

Market Comment

All eyes on the European Central Bank. ECB Preview

- Sovereign bond yields rose as investors lowered their expectations that the ECB will unleash a big stimulus package this Thursday at its policy meeting. The market is not pricing in an immediate QE, but a 10 bps depo rate cut by the ECB is a virtual certainty. Market expectations of a 20 bps depo rate cut continue to decline, hovering around 32%.
- Last Friday, Powell repeated the Fed will continue to act as appropriate to sustain the expansion, which did not impact the markets. The market expects a 25 bps Fed rate cut this month, but expectations of a larger cut (50 bps) waned.
- China's trade balance dropped in August as its exports unexpectedly contracted, dragged down by the trade war (-1.0% YoY, 2.2% YoY expected, 3.3% YoY prior). Nonetheless, European economic data were positive with Germany's trade balance increasing more than expected in July. Germany's exports unexpectedly rose (0.7% MoM, -0.5% MoM expected, -0.1% MoM prior), while its imports fell more than expected (-1.5% MoM, -0.3% MoM expected, 0.7% MoM prior). Elsewhere, the UK economy grew surprisingly fast in July (0.3% MoM, 0.1% MoM expected, 0.0% MoM prior) with a stronger-than-expected factory activity in July.
- Sovereign bond yields surged across the yield curve, especially in longer tenors. Both 10Y yields on U.S. Treasury and German bund increased 5 bps. 10Y UK gilt yield climbed 9 bps after UK PM Boris Johnson emphasized he wanted to achieve a Brexit deal before next month's deadline, despite the fact that its Parliament will begin its suspension later today. In the European peripheral, Italy's risk premium pared its downward trend, leading the Eurozone bond losses.
- Safe-haven currencies weakened with the DXY index and the JPY falling by 0.2%, while G10 commodity linked currencies gained. The pound appreciated (+0.7%) driven by the positive economic activity data in the U.K. and hopes of a Brexit deal. The euro also gained (+0.3%) on hopes of German fiscal stimulus to revive growth and stronger-than-expected exports. In EM, LatAm currencies depreciated across the board (LACI -0.2%), although the MXN remained unchanged as its August's inflation was in line with the consensus. Moreover, the TRY slipped (-0.8%) after the President Erdogan said Turkey will lower interest rates.
- In commodities, the price of Brent crude went up to \$63 per barrel (+2.0%) after Saudi Arabia's new energy minister signaled that OPEC will continue with production cuts.
- U.S. and European stocks were steady as investors remained cautious ahead of the ECB meeting later this week, except for Britain's FTSE 100 index (-0.6%) as the sterling continued appreciating.

🔍 Central Bank Annex

Update: 18:00 CET 09 September 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,57	3,2	6,9	-5	-92
US	1,61	5,5	11,9	-10	-107
GER (2-yr)	-0,86	1,3	7,1	-1	-25
Germany	-0,59	5,2	11,6	-7	-87
France	-0,28	5,7	11,8	0	-99
Spain	0,22	4,6	9,1	0	-120
Italy	0,94	6,6	-2,4	-59	-180
Portugal	0,24	5,0	11,0	0	-148
Greece	1,61	1,2	-0,7	-44	-279
Japan (2-yr)	-0,31	-1,3	-1,2	-7	-17
Japan	-0,25	-1,4	1,5	-6	-25

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,31	0,0	-14,8	16	-192
Chile	2,38	-0,1	-12,8	-13	-187
Colombia	6,04	2,4	-4,8	0	-71
Mexico	6,99	3,3	2,3	-29	-165
Peru	3,59	-1,3	-20,9	-28	-177
Poland	2,09	7,5	24,6	8	-73
Russia	7,16	1,4	-5,3	-21	-162
Turkey	14,97	-10,0	-37,0	40	-83
India	6,58	-2,7	1,6	17	-79
Indonesia	7,27	-5,5	-6,6	-7	-76

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	0,5	0,2	6	-12
Italy	153	1,4	-14,0	-53	-93
Portugal	83	-0,2	-0,6	6	-61
Spain	81	-0,6	-2,5	6	-33

2-yr sovereign spread vs Germany					
France	9	-0,2	-2,0	-2	-6
Italy	54	2,8	-14,7	-35	-54
Portugal	22	0,9	-5,2	-3	-4
Spain	32	0,3	-5,0	-4	-5

Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	123	-2,2	-11	-15	-85
Chile	32	-0,6	-4	-10	-32
Colombia	82	-1,3	-11	-21	-76
Argentina	4776	-866,5	-1703	3688	3970
Mexico	100	-1,5	-12	-28	-55
Peru	45	-0,7	-4	-11	-50
Poland	65	-0,2	0	0	-3
Russia	85	0,0	-13	-26	-69
Turkey	380	3,3	-44	-4	20
China	40	-0,8	-6	-13	-27
India	66	-0,5	-7	-5	-48
Indonesia	78	-1,7	-11	-20	-59

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0,2	-4	-2	-10
VSTOXX	15	0,3	-3	-3	-9
EMEFT volatility Index	17	-0,1	-2	-3	-8
Dollar/euro volatility	5	0,1	-1	0	-2
EMFX volatility index	8	-0,3	-1	0	-2
Credit spread (BAA) (change in bps)	220	-5,4	-7	-6	-26
US bonds volatility index	79	-1,1	-8	0	12

Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5YSY)	1,95	-	-1	-6	-19
EZ Inflation expectations (5YSY)	1,25	-	5	1	-36

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	43	-0,9	-5	-14	-39
EZ	50	-0,4	-5	-9	-54
UK	58	-1,1	-5	-5	-36
Large Spanish	35	-0,1	-3	-7	-53
Medium Spanish	87	2,2	4	-3	-25

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	189	-1,6	-4	-13	-24
EZ Non-financial	66	-0,6	-2	-11	-31
UK Non-financial	96	-0,4	-1	-8	-23

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,36	0	0	-1	-1
Euribor 3m	-0,43	0	0	-4	-12
Euribor 12m	-0,36	0	2	-2	-24
Eonia Swap 3m	-0,51	0	0	-5	-15
Eonia Swap 12m	-0,60	0	3	-3	-25
Libor 3m	2,13	0	-4	-8	-66
Libor 12m	1,95	0	-8	-9	-106

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2982	0,1	1,9	1,5	19
Dow Jones	26869	0,3	1,8	1,9	15
Nikkei	21318	0,6	3,4	3,5	7
FTSE 100	7236	-0,6	-0,6	-0,7	8
EuroStoxx 50	3495	0,0	1,8	3,5	16
IBEX	9011	0,2	2,2	1,6	6
DAX	12226	0,3	2,3	3,2	16
CAC	5589	-0,3	1,7	3,7	18
MIB	21990	0,2	2,5	5,5	20
ASE Athens	859	-1,2	-0,2	1,4	40
MSCI Latam *	93031	0,4	1,3	-0,1	8
Ibovespa (Brazil)	104001	1,0	3,4	-0,1	18
Mexbol (Mexico)	42867	0,4	1,8	6,0	3
Merval (Argentina)	27223	-1,6	3,9	-33,8	-10
MSCI EM Europe *	5888	-0,2	1,4	2,8	11
Poland	2174	2,4	1,4	0,7	-4
Micex 10 (Russia)	4787	-0,4	0,7	2,0	14
Ise 100 (Turkey)	100605	1,6	2,3	1,4	10
MSCI EM Asia *	833	0,4	2,0	4,7	6
Shanghai Com (China)	3025	0,8	3,4	8,2	21
Jakarta (Indonesia)	6326	0,3	0,0	2,0	2

Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	138,3	2,8	4,7	3,1	20
Citi	115,3	2,4	5,0	5,0	18
BoA	68,3	3,5	6,1	2,3	31
MS	28,5	2,9	3,7	0,5	16
GS	43,4	2,8	4,5	5,1	9
GS	212,3	2,5	4,1	2,6	27
EZ banks					
BNP	72,8	2,8	7,1	7,5	6
BNP	43,7	3,0	6,5	7,3	11
Crédit Agricole	11,0	2,8	6,3	6,6	17
Deutsche Bank	7,3	3,0	10,2	6,5	5
ING	9,3	2,8	7,8	5,2	-1
Intesa	2,1	1,7	4,9	8,0	8
SG	25,1	4,1	9,1	10,4	-10
Unicredito	10,9	2,9	8,1	10,4	11
UK banks					
HSBC	68,2	1,0	1,8	-3,5	-6
RBS	607,0	1,0	2,0	-4,3	-6
Barclays	192,8	2,5	3,5	-7,1	-11
Lloyds	140,8	0,5	2,4	-3,5	-6
Lloyds	50,2	0,3	-0,3	0,9	-3
Large Spanish banks					
Santander	55,6	2,5	6,5	-0,1	-5
Santander	3,6	2,4	5,3	-2,1	-9
BBVA	4,6	2,5	7,6	1,9	-1
Medium Spanish banks					
Caixabank	43,9	2,9	8,6	-1,0	-24
Caixabank	2,2	3,3	9,5	-1,7	-30
Sabadell	0,8	4,4	10,0	4,6	-17
Bankinter	5,6	2,4	7,9	-3,2	-20
Bankinter	1,7	2,9	9,5	-1,3	-32

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,106	0,3	0,8	-1,1	-4
GBPUSD	1,237	0,7	2,5	1,9	-3
USDJPY	107,140	-0,2	-0,8	-1,0	2
DX	98,176	-0,2	-0,7	0,6	2

Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	55,99	-0,3	0,0	-19,2	-33
USDBRL (Brazil)	4,08	-0,5	2,5	-4,0	-5
USDCPL (Chile)	714,04	-0,2	1,5	-0,7	-3
USDCOP (Colombia)	3368	-0,3	2,33	0,03	-3
USDMXN (Mexico)	19,54	0,0	3,1	-0,7	1
USDPEN (Peru)	3,34	-0,1	1,8	0,9	1
LACI	51,13	-0,2	2,7	-3,6	-6
USDPLN (Poland)	3,92	0,3	1,4	-1,4	-5
USDTRB (Turkey)	65,52	0,4	1,9	-0,7	6
USDTRY (Turkey)	5,76	-0,8	0,9	-4,9	-8
USDCNY (China)	7,12	-0,1	0,7	-1,1	-3
USDINR (India)	71,71	0,0	-0,4	-1,4	-3
USDIDR (Indonesia)	14035	0,5	1,1	1,3	3
ADXY	102,85	0,0	0,8	-0,5	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,8	2,0	7,0	9	17
WTx	58	2,7	5,4	10	28
Copper	261	-0,3	3,0	0	-1
Gold	1501	-0,4	-1,9	0	17
S&P Spot commodity *	404	0,0	1,9	3	8
S&P Brent Spot *	524	1,0	3,9	8	14
S&P Metals Spot *	325	0,2	2,4	2	2
S&P Agricultural *	261	-0,4	-1,5	-8	-8

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

ECB preview

- We expect the ECB to cut 20bp the deposit rate to -0.60%, along with the implementation of a tiered system for the deposit facility and the announcement of a new round of QE – or an indication that QE could be easily triggered, in addition to strengthening forward guidance on rates (hikes conditional on inflation target). This package derives from worse-than-expected data in Germany, a somewhat weaker momentum for 2H19 and the intensification of downward risks (trade war escalation and Brexit). The updated forecasts will likely revise GDP growth down by around 0.2pp in 2020-21 to 1.3% after 1.1% in 2019 and core inflation also down by around 0.1pp over the forecast horizon to average around 1.5% in 2021. Regarding market expectations, a 10 bps deposit rate cut is a virtual certainty in September, while bets of a 20 bps cut remain high (49%).