

Market Comment

Mounting trade optimism resumes the risk-on mood

- There were some **mixed trade headlines**. Early cautiousness faded after the Chinese Ministry of Commerce spokesman said **China and the U.S. have agreed to roll back tariffs gradually** as they work toward a deal. Nonetheless, the U.S. has yet to confirm the statement issued by Beijing. On the other hand, the signing of the phase one trade deal by Trump and Xi could be delayed until December as the two U.S. locations for the anticipated meeting have been ruled out, but U.S. officials assured that talks continue on a constructive note.
- The **EU Commission lowered its earlier estimates for this year's Eurozone growth** to 1.1% from 1.2%, while cutting the growth in 2020 and 2021 by 0.2% to 1.2% amid the global deterioration underpinned by the trade war and the persistent weakness of the manufacturing sector.
- Today's economic calendar was light. Germany's industrial production fell more than expected in September dragged by capital and intermediate goods (-0.6% m/m, consensus -0.4% m/m, previous 0.4% m/m). Tomorrow's October China trade data will be key to watch in the context of record tariffs collected by the U.S. in September. Chinese exports are expected to contract less than imports.
- Sovereign bond yields rose significantly** led by hopes of a trade truce (10Y US +9.6bps and 10Y Ger +9bps). The yield on the 10Y France bond turned positive for the first time since July. Regarding peripheral bonds, the **10Y Italy bond yield jumped sharply (+16bps)** with its risk premium widening by nearly 7bps after the European Commission predicted that Italy's debt would grow to 136.2% of GDP this year, and that it would continue rising to 136.8% and 137.4% in 2020 and 2021 respectively (see). The EC forecasts differ from the Italian government's estimates as the latter expect the debt-to-GDP ratio to decrease in the coming two years. However, the Portuguese risk premium narrowed, while the Spanish one remained steady. Separately, investors are postponing their **expectations of an additional Fed rate cut** to September (52%) on the backdrop of rising trade optimism.
- G10 currencies were contained in general with the sterling weakening** (GBPUSD -0.3%), despite the BoE's decision to maintain the status quo on rates as expected. The depreciation of the sterling was led by a **dovish BoE dissent**, where two MPC members out of seven voted to cut rates immediately, with markets pricing in a BoE rate cut by August 2020. The euro trimmed early gains and ended up weakening marginally driven by a gloomier Eurozone economic outlook. As regards to safe-haven currencies, both the Japanese yen and the Swiss franc weakened, whereas the USD gained modestly (DXY index +0.2%). Elsewhere, EM currencies' performance was again mixed with the Brazilian real extending yesterday's significant drop. The yuan appreciated (USDCNY +0.3%), falling below the 7 threshold on positive trade developments.
- Global stocks edged higher** with both the S&P 500 and Dow Jones continuing to hit **fresh record highs**. Cyclical sectors outperformed others as the risk appetite improved.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,67	6,5	14,9	25	-81
<b>US</b>	1,92	9,6	23,3	40	-76
GER (2-yr)	-0,61	2,9	5,2	18	0
<b>Germany</b>	-0,24	9,1	16,5	35	-48
France	0,05	8,5	14,6	31	-66
Spain	0,38	8,8	14,2	26	-104
Italy	1,16	15,7	23,7	32	-158
Portugal	0,30	8,3	13,6	19	-142
Greece	1,25	4,8	8,3	-21	-315
Japan (2-yr)	-0,17	1,3	5,6	14	-3
<b>Japan</b>	-0,06	1,5	6,9	14	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,55	4,2	6,2	-44	-268
Chile	2,83	-2,4	-17,1	41	-142
Colombia	6,11	1,6	9,4	15	-64
Mexico	6,82	4,8	6,3	6	-182
Peru	3,81	4,5	1,3	22	-155
Poland	2,15	12,9	17,7	25	-68
Russia	6,50	-0,1	-8,8	-49	-228
Turkey	12,34	-20,0	-11,0	-133	-346
India	6,51	1,7	5,7	-17	-86
Indonesia	7,00	1,0	-1,1	-26	-103

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	29	-0,6	-1,9	-5	-18
Italy	140	6,6	7,2	-4	-110
Portugal	54	-0,8	-2,9	-17	-94
Spain	62	-0,3	-2,3	-9	-55
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0,2	0,0	-4	-11
Italy	47	3,0	2,2	-6	-62
Portugal	6	-2,2	-4,7	-11	-20
Spain	22	-1,0	-1,6	-5	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	119	2,6	0	-21	-88
Chile	43	0,9	0	7	-20
Colombia	77	0,3	-2	-18	-81
Argentina	6871	358,0	479	1507	6065
Mexico	87	0,1	-3	-28	-68
Peru	49	-0,2	-2	-13	-46
Poland	66	0,0	-1	-1	-2
Russia	73	0,0	-3	-18	-81
Turkey	324	-1,4	-9	-49	-36
China	38	0,1	-3	-13	-30
India	70	0,4	-2	-4	-44
Indonesia	74	0,7	-3	-21	-64

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	12	-0,2	-1	-8	-13
VSTOXX	62	0,0	-4	-19	-5
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	0	-1	-3
EM FX volatility index	18	-0,2	0	-3	-7
Credit spread (BAA) (change in bps)	203	-9,6	-15	-29	-43
US bonds volatility index	7	0,0	0	-1	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,06	-	9	18	-7
EZ Inflation expectations (5Y5Y)	1,27	-	6	13	-34
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	46	0,4	-1	-14	-36
EZ	53	1,4	-2	-9	-52
UK	46	1,1	-2	-17	-49
Large Spanish	38	1,3	-1	-6	-49
Medium Spanish	90	12,4	-1	-6	-23
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	255	28,5	30	35	42
EZ Non-financial	70	0,0	-4	-12	-27
UK Non-financial	101	-0,2	-1	-10	-18

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	1	n.a.
Euribor 3m	-0,40	1	-1	2	-9
<b>Euribor 12m</b>	-0,27	0	0	6	-15
Libor 3m	-0,45	0	0	1	-10
Libor 12m	1,90	0	-2	-12	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3093	0,5	1,8	6,9	23
Dow Jones	27720	0,8	2,5	5,9	19
Nikkei	23330	0,1	1,8	8,1	17
FTSE 100	7396	0,0	2,0	3,5	10
<b>EuroStoxx 50</b>	3703	0,4	2,7	7,9	23
IBEX	9436	0,4	1,9	5,5	10
DAX	13281	0,8	3,2	11,0	26
CAC	5885	0,3	2,7	7,9	24
MB	23502	0,5	3,6	9,8	28
ASE Athens	869	1,1	-1,5	5,5	42
<b>MSCI Latam *</b>	96421	-0,3	0,0	4,7	12
Ibovespa (Brazil)	109232	0,8	1,9	9,3	24
Mexbol (Mexico)	44005	0,4	1,5	3,5	6
Merval (Argentina)	35428	-0,2	1,2	17,1	17
<b>MSCI EM Europe *</b>	6303	0,5	1,8	8,7	19
Poland	2272	0,7	3,6	6,6	0
Mcex 10 (Russia)	5197	1,0	4,0	11,1	24
Ise 100 (Turkey)	103544	2,4	5,2	1,7	13
<b>MSCI EM Asia *</b>	879	-0,1	2,9	7,1	12
Shanghai Comex (China)	2979	0,0	1,7	2,2	19
Jakarta (Indonesia)	6166	-1,6	-2,1	2,8	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	156,1	2,0	6,0	18,2	35
JPM	131,0	1,3	4,9	17,1	34
Citi	76,1	2,2	5,8	14,5	46
BoA	33,6	2,3	7,3	21,4	36
MS	49,4	1,6	7,2	24,0	24
GS	224,5	2,8	5,2	13,7	34
<b>EZ banks</b>	82,7	2,6	8,4	19,3	20
BNP	51,2	2,6	9,3	20,9	30
Crédit Agricole	12,5	3,2	7,4	19,6	33
Deutsche Bank	7,0	1,5	8,3	11,6	3
ING	10,9	2,6	7,3	19,8	15
Intesa	2,4	0,9	5,0	13,0	22
SG	28,6	2,4	12,3	23,6	3
Unicredito	12,8	5,7	12,4	25,6	29
<b>UK banks</b>	74,6	0,1	1,6	9,3	2
HSBC	600,6	0,4	3,0	0,2	-7
RBS	215,5	-0,3	1,3	13,8	-1
Barclays	169,9	0,9	1,2	18,0	13
Lloyds	57,0	-0,7	0,4	11,8	10
<b>Large Spanish banks</b>	59,6	1,7	6,0	9,8	2
Santander	3,8	1,9	6,8	9,0	-3
<b>BBVA</b>	5,0	1,5	5,4	10,5	7
<b>Medium Spanish banks</b>	51,9	2,0	6,5	18,0	-10
Caixabank	2,8	2,6	9,1	22,3	-12
Sabadell	1,0	1,7	6,3	21,2	5
Bankinter	6,5	1,8	5,0	17,6	-7
Bankia	1,8	2,8	8,1	12,8	-28

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,104	-0,2	-1,0	0,8	-4
GBPUSD	1,282	-0,3	-1,0	4,9	1
USDJPY	109,330	-0,3	-1,2	-2,0	0
DXY	98,176	0,2	0,8	-1,0	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,60	0,1	0,1	-2,9	-37
USDBRL (Brazil)	4,09	-0,4	-1,8	0,1	-5
USDCPL (Chile)	741,64	-0,1	0,0	-2,3	-6
USDCOP (Colombia)	3330	0,2	1,50	3,71	-2
USDMXN (Mexico)	19,14	0,0	0,5	2,5	3
USDPEN (Peru)	3,35	-0,3	-0,2	1,0	1
LACI	50,93	-0,1	-0,5	0,7	-6
LSDPLN (Poland)	3,86	-0,1	-0,9	2,3	-3
USDRUB (Russia)	63,67	0,3	0,7	2,4	9
USDTRY (Turkey)	5,74	0,1	-0,5	1,5	-8
USDCNY (China)	6,98	0,3	0,9	2,4	-1
USDINR (India)	70,97	0,0	-0,1	0,1	-2
USDIDR (Indonesia)	13998	0,2	0,3	1,2	3
ADXY	104,62	0,3	0,6	1,5	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	62,7	1,5	4,0	8	16
WTx	58	2,1	6,2	9	27
Copper	266	0,0	1,1	4	1
Gold	1464	-1,8	-3,2	-3	14
S&P Spot commodity *	417	-1,2	2,3	4	11
S&P Brent Spot *	525	-1,9	3,6	6	15
S&P Metals Spot *	329	-0,5	1,5	3	3
S&P Agricultural *	285	-0,4	-0,3	0	0

Source: Bloomberg, Datastream and Haver

\* With one day delay