

Market Comment

Caution ahead of an eventful week. FOMC Preview

- Investors will watch closely the FOMC's rate decision on Wednesday. Despite the better-than-expected growth of the U.S. GDP in the second quarter driven by consumption -both private and public-, the underlying detail was more consistent with a more pronounced slowdown. Net exports and inventories whipsawed to the downside, whereas consumption is unlikely to continue expanding at well above average rates. In this context, a 25bp cut in the Fed funds rate this Wednesday is a virtual certainty, while markets expectations of 3 cuts in 2019 remains high, around 58%.
- On the data front, it is an eventful week where investors will keep an eye on employment data in the U.S., the 2Q19 GDP and July's advanced CPI in the Eurozone and PMI data in China. Moreover, the Dallas Fed activity index rose in July although slightly less than expected and remaining in negative territory (-6.3, consensus -6.0, previous month -12.1).
- Regarding U.S.-China trade talks, which will resume tomorrow in Shanghai, expectations for any breakthrough are low. U.S. president Trump said on Friday that China might wait until after the 2020 U.S. election to sign a trade agreement, hoping to negotiate more favorable terms with a different U.S. president. On the other hand, Trump denies the developing economy status of China at the WTO and set a 90-day deadline to see if the WTO has taken actions in the matter.
- Sovereign bond yield inched down across the board, ahead of Wednesday's FOMC meeting. However, yield on 10Y gilts declined as fears of a no-deal Brexit increase. Elsewhere, Italy's risk premium widened slightly, due to concerns about snap elections, as is getting hard for the government coalition to find common ground in some relevant decisions
- In FX markets, the USD extended its gains, although it slightly depreciated against the CHF. Moreover, the GBP weakened significantly to its lowest level since March 2017, after U.K. officials said on Sunday that new Prime Minister Boris Johnson's government was working on the assumption that the EU would not renegotiate its Brexit deal, increasing the possibility of a disorderly exit. The recent surge in GBPUSD implied volatility mirrored the increasing markets angst about a disorderly Brexit.
- Stock markets fluctuated in a narrow range amid corporate earnings and M&A events.

Central Bank Annex

Update: 17:45 CET 29 July 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,85	-0,6	3,4	10	-64
US	2,06	-1,2	1,2	4	-63
GER (2-yr)	-0,76	-1,1	1,2	-3	-15
Germany	-0,39	-1,7	-4,7	-11	-68
France	-0,14	-1,9	-5,8	-14	-85
Spain	0,36	-1,7	-3,6	-4	-106
Italy	1,57	0,3	-8,4	-57	-117
Portugal	0,42	-2,0	-4,3	-6	-130
Greece	2,05	-1,5	-6,7	-42	-235
Japan (2-yr)	-0,21	0,3	-0,7	0	-6
Japan	-0,14	0,5	-0,7	0	-15

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,21	-0,9	-9,1	-36	-202
Chile	2,73	1,1	-12,1	-39	-152
Colombia	5,93	0,1	-2,1	-25	-82
Mexico	7,50	-2,3	0,1	-11	-114
Peru	3,90	0,0	11,2	-29	-146
Poland	2,14	3,2	-1,1	-24	-68
Russia	7,40	1,4	2,0	-10	-138
Turkey	14,86	-5,0	-66,0	-112	-94
India	6,41	-11,0	-0,4	-48	-96
Indonesia	7,29	7,1	8,4	-12	-74

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	25	-0,2	-1,1	-3	-18
Italy	196	2,0	-3,7	-45	-50
Portugal	81	-0,3	0,4	5	-63
Spain	75	0,0	1,1	7	-39

2-yr sovereign spread vs Germany	level	Daily	Weekly	Monthly	YTD
France	7	0,1	-0,6	0	-8
Italy	75	2,5	-4,6	-22	-33
Portugal	21	1,6	-4,9	-11	-5
Spain	26	1,6	-2,9	-6	-11

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	123	-0,9	-5	-28	-84
Chile	34	-1,2	-2	-6	-29
Colombia	82	0,2	-3	-12	-76
Argentina	924	-47,3	30	-95	118
Mexico	114	0,6	-1	0	-41
Peru	49	-0,5	-2	-6	-46
Poland	64	0,3	0	0	-3
Russia	100	-0,1	-5	-17	-54
Turkey	352	-2,2	-18	-60	-8
China	40	0,3	-2	-5	-28
India	58	-1,7	-10	-21	-55
Indonesia	78	-1,0	-6	-14	-59

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	0,5	-1	-3	-13
VSTOXX	13	0,0	-1	-1	-11
EMEFT volatility Index	17	0,8	0	-2	-8
Dollar/euro volatility	5	0,2	0	0	-2
EMFX volatility index	7	-0,1	0	-1	-3
Credit spread (BAA) (change in bps)	215	1,2	-9	-15	-30
US bonds volatility index	59	-2,1	-2	-11	-8

Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5YSY)	2,10	-	1	5	-4
EZ Inflation expectations (5YSY)	1,33	-	2	12	-27

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	44	-0,1	-4	-8	-38
EZ	65	2,3	-3	-16	-64
UK	66	0,1	-5	-7	-44
Large Spanish	39	2,0	-1	-7	-49
Medium Spanish	82	-4,1	-9	-11	-30

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	161	1,4	-5	-3	-53
EZ Non-financial	68	0,6	-3	-7	-29
UK Non-financial	94	0,3	-3	-6	-25

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	0	0	-1
Euribor 3m	-0,37	0	1	-2	-6
Euribor 12m	-0,31	0	-1	-10	-20
Eonia Swap 3m	-0,43	0	1	-3	-7
Eonia Swap 12m	-0,53	0	1	-5	-18
Libor 3m	2,27	0	0	-7	-53
Libor 12m	2,20	0	2	0	-82

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3020	-0,2	1,2	3,3	20
Dow Jones	27259	0,2	0,3	2,8	17
Nikkei	21617	-0,2	0,9	1,3	8
FTSE 100	7699	2,0	2,4	4,0	14
EuroStoxx 50	3530	0,1	1,1	2,5	18
IBEX	9226	0,0	0,7	0,9	8
DAX	12430	0,1	1,1	1,3	18
CAC	5611	0,0	0,8	2,1	19
MIB	21748	-0,4	0,1	3,0	19
ASE Athens	895	0,5	3,5	4,2	46
MSCI Latam *	94011	0,0	-1,0	-0,4	9
Ibovespa (Brazil)	102768	0,0	-1,1	2,0	17
Mexbol (Mexico)	41031	0,9	-0,4	-5,3	-1
Merval (Argentina)	42699	1,7	10,2	3,8	41
MSCI EM Europe *	5929	0,3	0,1	-0,9	12
Poland	2286	-0,9	-2,4	-2,1	0
Micex 10 (Russia)	4779	0,4	1,1	-0,2	14
Ise 100 (Turkey)	103373	0,5	2,3	8,2	13
MSCI EM Asia *	852	-0,5	-0,2	0,5	9
Shanghai Com (China)	2941	-0,1	1,9	-1,9	18
Jakarta (Indonesia)	6299	-1,6	-2,4	-0,2	2

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	144,7	0,0	2,7	7,6	25
JPM	116,8	0,5	2,2	7,3	20
Citi	72,2	0,0	1,5	5,9	39
BoA	30,8	0,0	4,0	9,0	25
MS	45,5	-0,5	2,3	4,7	15
GS	221,3	-0,4	3,4	11,0	32
EZ banks	72,2	-0,7	1,4	4,1	5
BNP	42,7	-0,5	1,7	3,1	8
Crédit Agricole	11,0	-0,5	1,3	4,4	16
Deutsche Bank	7,1	-0,4	2,4	8,0	2
ING	10,4	-0,4	3,0	1,8	10
Intesa	2,0	-0,6	-0,7	6,4	3
SG	22,9	-0,8	2,6	4,1	-18
Unicredito	11,1	-2,4	-1,0	3,1	12
UK banks	77,1	0,7	0,8	3,0	6
HSBC	668,4	0,9	0,9	2,1	3
RBS	229,4	0,7	0,4	5,1	6
Barclays	160,8	0,5	2,7	7,2	7
Lloyds	56,4	0,7	-0,6	-0,9	9
Large Spanish banks	60,0	-0,4	1,4	-0,9	3
Santander	4,0	-0,4	1,4	0,2	2
BBVA	4,8	-0,4	1,4	-1,9	4
Medium Spanish banks	45,9	-0,8	-2,8	-4,9	-20
Caixabank	2,3	0,6	-4,6	-8,1	-28
Sabadell	0,8	-1,4	-3,8	-8,1	-17
Bankinter	6,1	-1,0	-0,6	1,6	-13
Bankia	1,8	-2,0	-5,1	-11,8	-29

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,114	-0,1	-0,6	-2,0	-3
GBPUSD	1,223	1,3	-2,0	-3,5	-4
USDJPY	108,870	-0,2	-0,9	-1,0	1
DX	98,109	0,1	0,9	2,0	2

Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43,84	-1,1	-3,2	-2,6	-14
USDBRL (Brazil)	3,79	-0,3	-1,3	0,8	2
USDCPL (Chile)	697,60	-0,4	-1,3	-2,5	-1
USDCOP (Colombia)	3268	-0,9	-2,75	-2,16	0
USDMXN (Mexico)	19,07	-0,1	-0,1	0,6	3
USDPEN (Peru)	3,30	-0,1	-0,5	-0,3	2
LACI	54,45	-0,4	-1,1	-0,3	0
USDPLN (Poland)	3,85	-0,3	-1,6	-2,9	-3
USDTRY (Turkey)	63,50	-0,2	-0,6	-0,7	9
USDTRY (Turkey)	5,52	0,9	1,1	2,8	-6
USDCNY (China)	6,89	-0,2	-0,2	-0,2	0
USDINR (India)	68,73	0,3	0,3	0,5	2
USDIR (Indonesia)	14020	-0,1	-0,5	0,9	3
ADXY	104,85	0,0	-0,2	-0,4	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	63,3	-0,2	0,1	-5	18
WTx	56	0,0	0,0	-5	24
Copper	269	0,5	-0,9	-1	2
Gold	1420	0,1	-0,3	1	11
S&P Spot commodity *	417	-0,2	0,0	-3	11
S&P Brent Spot *	539	-0,2	0,5	-4	18
S&P Metals Spot *	323	-0,9	-0,5	1	1
S&P Agricultural *	287	-0,5	-0,2	-6	1

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

FOMC preview

- We expect 25bps cut in July's FOMC meeting, due to subdued expectations, disappointing growth outside of the US and the risk of disorderly Brexit. However, the tentative trade agreement should assuage some of the Fed's concerns about crosscurrents and potential risks to the U.S. economy. The Fed could moderate its stance on the perception of risks, throwing September's rate cut into question.