

Market Comment

Bonds regain favor as easing expectations from the Fed and ECB strengthen

- U.S. - China high level officials discussed trade in a second round of principal level phone call yesterday. However, face-to-face talks are still not scheduled. The U.S. is undecided on the nature of supply relief to be provided to Huawei without compromising on national security risk. Treasury secretary Mnuchin noted that allowing U.S. sales to Huawei is an issue independent from trade talks. U.S. insist that China should bolster its purchases of U.S. agriculture goods. On the other hand China wants the U.S. to completely lift sanctions against Huawei, and cancel all existing tariffs against China.
- The relatively downbeat backdrop has reinforced expectations of Fed's insurance cut and a likely strengthening of its forward guidance by the ECB next week. That said, concerns exist that easing expectation for Fed might be overdone.
- During the week, 10Y UST yields declined across the board, trimming the increase seen after the strong payrolls two weeks ago. Downward pressure in European yields intensified after news about the potential revamp of ECB's inflation target, along with disappointing EZ data (10Y German yield -11bps to -0.32%). Search for yield benefited EZ peripherals, although dangling prospects of a snap election in Italy amid lingering tensions within its coalition government, could undermine the recent allure for Italian bonds. Today the Italian risk premium went up by 8 bps. EM yields also declined this week, underpinned by interest rate cuts or dovish rhetoric by several EM central banks, mainly in Asia, over the past week.
- Downward pressure on yields has caused some distortions in bond markets. Currently 4% of the corporate High Yield USD and EUR denominated bonds (excluding financial sector) are yielding negative rates.
- Oil prices rose on Friday, but fell throughout the week, the largest weekly decline since May, amid cautious global trade prospects and fears of oversupply.
- The US dollar halted its appreciation trend, while safe haven currencies appreciated. Negative economic data dragged on the euro, while concerns about no deal Brexit weighed on the GBP during the week. Meanwhile EM FX remained steady.

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DEBT MARKETS (10Y, %, CHANGES IN BP)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,79	3,6	-5,6	6	-70
US	2,04	2,1	-7,7	2	-64
GER (2-yr)	-0,77	-1,4	-4,7	-3	-16
Germany	-0,32	-0,9	-10,9	-7	-60
France	-0,07	-0,4	-12,6	-11	-78
Spain	0,39	-1,5	-17,8	-1	-103
Italy	1,62	6,6	-11,8	-49	-112
Portugal	0,46	-0,8	-19,0	-9	-126
Greece	2,16	1,6	-19,9	-33	-224
Japan (2-yr)	-0,20	-0,5	-1,9	2	-6
Japan	-0,13	-0,2	-1,8	1	-14
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,29	1,1	1,1	-54	-195
Chile	2,95	-5,8	-9,9	-21	-130
Colombia	5,98	-8,9	-10,6	-33	-77
Mexico	7,50	-4,6	-11,1	-13	-114
Peru	3,68	-2,0	-35,3	-56	-168
Poland	2,17	-5,2	-13,3	-19	-65
Russia	7,44	-3,3	-0,7	-8	-134
Turkey	15,55	-54,0	-99,0	-155	-25
India	6,36	-2,3	-12,4	-48	-101
Indonesia	7,15	0,4	-6,0	-40	-88

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	0,5	-1,7	-4	-17
Italy	194	7,5	-0,9	-42	-52
Portugal	78	0,1	-8,1	-2	-66
Spain	71	-0,6	-6,9	6	-43
2-yr sovereign spread vs Germany					
France	8	-0,3	0,2	-1	-8
Italy	78	5,5	-1,0	-17	-31
Portugal	26	1,6	-2,3	-10	0
Spain	28	0,6	-3,0	-4	-9
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	128	-1,1	-2	-30	-80
Chile	36	0,6	0	-4	-27
Colombia	85	0,9	-1	-14	-73
Argentina	907	8,2	9	-77	100
Mexico	114	-0,9	-3	-3	-41
Peru	51	0,2	-1	-7	-44
Poland	64	0,3	1	-1	-4
Russia	106	0,3	0	-12	-48
Turkey	380	0,8	-16	-85	21
China	43	-0,1	1	-4	-24
India	69	-2,8	-9	-14	-45
Indonesia	87	0,6	1	-11	-51

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0,2	1	-1	-12
VSTOXX	14	0,2	1	0	-10
EM EFT volatility Index	16	0,2	0	-2	-9
Dollar/euro volatility	5	0,1	0	0	-2
EM FX volatility index	7	-0,1	0	-1	-3
Credit spread (BAA) (change in bps)	226	-2,1	1	-16	-20
US bonds volatility index	63	0,8	0	-8	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,10	-	-1	7	-3
EZ Inflation expectations (5Y5Y)	1,31	-	2	5	-30
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	48	-0,5	0	-7	-34
EZ	56	0,9	-1	-12	-49
UK	56	1,2	3	-4	-38
Large Spanish	40	0,6	1	-7	-47
Medium Spanish	90	2,4	2	8	-22
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	169	-0,5	0	-7	-34
EZ Non-financial	72	0,9	-1	-12	-49
UK Non-financial	97	0,6	1	-6	-21

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	0	1	-1
Euribor 3m	-0,38	-1	-1	-4	-7
Euribor 12m	-0,31	-1	-3	-10	-19
Eonia Swap 3m	-0,44	0	-3	-5	-9
Eonia Swap 12m	-0,54	-1	-4	-7	-19
Libor 3m	2,30	0	0	-8	-49
Libor 12m	2,22	0	2	-5	-80

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3.002	0,2	-0,4	2,6	20
Dow Jones	27.289	0,2	-0,2	3,0	17
Nikkei	21.467	2,0	-1,0	0,6	7
FTSE 100	7.502	0,1	-0,1	1,3	12
EuroStoxx 50	3.479	-0,1	-0,5	0,7	16
IBEX	9.169	-0,6	-1,3	-0,7	7
DAX	12.242	0,1	-0,7	-0,5	16
CAC	5.551	0,0	-0,4	0,6	17
MIB	21.690	-1,8	-2,2	2,2	18
ASE Athens	868	-0,3	1,1	2,8	41
MSCI Latam *	95.761	0,0	-1,0	2,8	11
Ibovespa (Brazil)	104.193	-0,5	0,3	3,9	19
Mexbol (Mexico)	41.903	0,7	-1,7	-3,4	1
Merval (Argentina)	40.722	-0,1	-4,8	2,2	34
MSCI EM Europe *	5.914	0,1	-1,9	-0,9	12
Poland	2.344	1,0	1,2	1,0	3
Micex 10 (Russia)	4.763	0,3	-1,5	-0,9	14
Ise 100 (Turkey)	102.052	0,5	5,1	8,3	12
MSCI EM Asia *	848	-0,6	0,0	1,9	8
Shanghai Com (China)	2.924	0,8	-0,2	0,2	17
Jakarta (Indonesia)	6.457	1,0	0,6	3,2	4
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	141,3	0,1	-0,2	5,3	22
JPM	114,8	0,1	-0,4	4,5	18
Citi	71,6	-0,3	-0,2	5,9	38
BoA	29,5	0,2	0,3	4,3	20
MS	44,5	0,1	-0,9	3,1	12
GS	214,8	0,1	0,4	9,8	29
EZ banks	71,1	-1,5	-1,9	1,4	3
BNP	42,0	-0,8	-1,2	-0,5	6
Crédit Agricole	10,8	-0,1	-2,0	0,3	14
Deutsche Bank	6,9	-1,6	1,6	5,9	-1
ING	10,1	-1,6	-3,0	-1,6	7
Intesa	2,0	-2,3	-2,4	5,0	3
SG	22,4	-1,6	-1,6	1,4	-20
Unicredito	11,2	-3,7	-2,8	5,3	13
UK banks	76,2	-0,8	-1,0	-0,2	5
HSBC	659,3	-0,3	-0,6	0,3	2
Barclays	228,1	-1,1	-0,8	2,5	5
RBS	155,3	-0,7	-1,2	1,4	3
Lloyds	56,7	-1,2	-1,7	-4,2	9
Large Spanish banks	59,5	-1,3	-3,4	-3,1	2
Santander	4,0	-1,0	-4,4	-1,4	1
BBVA	4,8	-1,7	-2,5	-4,7	3
Medium Spanish banks	49,0	-1,6	-3,5	-0,9	-15
Caixabank	2,4	-3,3	-5,3	-4,2	-23
Sabadell	0,9	-2,4	-4,5	-5,7	-10
Bankinter	6,4	-0,1	-0,9	5,9	-9
Bankia	2,0	-2,1	-6,2	-5,6	-22

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,123	-0,4	-0,4	0,0	-2
GBPUSD	1,25	-0,2	-0,4	-0,9	-2
USDJPY	107,64	-0,3	0,3	0,4	2
DXY	97,09	0,3	0,3	0,0	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	42,42	0,0	-2,0	2,2	-11
USDBRL (Brazil)	3,74	-0,5	-0,1	2,7	4
USDCLP (Chile)	685,83	-0,2	-0,9	0,9	1
USDCOP (Colombia)	3171	0,2	0,7	2,2	3
USDMXN (Mexico)	19,03	-0,4	-0,2	-0,1	3
USDPEN (Peru)	3,28	0,1	0,0	1,4	3
LACI	55,14	-0,4	-0,4	1,3	2
USDPLN (Poland)	3,79	-0,4	0,0	0,3	-1
USDRUB (Russia)	63,01	-0,4	-0,1	1,2	-10
USDTRY (Turkey)	5,65	-0,5	1,3	2,5	-6
USDCNY (China)	6,88	0,0	0,0	0,3	0
USDINR (India)	68,81	0,2	-0,2	1,3	1
USDIDR (Indonesia)	13938	0,2	0,5	2,4	3
ADXY	105,17	-0,1	0,0	0,3	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,4	0,7	-6,5	1	16
WTx	56	0,4	-7,8	3	22
Copper	276	2,2	2,6	3	5
Gold	1433	-0,9	1,2	5	12
S&P Spot commodity *	413	-1,7	-5,1	1	10
S&P Brent Spot *	524	-2,5	-7,2	1	14
S&P Metals Spot *	329	0,5	2,2	4	3
S&P Agricultural *	288	-1,7	-5,1	-5	1

Source: Bloomberg, Datastream and Haver

* With one day delay