

Market Comment

Central banks' monetary policies in the spotlight

- Central banks' policy actions were and would be the main market drivers over this week and the next. Investors continue to fret over the risk of policy surprises against significantly dovish market expectations. **The run up to next week's FOMC meeting has seen markets trim bets on the size of expected Fed rate cuts**, after NY Fed scaled back prospects of a 50bps in July. Dampening market's sizable rate cut expectations further was the tentative US budget agreement, alongside resumption of US-China trade talks. Currently markets price in only 25bps Fed interest rate cut next week and attach a 90% probability to 2 rate cuts in 2019 and 57% probability of 3 cuts in 2019. Meanwhile, earlier this week, **the ECB delivered a reasonably dovish tone, although still disappointing markets expectations, which were ultra-dovish (see)**.
- On the data front, the economic data were positive in the U.S. while, data from the Eurozone were weak, especially the manufacturing in Germany. Moreover, **U.S. annualized 2Q19 GDP increased 2.1%, exceeding estimations** of an economic growth of 1.8% in the second quarter. **However, it increased at a slower pace** as the US economy grew 3.1% in 1Q19.
- The US and German long-term yields diverged.** In the US, 10Yr treasury yield inched up, as NY Fed scaled back 50bps rate cut expectation in July's FOMC meeting, along with the positive news from both budget agreement and trade-talks. The German 10Y yield declined dragged by weaker Eurozone manufacturing PMI and dovish ECB. Peripheral risk premia ended the week increasing slightly, especially in Italy as conflict between coalition parties increased concerns.
- The USD DXY strengthened across the board** as Fed easing expectations slightly moderated, along with weaker economic data outside the US. The Euro depreciated dragged by weaker PMIs, while Draghi set the stage for a policy package in the upcoming meeting. GBP depreciated, while the rampant GBPUSD volatility echoed concerns about a disorderly Brexit. **EM FX seems starting to depreciate across the board**, after its recent stability, on the back of increasing EM central banks easing expectations, the stronger USD, along with the downward revisions of EM GDP growth outlook by the IMF.
- Equity markets were broadly stable**, awaiting the FOMC next week amid risk that the Fed may fall short of market's easing expectations. Company results have been better-than-feared.

UPDATE 16:30 CET 26 JULY 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,88	1,4	6,0	11	-61
US	2,08	-0,2	2,4	3	-61
GER (2-yr)	-0,75	0,7	1,5	-2	-14
Germany	-0,37	-1,1	-5,0	-11	-66
France	-0,12	-1,2	-4,9	-14	-83
Spain	0,37	1,2	-1,9	-2	-105
Italy	1,57	4,8	-4,0	-58	-118
Portugal	2,44	1,7	-1,6	-3	-128
Greece	0,07	5,9	-8,5	-38	-233
Japan (2-yr)	-0,21	-0,2	-1,0	1	-7
Japan	-0,15	0,3	-1,6	-1	-15
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,23	-1,7	-8,3	-37	-200
Chile	2,78	0,1	-11,7	-40	-147
Colombia	5,96	1,0	0,5	-23	-79
Mexico	7,46	1,2	-4,3	-23	-118
Peru	3,88	-0,4	19,7	-33	-148
Poland	2,10	3,9	-7,5	-25	-72
Russia	7,37	6,1	-5,7	-13	-141
Turkey	14,91	-46,0	-64,0	-86	-89
India	6,52	1,3	16,0	-41	-85
Indonesia	7,22	2,3	7,0	-22	-81

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	26	-0,1	0,1	-3	-17
Italy	194	5,9	1,0	-47	-52
Portugal	82	2,8	3,4	8	-62
Spain	74	2,3	3,1	9	-39
2-yr sovereign spread vs Germany					
France	7	0,2	-1,5	-1	-9
Italy	74	3,7	-3,6	-27	-35
Portugal	19	0,1	-5,9	-12	-7
Spain	25	-1,5	-3,5	-6	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	124	-0,3	-4	-29	-83
Chile	35	0,0	-1	-5	-28
Colombia	82	-0,6	-3	-14	-76
Argentina	972	40,3	65	-53	165
Mexico	113	-1,1	-1	-3	-42
Peru	49	-0,1	-1	-6	-46
Poland	64	0,0	0	0	-4
Russia	100	-1,9	-5	-16	-54
Turkey	354	-4,2	-27	-62	-6
China	39	-0,9	-4	-8	-28
India	60	-5,0	-9	-19	-54
Indonesia	79	-3,9	-8	-15	-58

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	12	-0,5	-2	-4	-13
VSTOXX	13	-0,5	-1	-1	-11
EM EFT volatility Index	17	-0,1	0	-2	-8
Dollar/euro volatility	5	-0,1	0	-1	-2
EM FX volatility index	7	0,0	0	-1	-3
Credit spread (BAA) (change in bps)	212	0,2	-13	-20	-33
US bonds volatility index	61	0,3	-3	-13	-6
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,13	-	2	7	0
EZ Inflation expectations (5Y5Y)	1,35	-	4	13	-26
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	44	0,0	-4	-9	-38
EZ	51	0,7	-5	-14	-53
UK	52	0,4	-4	-4	-42
Large Spanish	36	0,5	-4	-9	-51
Medium Spanish	86	-1,5	-4	-8	-26
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	159	-0,1	-10	-4	-54
EZ Non-financial	67	-1,6	-4	-7	-30
UK Non-financial	94	-1,1	-4	-7	-25

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	1	1	-1
Euribor 3m	-0,37	1	1	-3	-6
Euribor 12m	-0,31	0	-1	-10	-20
Eonia Swap 3m	-0,42	0	2	-2	-6
Eonia Swap 12m	-0,53	1	1	-5	-18
Libor 3m	2,27	0	-1	-4	-53
Libor 12m	2,18	0	-1	3	-83

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3017	0,5	1,4	3,5	20
Dow Jones	27162	0,1	0,0	2,4	16
Nikkei	21658	-0,5	0,9	2,7	8
FTSE 100	7535	0,6	0,4	1,6	12
EuroStoxx 50	3522	0,3	1,2	2,3	17
IBEX	9224	-0,7	0,6	0,7	8
DAX	12407	0,4	1,2	1,3	18
CAC	5605	0,5	1,0	1,9	18
MIB	21814	-0,4	0,8	3,6	19
ASE Athens	889	0,4	2,5	4,3	45
MSCI Latam *	94038	-1,0	-1,8	-0,1	9
Ibovespa (Brazil)	102737	0,1	-0,7	2,0	17
Mexbol (Mexico)	41018	0,2	-1,4	-6,3	-1
Merval (Argentina)	39884	0,0	-0,7	-0,1	32
MSCI EM Europe *	5909	0,2	-0,1	-0,6	12
Poland	2313	0,1	-1,3	-0,2	2
Micex 10 (Russia)	4770	0,3	0,5	-0,8	14
Ise 100 (Turkey)	103085	1,0	1,2	8,7	13
MSCI EM Asia *	856	0,2	1,0	1,2	9
Shanghai Com (China)	2945	0,2	0,7	-1,1	18
Jakarta (Indonesia)	6325	-0,9	-1,2	0,1	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	143,8	0,5	2,5	8,0	24
JPM	115,8	0,1	2,0	6,8	19
Citi	72,0	0,9	1,6	7,2	38
BoA	30,6	0,7	3,9	9,5	24
MS	45,0	0,3	1,4	4,7	13
GS	221,0	0,5	3,5	12,2	32
EZ banks	72,6	-0,4	2,0	5,8	5
BNP	43,0	0,0	2,3	4,4	9
Crédit Agricole	11,0	-0,6	1,8	5,9	16
Deutsche Bank	7,1	0,1	3,2	9,5	2
ING	10,4	-0,4	3,3	4,2	11
Intesa	2,0	-0,8	-0,2	6,7	3
SG	23,1	0,3	3,1	5,9	-17
Unicredito	11,3	-1,2	0,7	7,4	14
UK banks	76,5	0,1	0,2	2,6	5
HSBC	662,7	1,2	0,0	2,0	2
RBS	227,6	-0,2	-0,2	4,4	5
Barclays	159,9	0,2	2,8	7,1	6
Lloyds	56,0	-1,3	-1,3	-1,5	8
Large Spanish banks	60,4	-0,8	1,5	-0,3	3
Santander	4,1	-0,4	1,8	0,6	3
BBVA	4,8	-1,3	1,1	-1,3	4
Medium Spanish banks	46,3	-4,7	-4,9	-3,0	-19
Caixabank	2,3	-5,9	-5,1	-6,8	-28
Sabadell	0,8	-6,0	-5,4	-6,2	-16
Bankinter	6,1	-4,0	-4,3	3,5	-13
Bankia	1,9	-4,0	-6,4	-9,0	-27

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,113	-0,2	-0,8	-2,1	-3
GBPUSD	1,240	-0,4	-0,8	-2,3	-3
USDJPY	108,700	-0,1	-0,9	-0,8	1
DXY	97,952	0,1	0,8	1,8	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43,18	0,5	-1,7	-1,1	-13
USDBRL (Brazil)	3,78	0,1	-0,7	1,8	3
USDCPL (Chile)	698,83	-0,4	-1,7	-2,7	-1
USDCOP (Colombia)	3231	-0,4	-1,76	-1,39	1
USDMXN (Mexico)	19,05	-0,1	-0,1	0,4	3
USDPEN (Peru)	3,30	-0,1	-0,5	-0,2	2
LACI	54,64	0,0	-0,8	0,3	1
USDPLN (Poland)	3,84	-0,4	-1,3	-2,3	-3
USDRUB (Russia)	63,37	-0,3	-0,5	-0,6	9
USDTRY (Turkey)	5,65	0,8	0,1	2,2	-6
USDICNY (China)	6,88	-0,1	0,1	0,0	0
USDINDY (India)	68,91	0,2	0,1	0,4	1
USDIDR (Indonesia)	14009	-0,2	-0,5	1,2	3
ADXY	104,92	0,0	-0,2	-0,3	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	63,5	0,2	1,6	-5	18
WTx	56	0,2	0,9	-5	24
Copper	269	-0,3	-2,1	-1	2
Gold	1421	0,5	-0,3	1	11
S&P Spot commodity *	417	-0,1	0,4	-3	12
S&P Brent Spot *	538	0,3	1,6	-4	18
S&P Metals Spot *	326	-0,2	-1,0	1	2
S&P Agricultural *	288	-0,7	-1,3	-6	2

Source: Bloomberg, Datastream and Haver

* With one day delay