

Market Comment

Market sentiment remained fragile in a volatile August.

- Volatility returned to financial markets in August against the backdrop of trade uncertainty and mounting concerns over a global slowdown.
- Sovereign bond yields declined significantly in August, especially long-term yields. In the US, 10Y Treasury yield dropped sharply by 49 bps dragged down by term premia that plunged to record negative lows, while the 2Y Treasury yield shrank by 33 bps; thus the US curve briefly inverted during this month, reaching its largest spread between 10-2Y since 2007. Moreover, the 30Y Treasury yield hit fresh record lows in August, breaching on the downside 2% level. In Europe, the 10Y German reached new record lows (below -0.7%), while the 30Yr yield entered for the first time into the negative territory, i.e. the hole German curve is in negative territory. The bond yield decline has been widespread in Europe: Spanish 10Y bond yield around 0.10%, risk premia remains around 70-80bps; while Italian risk premia has been more volatile (-24 bps), tightening to 170bps on the back on the new 5S-PD coalition deal. All in all, the size of government debt on negative territory (mainly European and Japanese debt) has increased by 3 trn USD over the summer (reaching a record high of 17 trn USD).
- Market expectations on Fed rate cuts eased somewhat after the July's meeting minutes and less dovish comments from Fed officials. Nonetheless, a 25 bps Fed rate cut is a virtual certainty at the meeting in Sept 18. Regarding the ECB, an implied probability of a 20 bps depo rate cut remains high (around 48%), while a 10 bps depo rate cut is also a virtual certainty in Sept 12.
- Investors sought shelter in safe-haven currencies which outperformed others in August (JPY +2.5% and CHF +1%), while the USD remained unchanged. The euro slightly weakened vs USD (below 1.11, new lows since early 2017). GBP remains volatile and returned to minimum level after the referendum in 2016 after the suspension of the UK Parliament. Elsewhere, EM currencies depreciated across the board (FXJPEMCS -4.0%) with the LACI index (LatAm currencies) falling by 8% (largely affected by the depreciation of the ARG peso, -25% after the unexpected PASO outcome) and the ADXY (Asian currencies) by 2.1%, led by the RMB that declined by 3.7% to 7.15 per USD, reaching 11-year lows.
- In commodities, gold prices benefitted from the risk-off mood (+8.0%), while concerns over global oil demand weighed on the price of Brent crude (-7.0%), hovering around \$60 per barrel.
- The trade war escalation weighted on global stock markets. The S&P 500 slipped by 1.4% with cyclical sectors leading the losses, despite some strong earnings in the U.S. retail sector. At the end of the month, the S&P 500 trimmed partially early losses after China indicated it wouldn't immediately retaliate on new U.S. tariffs starting in September. European equities slipped by 2% on average, except for Italian stocks which benefited from a new coalition. Britain's FTSE 100 index underperformed its European peers (-4.7%). The Euro Stoxx banks index shrank by 6%.

UPDATE 15:30 CET 30 AUGUST 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,54	1,8	0,5	-33	-95
US	1,52	2,7	-1,4	-49	-116
GER (2-yr)	-0,92	-1,6	-3,1	-15	-31
Germany	-0,71	-1,5	-3,2	-31	-99
France	-0,41	0,2	-3,7	-23	-112
Spain	0,12	1,7	-1,8	-16	-130
Italy	0,99	0,7	-32,6	-55	-175
Portugal	0,14	1,2	-2,6	-21	-158
Greece	1,61	3,0	-34,0	-42	-279
Japan (2-yr)	-0,30	1,3	-0,3	-9	-16
Japan	-0,27	1,6	-3,8	-12	-27
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,48	-5,2	23,1	25	-175
Chile	2,51	0,1	-0,7	-17	-175
Colombia	6,12	-0,7	13,8	15	-64
Mexico	7,01	-0,1	5,2	-50	-163
Peru	3,80	0,0	-0,7	-20	-157
Poland	1,84	0,5	-17,6	-34	-99
Russia	7,23	-4,1	-6,1	-16	-155
Turkey	15,65	0,0	-42,0	74	-15
India	6,56	1,2	-1,1	19	-81
Indonesia	7,33	-5,0	9,0	-4	-69

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	1,7	-0,5	8	-13
Italy	170	2,2	-29,4	-24	-76
Portugal	85	2,7	0,6	10	-60
Spain	83	3,2	1,4	14	-31
2-yr sovereign spread vs Germany					
France	10	0,1	-1,1	2	-6
Italy	70	-1,3	-20,9	-5	-39
Portugal	29	1,2	-2,2	7	3
Spain	35	0,0	1,2	7	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	138	-2,1	2	13	-69
Chile	36	-0,8	0	1	-27
Colombia	96	-1,8	-2	11	-63
Argentina	5229	1347,5	2216	4308	4422
Mexico	114	-1,7	-1	-2	-41
Peru	51	-0,2	1	2	-44
Poland	65	0,0	0	1	-3
Russia	100	-0,8	0	1	-54
Turkey	431	5,1	17	80	71
China	47	-2,1	0	6	-21
India	72	-1,9	-2	13	-41
Indonesia	92	-2,1	0	13	-46

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	17	-0,5	-2	1	-8
VSTOXX	16	-1,2	-4	2	-8
EM EFT volatility Index	19	-0,8	-4	2	-6
Dollar/euro volatility	6	0,1	-1	1	-2
EM FX volatility index	9	0,0	0	2	-1
Credit spread (BAA) (change in bps)	221	-2,7	-5	7	-25
US bonds volatility index	87	-2,9	-5	32	20
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,01	-	12	-10	-13
EZ Inflation expectations (5Y5Y)	1,21	-	-4	-11	-39
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	50	-2,5	-5	3	-32
EZ	65	-3,4	-8	-4	-64
UK	73	0,5	1	-1	-37
Large Spanish	36	-1,3	-1	-6	-51
Medium Spanish	89	3,8	1	7	-24
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	194	-3,1	-7	29	-19
EZ Non-financial	68	-1,1	-2	-3	-29
UK Non-financial	96	-0,9	-3	0	-22

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	0	-1	-1
Euribor 3m	-0,43	-1	-2	-6	-12
Euribor 12m	-0,38	-1	-3	-8	-27
Eonia Swap 3m	-0,51	-1	-3	-8	-15
Eonia Swap 12m	-0,63	-1	-2	-10	-27
Libor 3m	2,12	0	-1	-13	-67
Libor 12m	1,95	0	-2	-24	-106

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2939	0,5	3,2	-1,4	17
Dow Jones	26471	0,4	3,3	-1,5	13
Nikkei	20704	1,2	0,0	-3,8	3
FTSE 100	7228	0,6	1,9	-4,7	7
EuroStoxx 50	3439	0,8	3,1	-0,8	15
IBEX	8851	0,6	2,3	-1,3	4
DAX	11974	1,1	3,1	-1,8	13
CAC	5497	0,9	3,2	-0,4	16
MIB	21460	0,3	4,8	0,3	17
ASE Athens	863	0,6	3,8	-4,1	41
MSCI Latam *	90846	2,1	1,1	-3,5	5
Ibovespa (Brazil)	101355	0,8	3,8	-0,4	15
Mexbol (Mexico)	41831	0,0	4,9	2,4	0
Merval (Argentina)	23985	0,0	-9,8	-43,0	-21
MSCI EM Europe *	5729	1,5	0,6	-3,6	8
Poland	2125	2,7	1,0	-6,7	-7
Micex 10 (Russia)	4707	0,9	2,5	-1,9	12
Ise 100 (Turkey)	96718	0,0	-0,4	-5,3	6
MSCI EM Asia *	807	0,3	-0,2	-4,6	3
Shanghai Com (China)	2886	-0,2	-0,4	-1,6	16
Jakarta (Indonesia)	6328	0,7	1,4	-0,8	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	132,0	0,5	4,0	-7,9	14
JPM	110,0	0,7	3,8	-5,2	13
Citi	64,3	0,6	3,8	-9,6	24
BoA	27,5	0,5	3,7	-10,5	11
MS	41,3	0,0	5,0	-7,3	4
GS	204,4	0,5	4,2	-7,1	22
EZ banks	68,3	0,9	4,1	-3,4	-1
BNP	41,2	0,9	2,8	-2,4	4
Crédit Agricole	10,4	1,6	3,5	-3,2	11
Deutsche Bank	6,6	0,1	3,2	-6,8	-6
ING	8,8	1,7	4,0	-13,1	-7
Intesa	2,0	-0,6	5,2	2,1	3
SG	23,2	1,6	4,0	4,6	-16
Unicredito	10,2	-0,1	7,6	-4,6	3
UK banks	66,8	0,5	1,7	-9,9	-8
HSBC	594,1	0,4	1,3	-9,5	-8
RBS	185,7	1,2	1,5	-14,4	-14
Barclays	137,4	-0,1	-0,5	-10,8	-9
Lloyds	50,1	0,5	0,1	-6,1	-9
Large Spanish banks	52,8	0,4	1,2	-7,9	-9
Santander	3,5	0,5	0,2	-10,0	-13
BBVA	4,3	0,2	2,2	-5,8	-7
Medium Spanish banks	41,6	0,1	1,5	-6,7	-28
Caixabank	2,1	-0,3	2,2	-7,3	-35
Sabadell	0,8	1,1	4,2	-0,8	-22
Bankinter	5,3	0,1	-0,3	-9,3	-24
Bankia	1,7	-0,3	1,9	-7,8	-35

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,104	-0,1	-0,9	-0,3	-4
GBPUSD	1,220	0,2	-0,5	0,4	-4
USDJPY	106,170	0,3	-0,7	2,5	3
DXY	98,472	0,0	0,9	0,0	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	58,59	-1,2	-5,9	-25,1	-36
USDBRL (Brazil)	4,15	0,5	-0,6	-8,1	-6
USDCPL (Chile)	719,42	0,3	0,1	-3,1	-4
USDCOP (Colombia)	3421	0,5	0,05	-4,15	-5
USDMXN (Mexico)	20,11	0,2	-0,9	-4,8	-2
USDPEN (Peru)	3,40	0,0	-0,7	-2,8	-1
LACI	50,02	0,3	-1,3	-7,7	-8
USDPOLN (Poland)	3,97	-0,1	-1,3	-2,5	-6
USDRUB (Russia)	66,45	0,1	-0,6	-4,2	4
USDTRY (Turkey)	5,83	0,1	-1,2	-4,3	-9
USDCNY (China)	7,15	0,0	-0,7	-3,7	-4
USDINR (India)	71,41	0,5	0,4	-3,7	-2
USDIDR (Indonesia)	14198	0,3	0,1	-1,2	1
ADXY	102,38	0,0	-0,1	-2,1	-3

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	60,8	-0,4	2,5	-7	13
WTx	56	-0,8	3,8	-4	24
Copper	256	-0,1	1,1	-4	-3
Gold	1528	0,0	0,0	8	19
S&P Spot commodity *	404	0,8	2,6	-4	8
S&P Brent Spot *	515	0,9	2,9	-7	12
S&P Metals Spot *	317	0,6	0,8	-2	-1
S&P Agricultural *	267	-0,3	0,1	-5	-6

Source: Bloomberg, Datastream and Haver

* With one day delay