

Market Comment

Renewed trade standoff leads core bonds higher

- Markets' risk-on mood faltered** but recovered slightly at the end of the week, **with development on U.S.-China trade talks being the key driver**. US economic adviser, Kudlow, said negotiations over the first phase of a trade agreement with China were reaching the final stages, with the two sides in close contact. But he warned that, although close, a deal is 'not done yet'.
- On top of that, the escalation of political unrest in Chile and Hong Kong and **China's weaker activity indicators** (retail sales and industrial production) further exacerbated **investors' caution**.
- The U.S. economic calendar was light this week, focusing on the **positive inflation data that supports the Fed's monetary pause**. The U.S. CPI unexpectedly rose in Oct to 1.8% from 1.7% y/y in September. In Europe, there were **positive surprises in Germany's economic data**. German GDP grew at 0.1% QoQ in 3Q19 (cons: -0.1%; prior: -0.2%) supported by consumption and construction, while investment in machinery fell again and the increase in exports was offset by the dynamism of imports. This positive surprise could downplay hopes of any immediate fiscal stimulus. In addition, ZEW confidence rebounded sharply in November. From the political perspective, Spain's general elections brought a hung Parliament. Left-wing parties signed a coalition with 155 seats, although the support of smaller parties is still needed to achieve 176 seats to form a government.
- Both the Fed and the ECB seem to be backing a monetary pause. **Powell's testimony at the Joint Economic Committee of Congress** stated that the current monetary stance is appropriate with the current outlook of sustained expansion, a strong labor market and inflation around the symmetric 2% target. However, he showed readiness to act in any event that poses a threat. In Europe, Villeroy de Galhau does not foresee a further rate cut, while the Dutch central bank chief, Knot, asked for caution using unconventional measures. Moreover, some ECB members are tilted to explore a lower inflation target.
- Core bonds attracted fresh demand, but investors showed a lack of appetite for peripheral bonds**, as both Fed and ECB officials signaled a monetary pause. The 10Y yield declined sharply, trimming last week's significant increase (US -11bps, Ger -8bps). On the other hand, peripheral bond yields rose with its risk premia widening significantly led by local factors (Italy +14bps to 160bps; Spain +15bps to 80bps; Portugal +15.4bps to 74 bps).
- The USD lost strength against G-10 currencies, but most EM currencies depreciated** as optimism over a trade deal faded. Importantly, **spillover effects from Chile's political riots have also been creeping into Latam currencies** in recent days (CLP -4%, COP -2.4%, BRL -0.5, MXN -0.6%, PEN -0.4%). Chile's Central bank opened a 4bn USD liquidity swap line at a cost of LIBOR +200bps above market cost (LIBOR +190bps), but the measure may be not enough to dissipate CLP weakness. Today, the Chilean peso rallied (USDCLIP +2.8%) as the country will hold a referendum in April to decide which body will draw up the constitution.
- Most DM equity markets were broadly steady**, except the Spanish IBEX. EM market declined across the board, on the back of concerns about the trade deal and China's economic outlook, while jitters about spillover effects from political instability in Chile also dragged down Latam equity markets.

UPDATE 16:00 CET 15 NOVEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,61	2,1	-6,2	3	-88
US	1,83	0,9	-11,4	9	-86
GER (2-yr)	-0,63	0,9	-1,6	4	-2
Germany	-0,34	1,2	-7,6	5	-58
France	-0,02	-0,1	-4,5	8	-73
Spain	0,46	0,3	7,2	21	-96
Italy	1,26	-6,8	6,4	33	-149
Portugal	0,40	2,0	7,8	20	-132
Greece	1,48	1,2	15,0	9	-292
Japan (2-yr)	-0,19	0,0	-2,8	7	-5
Japan	-0,07	-0,1	-1,8	9	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,70	0,0	1,6	6	-253
Chile	3,50	0,0	72,3	94	-75
Colombia	6,30	-2,3	10,1	19	-46
Mexico	6,91	-5,4	4,7	11	-173
Peru	3,93	-0,2	14,5	45	-143
Poland	2,10	4,0	-7,2	9	-72
Russia	6,60	-2,6	4,7	-19	-218
Turkey	12,05	-9,0	-34,0	-312	-375
India	6,53	0,5	-3,2	6	-84
Indonesia	7,03	-4,4	5,4	-15	-100

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	32	-1,3	3,1	3	-15
Italy	160	-8,0	14,0	28	-90
Portugal	74	0,8	15,4	15	-74
Spain	80	-0,9	14,8	16	-38
2-yr sovereign spread vs Germany					
France	4	-0,4	-0,9	-2	-12
Italy	71	9,5	21,4	29	-37
Portugal	16	-2,8	5,9	6	-10
Spain	27	0,0	3,5	5	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	123	2,1	8	-7	-84
Chile	52	4,3	10	18	-11
Colombia	83	0,4	9	-5	-75
Argentina	7754	-420,6	628	3048	6948
Mexico	92	1,2	8	-17	-63
Peru	54	1,1	7	-3	-40
Poland	66	0,0	0	-1	-2
Russia	72	-1,8	1	-12	-82
Turkey	309	-6,2	-3	-84	-51
China	40	0,2	4	-3	-27
India	72	3,2	3	-1	-41
Indonesia	75	0,2	2	-11	-63

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0,4	1	-1	-13
VSTOXX	64	0,0	0	-14	-2
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	0	-1	-2
EM FX volatility index	18	-0,7	1	2	-6
Credit spread (BAA) (change in bps)	216	-0,9	5	-7	-29
US bonds volatility index	7	-0,1	0	-1	-2
Inflation expectations (% , change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,03	-	-4	8	-11
EZ Inflation expectations (5Y5Y)	1,23	-	0	1	-37
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	0,3	2	-4	-35
EZ	55	1,0	3	1	-50
UK	48	1,4	3	-3	-47
Large Spanish	39	0,6	3	-3	-48
Medium Spanish	88	-0,9	-2	-7	-24
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	234	5,2	-10	23	21
EZ Non-financial	70	0,4	1	-5	-26
UK Non-financial	101	0,4	1	-4	-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	1	-10
Euribor 12m	-0,27	0	-1	3	-15
Libor 3m	-0,45	0	1	2	-10
Libor 12m	1,91	0	1	-9	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3107	0,3	0,4	3,9	24
Dow Jones	27868	0,3	0,7	3,2	19
Nikkei	23303	0,7	-0,4	3,7	16
FTSE 100	7281	-0,2	-1,1	1,6	8
EuroStoxx 50	3704	0,4	0,1	2,9	23
IBEX	9243	0,8	-1,6	-1,5	8
DAX	13208	0,2	-0,2	4,2	25
CAC	5931	0,5	0,7	4,1	25
MIB	23589	0,5	0,2	5,2	29
ASE Athens	883	-0,8	2,1	2,9	44
MSCI Latam *	94838	0,4	-2,6	0,1	10
Ibovespa (Brazil)	106557	0,0	-1,0	1,1	21
Mexbol (Mexico)	43249	0,1	-1,0	0,7	4
Merval (Argentina)	31118	0,3	-8,8	1,2	3
MSCI EM Europe *	6201	-0,3	-2,7	6,3	17
Poland	2231	0,2	-1,1	3,5	-2
Mcex 10 (Russia)	5121	0,1	-0,9	6,9	22
Ise 100 (Turkey)	105442	1,6	2,2	12,0	16
MSCI EM Asia *	862	-0,3	-2,4	2,1	10
Shanghai Comex (China)	2891	-0,6	-2,5	-2,9	16
Jakarta (Indonesia)	6128	-0,2	-0,6	-0,5	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	152,8	0,1	-1,6	8,3	32
JPM	128,8	0,1	-1,2	7,6	32
Citi	73,8	-0,1	-3,1	6,2	42
BoA	32,8	0,2	-1,5	8,6	33
MS	48,8	0,3	-0,8	14,0	23
GS	219,5	0,1	-1,5	5,8	31
EZ banks	81,6	0,6	-0,2	5,8	18
BNP	50,5	0,4	-0,3	7,0	28
Crédit Agricole	12,6	0,3	2,5	8,1	33
Deutsche Bank	10,6	0,8	-4,5	-7,4	-5
ING	6,6	0,6	-1,7	3,4	12
Intesa	2,3	0,5	-0,2	4,4	21
SG	28,5	0,8	0,2	9,5	2
Unicredit	12,5	0,7	-1,2	9,2	26
UK banks	74,8	0,7	1,6	-2,0	3
HSBC	571,3	0,2	-4,1	-5,4	-12
RBS	225,1	1,7	5,7	-2,0	4
Barclays	171,0	0,5	2,7	4,1	14
Lloyds	59,2	0,9	5,2	-3,0	14
Large Spanish banks	56,3	0,7	-4,3	-4,7	-3
Santander	3,6	0,8	-4,9	-8,8	-10
BBVA	4,8	0,6	-3,8	-0,8	3
Medium Spanish banks	48,7	1,3	-5,1	-1,8	-15
Caixabank	2,6	1,6	-5,5	0,3	-17
Sabadell	1,0	1,4	-4,9	-2,8	-1
Bankinter	6,1	0,8	-4,8	-0,6	-13
Bankia	1,7	2,0	-6,5	-7,1	-34

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,105	0,3	0,3	-0,2	-4
GBPUSD	1,291	0,2	1,1	0,6	1
USDJPY	108,710	-0,3	0,5	0,0	1
DXY	98,026	-0,1	-0,3	0,0	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,69	0,0	-0,3	-2,3	-37
USDBRL (Brazil)	4,19	0,0	-0,5	-0,8	-7
USDCPL (Chile)	781,11	2,8	-4,3	-8,2	-11
USDCOP (Colombia)	3421	1,0	-2,39	1,11	-5
USDMXN (Mexico)	19,22	0,5	-0,6	-0,1	2
USDPEN (Peru)	3,37	0,5	-0,4	-0,3	0
LACI	50,01	0,5	-1,2	-1,6	-8
USDPLN (Poland)	3,87	0,4	0,0	0,0	-3
USD RUB (Russia)	63,81	0,2	0,0	0,5	9
USDTRY (Turkey)	5,75	0,0	0,3	2,4	-8
USDCNY (China)	7,01	0,2	-0,2	1,2	-2
USDINR (India)	71,79	0,3	-0,7	-0,5	-3
USDIDR (Indonesia)	14077	0,1	-0,4	0,7	2
ADX	104,25	0,1	-0,2	0,8	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,4	0,2	-0,2	5	16
WTx	57	0,2	-0,6	7	25
Copper	263	0,5	-1,7	2	0
Gold	1467	-0,3	0,5	-2	14
S&P Spot commodity *	417	-0,2	-0,5	3	11
S&P Brent Spot *	523	-0,2	-1,2	4	14
S&P Metals Spot *	317	-0,9	-3,6	-1	-1
S&P Agricultural *	287	-0,1	0,5	0	1

Source: Bloomberg, Datastream and Haver

* With one day delay