

Market Comment | Core yields consolidate recent high levels despite global trade tensions

Global Financial Markets Unit
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- **The resumption of global trade tensions between the US and China, and numerous Central Bank policy meetings, were the focus of attention on financial markets.**
- **The upsurge of trade tensions between the US and China after a week of relative calm.** The US increased the pressure early this week by threatening to impose an additional 15% tariff on \$200 bn worth of imports from China (an increase to 25% from the 10% tariff previously announced) ([see](#)). In response, China has announced new tariffs on \$60 bn worth of imports from the US ([see](#)). Recent developments hampered risk assets, and **equity markets declined across the board**. Chinese stocks were the most penalized during the week, while some positive earnings reports moderated the negative mood in developed market indices.
- **Some of the main central banks announced policy decisions during this week. The BoJ tweaked its monetary policy:** despite introducing forward guidance on interest rates, which would remain low for an extended period, they also doubled the fluctuation range of the 10Y yield and reduced the size of bank reserves subject to negative rates. The measure was read as a slightly hawkish movement and increased sovereign yields across the board, including US and German yields.
- As expected, **the FOMC held interest rates**, with a muted impact on financial markets. It reaffirmed its intention of gradually increasing interest rates on the back of the strengthening of the economic outlook. The maintenance of a slightly hawkish tone increased the market probability for a rate hike at the next FOMC meeting ([see](#)). **The Bank of England raised its key interest rate by 0.25%** to 0.75%, in line with market expectations ([see](#)). The gradual (cautious) pace of increases hinted at by Carney in a highly uncertain outlook due to Brexit was read by markets as a dovish rate hike.
- Against this backdrop, core yields registered erratic movement during the week: they increased early this week, fuelled by the Bank of Japan's tweak: **the 10Y US yield hit 3%, while the German Bund hovered around the 0.5% threshold**. Nonetheless, as the week went by, safe-haven flows due to the upsurge of trade tensions and the increase in political uncertainty in Italy - which caused a rebound of Italy's risk premium during the week ([see](#)) - moderated the increase in core yields. Slightly worse-than-expected US job data for July released today also dragged down US yields ([see](#)).
- **The USD appreciated across the board.** Despite the tweak of the BoJ's monetary policy, the JPY ended the week slightly depreciated, while the GBP showed a sharp depreciation after a "dovish hike" by the Bank of England ([see](#)). **The USD appreciation, poor performance of commodity prices and idiosyncratic factors weighed on EM currencies.** The TRY was the most penalized after the US announced the imposition of sanctions on two of Turkey's Ministers, ([see](#)) reaching a new record low. The MXN remained almost unchanged after Banxico held the interest rate at 7.75%, as expected ([see](#)).

The BRL depreciated against the US dollar following the Brazilian Central Bank's decision to hold its interest rate unchanged.

Table 1

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Debt markets (10Y % changes in bps)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
US (2-yr)	2.65	-12	-18	11	13	
US	2.95	-3.2	0.0	12	49	
GER (2-yr)	-0.59	-1.2	1.3	7	2	
Germany	0.41	-4.9	0.8	5	-11	
France	0.74	-4.3	3.6	9	8	
Spain	1.43	-2.7	5.5	7	-24	
Italy	2.95	4.0	21.0	30	86	
Portugal	1.79	-2.4	6.0	3	-22	
Greece	4.09	1.3	26.5	13	-1	
Japan (2-yr)	-0.11	-1.1	0.2	2	2	
Japan	0.11	-1.5	0.6	3	6	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	11.15	-16.9	10.2	-21	89	
Chile	4.56	0.2	0.6	5	4	
Colombia	6.89	0.2	9.6	34	45	
Mexico	7.71	-2.1	-3.8	9	13	
Peru	5.10	-0.6	-3.6	-15	23	
Poland	3.11	-3.9	5.0	-13	-20	
Russia	7.92	-1.7	2.4	0	38	
Turkey	16.35	14.0	101.0	142	699	
India	7.76	4.2	-1.7	-9	38	
Indonesia	7.83	4.8	7.7	8	153	
Country risk (bps, change in bps)	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany	France	33	0.6	2.8	4	3
Italy	254	8.9	20.2	25	97	
Portugal	137	2.5	5.2	-2	-11	
Spain	102	2.2	4.7	2	13	
2-yr sovereign spread vs Germany	France	19	-2.0	-0.4	0	3
Italy	162	7.2	25.3	28	125	
Portugal	44	2.1	0.7	-10	-6	
Spain	29	-0.3	1.1	-12	2	
Emerging Markets	Brazil	215	-0.1	4	-47	55
Chile	50	1.0	-1	-13	0	
Colombia	105	-1.5	1	-10	0	
Argentina	432	8.1	10	-8	194	
Mexico	117	1.5	10	-13	10	
Peru	77	-0.3	0	-13	5	
Poland	62	0.3	1	0	14	
Russia	138	5.4	4	-2	20	
Turkey	242	10.7	35	44	177	
China	64	4.0	7	-5	13	
India	89	-0.4	0	-13	-20	
Indonesia	118	3.4	11	-18	33	
Risk indicators	level	Daily	Weekly	Monthly	YTD	
Volatility indicators (change in ppt)	VIX	12	0.2	0.2	2	2
VSTOXX	14	-0.8	2	-3	0	
EM EFT volatility Index	18	-0.3	1	-4	2	
Dollar/euro volatility	6	0.2	0	-1	0	
EM FX volatility index	10	0.2	0	1	2	
Credit spread (BAA) (change in bps)	188	3.2	3	-11	10	
US bonds volatility index	48	-0.4	-1	-3	-1	
Inflation expectations (%)	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.46	-	2	1	14	
EZ Inflation expectations (5Y5Y)	1.72	-	2	1	-2	
Banking CDS (bps)	level	Daily	Weekly	Monthly	YTD	
US	50	0.1	1	-7	7	
EZ	84	3.0	2	-13	44	
UK	63	2.5	3	1	23	
Large Spanish	75	6.4	7	-20	39	
Medium Spanish	90	0.7	1	-7	15	
Commodity CDS (bps)*	level	Daily	Weekly	Monthly	YTD	
US Non-financial	158	0.1	1	-7	7	
EZ Non-financial	74	3.0	2	-13	44	
UK Non-financial	99	0.9	0	-10	6	
Interbank markets (% changes in bps)	level	Daily	Weekly	Monthly	YTD	
ONIA Index	-0.36	0	1	1	1	
Earlibor 3m	-0.92	0	0	0	1	
Earlibor 12m	-0.18	0	0	1	1	
Libor 3m	2.35	0	1	1	65	
Libor 12m	2.83	0	2	5	73	
Stock markets (%)	level	Daily	Weekly	Monthly	YTD	
Market indices	S&P500	2,831	0.2	0.4	4.4	5
Dow Jones	25,406	0.3	0.2	5.1	2	
Nikkei	22,525	0.1	0.8	3.7	1	
FTSE 100	7,650	1.0	0.7	1.0	0	
Euro Stoxx 50	3,481	0.3	-1.3	2.0	0	
IBEX	9,742	0.5	-1.3	0.2	-3	
DAX	12,606	0.5	-2.0	2.3	-2	
CAC	5,475	0.3	0.7	2.9	4	
MB	21,568	0.7	-1.8	0.5	-1	
ASE Athens	762	0.8	1.4	2.3	-7	
MSCI Latam*	86,927	-0.1	-0.2	5.5	1	
Bovespa (Brazil)	81,410	2.2	1.9	8.9	5	
Merckel (Mexico)	49,367	0.6	0.6	4.3	-1	
Merval (Argentina)	29,354	1.6	0.3	6.0	-6	
SENSEX (India)	5,337	-1.3	0.1	0.7	-1	
MSCI EM Europe*	2,285	0.0	0.3	4.7	-7	
Micex 10 (Russia)	4,320	-0.3	-0.3	3.7	5	
Ind 100 (Turkey)	95,414	0.9	-0.2	-1.9	-19	
MSCI EM Asia*	977	-1.6	-2.2	0.1	5	
Shanghai Com (China)	2,740	-1.0	-4.6	0.7	-18	
Jakarta (Indonesia)	6,009	-0.4	1.0	6.6	-5	
Financial institutions	level	Daily	Weekly	Monthly	YTD	
US banks	JPM	149.0	0.4	-0.1	9.9	0
WFC	116.5	0.3	0.4	12.4	8	
CIT	72.1	0.4	0.6	9.2	3	
BA	31.4	0.3	1.0	12.9	5	
MS	50.0	0.4	-2.0	6.4	-4	
GS	235.2	0.5	-1.0	6.7	8	
EZ banks	93.2	0.8	-0.3	3.1	-15	
BNP	54.3	0.6	0.9	2.0	-13	
Credit Agricole	12.3	3.0	4.5	8.0	-12	
Deutsche Bank	10.7	0.2	1.1	15.2	-33	
ING	12.9	0.5	-1.4	4.3	-16	
Inspira	2.4	0.8	-2.9	-3.8	-12	
SG	37.4	0.6	0.3	2.8	-13	
Unicredit	14.4	1.0	-3.7	-1.9	-9	
UK banks	85.9	1.5	-0.1	2.0	-7	
HSBC	718.1	2.0	-1.3	2.7	-6	
RBS	257.3	2.9	3.1	2.8	-7	
Barclays	139.0	1.3	-1.0	1.7	-7	
Lloyds	62.6	-0.1	0.0	0.5	-7	
Large Spanish banks	72.7	0.3	-2.4	0.1	-14	
Santander	4.7	0.2	-2.6	1.0	-14	
BBVA	6.1	0.3	-2.2	-1.1	-14	
Medium Spanish banks	71.4	0.5	0.6	-0.9	-7	
CaixaBank	3.9	1.0	1.9	-3.9	-1	
Sabadell	1.4	0.6	3.7	-1.1	-15	
Bankinter	8.0	0.2	-2.8	-5.5	1	
Banels	2.3	0.0	1.9	1.6	18	
Currencies (%; incl for currency depreciation)	level	Daily	Weekly	Monthly	YTD	
Developed	EURUSD	1,159	0.1	-0.6	0.8	-4
GBPUSD	1,300	0.0	-0.7	-1.6	-4	
USDJPY	111.19	0.4	-0.1	0.6	1	
DXY	95.13	0.0	0.5	0.6	-1	
Emerging	USDARS (Argentina)	27.35	0.3	-0.1	2.6	-49
USDBRL (Brazil)	3.71	1.0	-0.1	5.1	-14	
USDCJP (China)	643.37	0.2	-0.1	1.4	6	
USDCOP (Colombia)	2900	0.2	0.4	0.2	1	
USDMXN (Mexico)	16.59	0.3	0.2	4.5	5	
USDPEN (Peru)	3.27	0.2	0.1	0.7	-1	
LACI	59.02	0.3	0.1	3.7	-7	
USDPIN (Poland)	3.67	0.6	0.2	2.4	-6	
USDRUB (Russia)	63.16	0.3	-0.7	0.2	-10	
USDTRY (Turkey)	5.08	-0.2	-4.7	8.8	-35	
USDCNY (China)	6.83	0.2	0.2	3.0	5	
USDINR (India)	68.82	0.1	0.1	0.2	8	
USDIDR (Indonesia)	14,498	-0.1	-0.6	0.9	-7	
ADXY	105.4	0.2	-0.2	-1.4	-4	
Commodities (%)	level	Daily	Weekly	Monthly	YTD	
Crude	73.5	0.1	-1.1	-6	10	
WTI	89	-0.2	0.2	-7	14	
Copper	270	-1.0	-3.1	-7	-17	
Gold	1219	0.9	0.4	-3	-7	
S&P Spot commodity *	462	1.0	-0.6	-4	4	
S&P Bond Spot *	626	1.5	-1.8	6	10	
S&P Metals Spot *	342	-0.7	-2.2	-5	-13	
S&P Agriculture *	294	0.3	1.8	5	3	

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

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