

Market Comment | Hopes for easing US-China trade woes reinforced positive mood in markets

Global Financial Markets Unit
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- After a couple of weeks in which volatility on the financial markets and sharp falls in risk assets were the main highlights, **major markets seem to have recovered some of their lost ground this week**. US-China trade remained in the spotlight in a week full of economic releases in developed markets. Regarding central banks, **waiting for next week's FOMC meeting in the US**, the uneventful Bank of Japan meeting had only a slight impact on markets, while the latest Bank of England meeting - along with fresh news regarding Brexit negotiations - had a material impact on the GBP.
- **Equity markets recovered this week across the board as US-China trade tensions seemed to recede** after the latest comments from the US president ([see](#)). Moreover, China vowed to cut taxes and step up support to the private sector, in an effort to curtail the negative impact from US tariffs, which is currently materializing in worsening confidence data ([see](#)). The release of positive earnings reports for companies in developed markets (US and EZ) also supported the recovery in developed equity markets.
- **Core yields also have reflected the improving conditions in global trade**, and the UST 10Y approached 3.20%, while the German Bund also returned above the 0.40% threshold during the week. The ongoing upward trend in yields was also boosted by **today's better-than-expected US job creation data** (nonfarm payrolls) which continued to reinforce the approach of gradual tightening by the Fed ([see](#)) and contributed to offset partially the worse-than-expected confidence data in the US ([see](#)) which cast some early doubts on the health of the US economic cycle.
- Meanwhile, **the release of economic data in the EZ was mixed**: on the one hand, the disappointing release of preliminary 3Q18 GDP growth data ([see](#)) and today's PMI manufacturing data (also below expectations) ([see](#)); on the other hand the inflation figures ([see](#)) and unemployment rate ([see](#)) which did not miss market expectations.
- Against this backdrop, **peripheral risk premia narrowed this week**. Last Friday, S&P left Italy's credit rating unchanged at BBB (two notches above junk status) but cut its outlook to negative (from stable) ([see](#)). Despite the uncertainty surrounding Italy's 2019 budget plan, the Italian 10Y yield declined sharply, leading the **Italy's risk premium to position below 300 bps**.
- **In this context the cyclical risk premium and demand for safe-haven currencies has decreased**: the USD depreciated slightly (although today's release of US job creation data boosted the US dollar), and the JPY depreciated even more in the week in which the Bank of Japan kept its benchmark interest rate unchanged and continued with its debt purchases to maintain long-term rates around 0%. The GBP appreciated strongly, favoured by the hawkish tone of the Bank of England ([see](#)) and the flow of news regarding Brexit negotiations ([see](#)).

- In EM FX markets, some currencies benefited from the USD's weakness. **The TRY appreciated this week** despite the Turkish Central Bank's increasing its inflation forecast ([see](#)) and the release of fresh fiscal measures ([see](#)), while Latam currencies were mixed, driven by idiosyncratic factors. Last weekend's victory of Bolsonaro in the Brazilian presidential elections boosted the BRL ([see](#)), but as the week went by the BRL trimmed gains and ended down against the USD. The **MXN underperformed other EM currencies**, dragged down by the cancellation of the new airport after public consultation ([see](#)), and the cut in Mexico's credit rating outlook to negative (from stable) by Fitch ([see](#)). Finally, the COP remained steady after the Central Bank of Colombia left its interest rate unchanged, as expected ([see](#)).
- **Crude oil prices declined sharply in the week** despite US oil inventories being below expectations ([see](#)). The US announced today that some countries could continue to buy Iranian oil after its sanctions on Iran take effect in the next few days ([see](#)), a fact that could anchor oil prices in their recent lower bound (around 70USD per barrel).

Table 1

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Debt markets (10Y, % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.90	5.1	9.2	2	98
US	3.20	6.5	12.0	1	73
GER (2-yr)	0.61	0.6	1.6	8	0
Germany	0.43	3.4	8.1	4	9
France	0.79	3.1	5.2	3	3
Spain	1.58	1.0	1.1	4	9
Italy	3.33	-5.1	-11.7	2	123
Portugal	1.88	0.0	-2.2	-1	-13
Greece	4.30	6.5	-0.1	-11	20
Japan (2-yr)	0.13	-0.5	-1.1	-2	0
Japan	0.13	0.6	1.6	-1	8
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	10.11	0.0	-9.9	-121	15
China	4.56	0.0	-1.0	2	4
Colombia	7.16	0.5	-1.0	22	72
Mexico	8.79	0.0	45.3	85	122
Peru	5.60	1.1	9.7	28	72
Poland	3.23	0.9	8.9	-4	-9
Russia	8.67	-1.6	-7.0	3	103
Turkey	17.08	-71.0	-23.0	-14	373
India	7.78	-4.2	-9.5	-33	40
Indonesia	0.34	-14.2	-34.8	8	204
Country risk (bp change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	26	-0.3	-2.9	1	6
Italy	290	-8.5	-19.8	6	132
Portugal	145	-3.4	-10.3	3	-4
Spain	115	-2.4	-7.0	8	-1
5-yr sovereign spread vs Germany					
France	19	-0.3	-1.3	0	3
Italy	149	-12.4	-25.5	-25	112
Portugal	47	-1.2	-3.2	3	-2
Spain	48	-0.7	4.3	13	21
5-yr sovereign CDS*					
level	Daily	Weekly	Monthly	YTD	
Brazil	199	-5.0	-10	-52	38
China	52	-2.0	2	10	3
Colombia	126	-3.1	1	18	21
Argentina	580	-25.6	-30	6	142
Mexico	141	-3.5	9	33	34
Peru	82	-1.8	2	10	10
Poland	68	0.6	1	1	19
Russia	146	-0.2	-3	9	28
Turkey	385	-0.7	-4	-6	220
China	71	-0.7	1	14	-1
India	113	-0.4	0	9	44
Indonesia	150	-0.4	4	22	71
Risk indicators					
Volatility indicators (change in ppt)	level	Daily	Weekly	Monthly	YTD
VIX	20	1.0	-4	9	11
VSTOXX	19	-0.3	-8	4	5
EMFT volatility Index	27	0.6	-4	6	11
Dollar/euro volatility	7	-0.3	0	-1	0
EM FX volatility Index	10	-0.1	0	0	2
Credit spread (Basis) change in bps	199	-6.5	4	19	21
US bonds volatility index	59	-1.6	-4	8	9
Inflation expectations (bps)					
level	Daily	Weekly	Monthly	YTD	
US inflation expectations (5YS)	2.32	-	-	-	0
EZ inflation expectations (5YS)	1.68	-	2	0	6
Banking Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US	58	-0.4	2	10	16
UK	103	-2.3	-3	11	64
EM	66	-1.5	-2	5	26
Large Spanish	75	-1.4	-6	1	39
Medium Spanish	104	-1.4	0	10	29
Corporate Sy CDS (bps)*					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	172	-0.4	-2	10	16
EZ Non-financial	92	-2.3	-3	11	64
UK Non-financial	106	-1.2	0	5	13
Interbank markets (% changes in bp)					
level	Daily	Weekly	Monthly	YTD	
ONIA Index	-0.35	0	2	2	2
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.15	0	0	1	4
Libor 3m	2.58	2	7	17	89
Libor 12m	3.10	1	4	17	99
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,723	-0.6	2.4	-6.9	1
Dow Jones	25,247	-0.5	2.3	-5.9	2
Nikkei	22,244	2.6	5.0	-7.7	-2
FTSE 100	7,117	0.0	2.6	-5.2	-7
EuroStoxx 50	3,220	0.5	2.7	-5.4	8
BEX	8,996	0.5	3.0	-3.9	-11
DAX	11,546	0.7	3.1	-6.0	-10
CAC	5,110	0.5	2.9	-7.0	-3
IBEX	19,355	0.9	3.6	-6.7	-11
ASE Athens	619	0.0	-2.2	-7.1	-24
MSCI Latam*	85,315	1.6	3.0	1.8	-4
Ibovespa (Brazil)	68,419	0.0	3.1	8.2	14
Mercol (Mexico)	45,447	0.0	-0.8	-7.3	-9
Merval (Argentina)	31,453	0.5	7.3	-2.3	1
MSCI EM Europe*	5,270	0.2	0.6	4.2	-2
Poland	2,191	1.8	5.2	-4.6	-11
Micon 10 (Russia)	4,255	0.8	4.4	-5.3	3
Shanghai 30 (China)	54,123	1.9	0.0	13.2	-20
MSCI EM Asia*	794	1.2	2.4	-7.3	-14
Shanghai Com (China)	2,676	2.7	3.0	-5.1	20
Jakarta (Indonesia)	5,906	1.3	2.6	0.5	7
Banking sector					
level	Daily	Weekly	Monthly	YTD	
US banks	137.3	0.0	4.9	-5.2	8
JPM	108.4	-0.6	4.8	-5.8	0
Cit	66.1	0.4	3.0	-8.6	-11
BofA	27.8	0.0	5.4	-7.3	-7
MS	45.9	0.0	4.3	-2.6	-12
GS	222.2	0.1	7.0	9.2	11
EZ banks	81.3	1.4	4.4	-6.2	-26
BNP	46.6	0.7	-0.7	-10.7	-25
Credit Agricole	11.6	1.2	3.9	-6.4	-17
Deutsche Bank	9.1	2.0	7.2	-4.9	-43
ING	11.3	1.8	10.1	0.6	-26
Intesa	2.0	0.7	3.2	-5.6	-27
SG	33.3	2.0	2.9	-9.3	-23
Unicredit	11.7	2.4	6.7	-6.4	-25
UK banks	79.9	1.2	6.4	-0.4	-13
HSBC	648.3	1.5	7.2	-3.1	-15
RBS	244.1	1.4	8.5	-1.7	-12
Barclays	176.6	0.6	5.1	2.4	-13
Lloyds	59.6	1.2	4.8	2.0	-12
Large Spanish banks	64.0	1.9	3.9	-2.4	-24
Santander	4.3	1.0	6.3	-1.4	-22
BBVA	5.2	2.8	1.6	-3.2	-27
Medium Spanish banks	63.3	1.0	4.3	-9.6	-17
Casabank	3.5	1.0	1.3	-7.9	-11
Sabadell	1.2	1.7	9.7	-8.8	-29
Bankinter	7.4	0.7	6.1	-8.4	-7
Banca	2.5	1.2	0.9	-15.9	-30
Currencies (% net for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,139	-0.1	-0.1	-0.7	6
GBPUSD	1,30	-0.3	1.1	0.3	5
USDJPY	113.01	-0.3	-1.0	1.3	-1
DKX	96.32	0.0	0.0	0.6	5
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	35.65	0.1	3.3	5.7	48
USDBRL (Brazil)	3.70	0.0	-1.6	5.4	-12
USDCLP (Chile)	685.98	0.4	0.2	-3.6	-12
USDCOP (Colombia)	3,177	0.6	0.1	-5.4	-8
USDMXN (Mexico)	20.04	0.6	-3.4	-4.9	-2
USDPEN (Peru)	3.36	-0.2	-0.4	-1.2	4
ILCI	55.29	0.4	-1.4	0.5	-13
USDRN (Poland)	3.79	0.0	0.3	-1.1	9
USDRUB (Russia)	66.01	-0.5	-0.6	-0.2	-13
USDTRY (Turkey)	5.43	1.5	3.0	11.4	-31
USDTRY (China)	6.89	0.5	0.8	-0.3	-6
USDINR (India)	72.44	1.4	1.4	1.2	-12
USDIDR (Indonesia)	14,955	1.2	1.8	0.8	-10
ADXY	104.4	0.4	0.9	0.2	5
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	72.9	0.1	-6.0	15	10
WTX	63	-0.6	-6.3	-17	5
Copper	280	2.7	1.9	-1	-14
Gold	1233	0.0	0.0	3	-6
S&P Spot commodity *	451	-1.2	-3.7	-10	2
S&P Brent Spot *	626	-2.9	-6.1	-16	9
S&P Metal Spot *	331	1.3	-1.8	6	-16
S&P Agrifutural *	289	1.8	0.0	2	1

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

Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US (2-yr)	2.90	5.1	8.9	2	98
US	3.20	6.5	12.0	1	73
GER (2-yr)	-0.61	0.4	1.6	-8	0
Germany	0.43	3.4	8.1	-4	-9
France	0.79	3.1	5.2	-3	-3
Spain	1.58	1.0	1.3	4	-9
Italy	3.33	-5.1	-11.7	2	123
Portugal	1.88	0.0	2.2	-1	-13
Greece	4.30	6.5	-0.1	-13	20
Japan (2-yr)	-0.13	0.5	-1.3	-2	0
Japan	0.13	0.6	1.6	-1	5
Emerging Markets					
Brazil	10.11	0.0	9.9	-121	-15
Chile	4.56	0.0	-1.0	2	-4
Colombia	7.16	0.5	-1.0	22	72
Mexico	8.79	0.0	45.3	85	122
Peru	5.60	1.1	9.7	28	72
Poland	3.23	0.9	8.9	-4	-9
Russia	8.67	-1.6	-7.0	3	103
Turkey	12.09	-71.0	23.0	-144	523
India	7.78	-4.2	-9.5	-33	40
Indonesia	8.24	14.2	34.8	8	204
Country risk (bp changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	35	0.3	2.9	1	6
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Spain	48	-0.7	4.3	13	21
Emerging Markets					
5-yr sovereign CDS *					
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Chile	52	-2.0	2	10	3
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Argentina	580	-25.6	-30	6	342
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Peru	82	-1.8	2	10	10
Poland	68	0.6	1	1	10
Russia	146	-0.2	-3	9	28
Turkey	385	-0.7	-4	-6	220
China	71	0.7	1	14	21
India	113	-0.4	0	9	44
Indonesia	156	-0.4	4	22	71
Risk indicators					
Volatility indicators (change in bp)					
VIX	20	1.0	-4	9	11
VSTOXX	19	-0.3	-5	4	5
EM EFT volatility Index	27	0.6	-4	6	11
Dollar/euro volatility	7	-0.3	0	-1	0
EM FX volatility index	10	-0.1	0	0	-2
Credit stress (BAA) (change in bp)	199	6.5	-4	19	1
US bonds volatility index	59	-1.6	-4	8	9
Inflation expectations (%)					
US Inflation expectations (5Y)					
US	2.32	-	-2	-11	-
EZ Inflation expectations (5Y)					
EZ	1.68	-	2	0	-6
Banking S&P CDS (bps) *					
US	58	0.4	-2	10	16
EZ	103	-2.3	-3	11	64
UK	66	-1.5	-2	5	26
Large Spanish	75	-1.4	-6	1	39
Medium Spanish	104	-1.4	0	10	29
Corporate S&P CDS (bps) *					
US Non-financial	172	-0.4	-2	10	16
EZ Non-financial	82	-2.3	-3	11	64
UK Non-financial	106	-1.2	0	5	13
Interbank markets (% changes in bp)					
EOANA Index	-0.35	0	2	1	-2
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.15	0	0	1	4
Libor 3m	2.98	2	7	17	89
Libor 12m	3.10	1	4	17	99
Stock markets (%)					
Main indices					
S&P500	2,723	0.6	2.4	6.9	1
Dow Jones	25,247	0.5	2.3	5.9	2
Nikkei	22,244	2.6	5.0	-7.7	-2
FTSE 100	7,117	0.0	2.6	-5.2	-7
Euro Stoxx 50	3,220	0.5	2.7	5.4	-9
IBEX	8,996	0.5	3.0	-3.9	-11
DAX	11,546	0.7	3.1	-6.0	-10
CAC	5,130	0.5	2.9	-7.0	-9
MI8	19,355	0.9	3.6	-6.7	-11
ASE Athens *	619	0.0	-2.2	-7.1	-24
MSCI Latin *	89,315	1.6	3.0	1.8	4
Ibovespa (Brazil)	88,419	0.0	3.1	6.2	14
Mexbol (Mexico)	45,447	0.0	0.8	-7.3	-9
Mercol (Argentina)	31,453	0.5	7.1	2.3	1
MSCI EM Europe *	5,270	0.2	0.6	-4.2	-2
Poland	2,191	1.8	5.2	-4.6	-11
Mosx 10 (Russia)	4,255	0.8	4.4	-5.3	-3
Isx 100 (Turkey)	94,123	1.9	4.0	-3.2	-20
MSCI EM Asia *	794	1.2	2.4	-7.3	-14
Shanghai Com (China)	2,676	2.7	3.0	5.1	-20
Jakarta (Indonesia)	5,906	1.3	2.6	0.5	-7
Banking sector					
US banks					
JPM	137.3	0.0	4.9	-5.2	-8
WFC	108.4	-0.6	4.8	-5.8	0
CS	65.1	0.4	3.0	-8.6	-11
BoA	27.8	0.0	5.4	-7.3	-7
MS	49.9	0.0	4.3	-2.6	-12
GS	2,272.2	0.1	7.0	-0.2	-11
EZ banks					
BNP	81.3	1.4	4.4	-6.2	-26
BNP	46.8	0.7	-0.7	-10.7	-25
Credit Agricole	11.6	1.2	3.9	-6.4	-17
Deutsche Bank	9.1	2.0	7.2	-4.9	-43
ING	11.3	1.8	10.1	0.6	-26
Intesa	2.0	0.7	3.2	5.6	-27
SG	33.3	2.0	2.9	9.3	-23
Unicredit	11.7	2.4	6.7	6.4	-25
UK banks					
HSBC	79.9	1.2	6.4	-0.4	-13
HSBC	648.3	1.5	7.2	-3.1	-15
RES	244.1	1.4	8.5	-1.7	-12
Barclays	176.6	0.6	3.1	2.4	-13
Lloyds	59.6	1.2	4.8	2.0	-12
Large Spanish banks					
Santander	64.0	1.9	3.9	2.4	-24
Santander	4.3	1.0	6.3	-1.4	-22
BBVA	5.2	2.8	1.6	-3.2	-27
Medium Spanish banks					
Cajamar	63.3	1.0	4.3	9.6	-17
Cajabank	3.5	1.0	1.3	-7.9	-11
Sabadell	1.2	1.7	9.7	-8.8	-29
Bankinter	7.4	0.7	6.1	-8.4	-7
Bankia	2.8	1.2	0.9	-15.9	-30
Currencies (% ind for currency depreciation)					
Developed					
EURUSD	1.139	-0.1	-0.1	0.7	-6
GBPUSD	1.30	-0.3	1.1	0.3	-5
USD JPY	113.01	-0.3	-1.0	1.3	-1
DKY	96.32	0.0	0.0	0.6	5
Emerging					
USDARS (Argentina)	35.65	0.1	3.1	5.7	48
USDBRL (Brazil)	3.70	0.0	-1.6	5.4	-12
USDCLP (Chile)	685.99	0.4	0.2	-3.6	-12
USDCOP (Colombia)	3177	0.6	0.1	-5.4	-9
USDMXN (Mexico)	20.04	0.6	-3.4	-4.9	-2
USDPEN (Peru)	3.36	-0.2	-0.4	-1.2	-4
LACT	55.29	0.4	-1.4	0.5	-13
USDPLN (Poland)	3.79	0.0	0.3	-1.1	-9
USD RUB (Russia)	66.01	-0.5	0.6	0.2	-13
USDTRY (Turkey)	5.45	1.5	3.0	11.4	-31
USD CNY (China)	6.89	0.5	0.8	-0.3	-6
USD INR (India)	72.44	1.4	1.4	1.2	-12
USD IDR (Indonesia)	14,955	1.2	1.8	0.8	-10
ADXY	104.4	0.4	0.9	0.2	-5
Commodities (%)					
Brent	72.9	0.1	-6.0	-15	10
WTX	63	-0.6	-6.3	-17	5
Copper	280	2.7	1.9	-1	-14
Gold	1233	0.0	0.0	3	-6
S&P Spot commodity *	451	-1.2	-3.7	-10	2
S&P Brent Spot *	620	-2.9	-6.1	-16	-9
S&P Metals Spot *	333	1.3	1.0	6	-16
S&P Agricultural *	289	1.8	0.0	2	1

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

Fuente: BBVA Research

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