0.0	-2
Poland	2,153	-0.4	0.1	-3.8	-13
Mex 10 (Mexico)	4,527	0.7	0.8	3.5	10
Isa 100 (Turkey)	90,013	0.5	0.8	-3.7	-23
MSCI Asia*	885	0.7	1.7	6.7	-4
Shanghai Com (China)	2,831	-0.2	3.1	-7.2	-15
Jakarta Indonesia	5,944	0.9	3.6	0.8	6
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	138.9	-0.7	1.7	-3.8	-7
JPM	106.7	-0.1	2.6	2.9	-1
Cit	66.9	-2.4	-0.4	0.6	-10
Bac	28.5	-0.8	1.8	-4.4	-5
MS	48.1	0.2	2.2	6.7	-8
GS	226.4	-0.4	2.1	-3.2	-11
EZ banks	90.0	0.5	-1.9	-3.6	-18
BNP	52.4	-0.1	-2.8	-3.9	-16
Credit Agricole	11.4	1.1	-0.8	-5.1	-18
Deutsche Bank	9.6	0.4	-1.7	0.6	-40
ING	12.5	0.2	-0.8	-2.6	-19
Intesa	2.5	0.8	-3.8	5.1	-11
SG	36.3	0.5	-1.2	-3.3	-16
Unicredit	14.4	0.1	-2.3	2.4	-9
UK banks	84.3	-0.1	0.5	-3.4	-8
HSBC	709.9	0.0	1.1	-3.1	-7
RBS	244.8	-0.4	-1.4	6.6	-12
Barclay	189.9	0.2	1.8	-4.0	-7
Lloyds	62.5	-0.1	0.0	0.6	8
Large Spanish banks	72.0	-0.6	-4.1	2.0	-15
Santander	4.6	-0.7	-2.7	-3.0	-15
BBVA	6.6	-0.4	-5.3	-1.1	-15
Medium Spanish banks	71.2	0.0	-2.0	5.0	-7
Casabank	3.7	0.3	-3.1	-4.8	-6
Sabadell	1.4	0.1	-3.3	-5.0	-15
Bankinter	8.5	0.0	0.5	3.6	7
Banisa	3.2	-0.3	-4.3	8.9	-22
Commodities (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,165	-0.2	-0.8	-1.2	-3
GBPUSD	1,337	-0.2	-0.7	-1.4	-3
USDJPY	112.48	0.1	-1.8	-1.9	0
DOY	94.98	0.2	1.1	1.1	3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	27.27	-0.2	2.4	-3.8	48
USDRL (Brazil)	3.88	0.0	0.5	-4.3	-19
USDCOP (China)	648.10	-0.1	1.3	2.5	-7
USDCOP (Colombia)	286.1	0.5	0.4	0.1	2
USDMPX (Mexico)	18.92	0.3	0.6	8.3	3
USDPEN (Peru)	3.27	0.0	0.4	0.0	1
LACI	57.85	0.4	0.4	1.0	-9
USDPRM (Poland)	3.71	-0.1	0.2	-2.2	-7
USDRLB (Russia)	62.24	0.0	1.2	0.4	8
USDTRY (Turkey)	4.84	0.3	-5.8	-4.1	-28
USDCHY (China)	6.70	-0.4	0.8	-4.7	-3
USDRIE (India)	65.53	0.1	0.5	-1.3	8
USDIDR (Indonesia)	14,378	0.1	0.0	-3.2	-6
ADXY	106.3	-0.3	-0.6	3.2	-3
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	74.8	0.4	-3.0	-3	12
WTI	71	0.6	-4.1	6	17
Copper	277	0.1	-1.5	-1.5	-15
Gold	1242	-0.5	-1.1	-4	-6
S&P Spot commodity*	481	0.5	-4.0	3	4
S&P Brent Spot**	634	1.5	-3.5	-3	12
S&P India Spot**	247	0.6	-1.8	-13	-12
S&P Agricultural*	277	1.4	-3.6	-10	-3

\*With one day delay  
Source: Bloomberg, Datastream and Haver

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