

Market Comment

Risk of an imminent hard Brexit wanes. ECB Preview

- Boris Johnson lost a Commons vote by 322 to 306 on an amendment that had the effect of delaying the final approval of the new Brexit deal reached with the EU last week. As a result, the UK PM sent the EU a letter to ask for a new Brexit extension without signing it, but Tusk considered it as a formal Article 50 extension request. Moreover, the House of Commons speaker, John Bercow, has denied today Johnson's request for a second vote on the deal secured with the EU.
- Positive signs on the trade front kept the risk appetite alive as China's Vice Premier Liu He confirmed that the US and China made substantial progress at trade talks for a partial deal. Separately, the IMF estimated that a tentative trade deal reached by the US and China last week could reduce the harm done by tit-for-tat tariffs on global growth, and will drag growth by 0.6% instead of 0.8%.
- The PBOC unexpectedly kept its new benchmark lending rate unchanged today (the 1-yr LPR is currently at 4.2% while the 5 yr LPR is at 4.85%). Analysts had forecast a rate cut of 5 bps in the 1-yr Loan Prime Rate and 2 bps in the 5-yr LPR following reductions in August and September, due to the recent weak economic outturns (including the 6% Q3 GDP growth). As Governor Yi Gang stated during the G20, the PBOC will continue to implement prudent monetary policy, trying to keep debt under control.
- There were a few economic reports today. However, Budesbank's monthly report warned that the German economy would decline for the second quarter in a row. Nonetheless, the German monetary authority does not see a broad deceleration. Instead it sees domestic demand growing at a healthy pace, whereas the export sector linked to the manufacturing industry is weakening further.
- Sovereign bond yields rose (both 10Y GER and US +4bps) amid trade and Brexit optimism. The yield on the 10Y Italian bond led the gains with its risk premium widening slightly as political noise over its budget grows. Regarding monetary policy, it is widely expected that the ECB will maintain its rate unchanged at this Thursday's meeting, whereas Fed's Clarida reinforced the view that the Fed will cut rates again next week with markets pricing in a 90% probability of a 25bp rate cut.
- Both USD and the euro fluctuated with the latter depreciating by 0.2%. The pound swung to a near five-month high after the U.K. requested another Brexit delay. The GBPUSD 1M implied volatility eased, led by hopes of a Brexit resolution in the coming days, but it remains near to a year-high. In emerging markets, LatAm currencies depreciated (LACI index -0.6%) with the Chilean peso falling sharply (USDCLP -2.1%) after the recent turmoil in the country, alongside high expectations of a 25bp rate cut by its Central Bank on Wednesday. Moreover, the TRY weakened by 0.6% against the USD ahead of its Central Bank meeting on Thursday.
- Oil prices extended last week's fall (Brent -1.3%) as the deterioration of the Chinese economy, the world's second-biggest oil consumer, fueled concerns over the global economic outlook.
- Stock markets increased as market risk sentiment improved with financials leading the way among other sectors (EZ banks +1.8%, US banks +2.4%).

Central Bank Annex

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DEBT MARKETS (10Y, %, CHANGE IN BPS)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.60	3,1	1,3	-13	-88
US	1.80	4,4	6,8	1	-89
GER (2-yr)	-0.66	0,3	4,4	6	-5
Germany	-0.34	4,0	11,5	17	-58
France	-0.04	3,5	10,1	17	-75
Spain	0.29	4,1	7,5	4	-113
Italy	0.98	5,8	7,1	10	-176
Portugal	0.24	3,5	5,8	-3	-149
Greece	1.33	1,0	-10,7	-5	-307
Japan (2-yr)	-0.23	-0,1	5,8	6	-9
Japan	-0.13	0,6	5,4	9	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6.57	1,6	-8,8	-60	-267
Chile	2.88	17,2	33,6	38	-138
Colombia	6.09	3,0	6,1	9	-66
Mexico	6.85	3,5	10,2	-21	-180
Peru	3.53	1,4	3,3	-22	-184
Poland	2.04	1,6	6,0	-2	-78
Russia	6.64	-4,9	-13,8	-50	-214
Turkey	13.94	0,0	-119,0	-59	-186
India	6.52	0,0	3,6	-12	-85
Indonesia	7.12	-2,5	-11,4	-12	-91

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-0,5	-1,4	1	-17
Italy	133	1,8	-4,4	-7	-117
Portugal	58	-0,5	-5,7	-20	-90
Spain	63	0,1	-4,0	-13	-55
2-yr sovereign spread vs Germany					
France	5	-0,5	-2,6	0	-10
Italy	45	3,1	-1,6	-4	-64
Portugal	10	0,3	-1,7	-9	-16
Spain	23	0,9	-0,8	-3	-14
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	129	0,2	-4	11	-78
Chile	33	1,0	-2	2	-30
Colombia	86	0,0	-3	8	-72
Argentina	5634	296,6	971	261	4828
Mexico	105	-0,4	-5	5	-50
Peru	56	0,1	-3	12	-39
Poland	67	0,0	0	3	-1
Russia	77	0,8	-9	3	-77
Turkey	372	-7,3	-16	0	12
China	41	-1,2	-3	2	-27
India	73	0,3	-1	8	-41
Indonesia	83	-2,6	-5	5	-55

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	14	0,1	0	0	-11
VSTOXX	78	0,0	-2	0	12
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	0	1	-2
EM FX volatility index	16	-0,2	-1	-1	-9
CREDIT spread (BAA) (change in bps)	217	-4,4	-8	0	-28
US bonds volatility index	8	-0,1	0	-1	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.00	-	5	7	-13
EZ Inflation expectations (5Y5Y)	1.24	-	6	-3	-37
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	51	0,3	-3	2	-32
EZ	53	-0,7	-2	2	-51
UK	48	-2,4	-6	-5	-46
Large Spanish	92	-1,0	0	5	-46
Medium Spanish	41	-3,3	-6	4	-22
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	210	2,0	-4	12	-4
EZ Non-financial	75	0,1	-2	10	-22
UK Non-financial	103	-0,3	-3	7	-16

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0.55	0	0	n.a.	n.a.
Euribor 3m	-0.41	0	1	-1	-10
Euribor 12m	-0.29	0	1	1	-18
Libor 3m	-0.46	0	0	-1	-11
Libor 12m	1.95	0	-4	-19	-84

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3001	0,5	1,2	-0,2	20
Dow Jones	26794	0,1	0,0	-1,1	15
Nikkei	22549	0,2	3,4	2,3	13
FTSE 100	7164	0,2	-0,7	-2,6	6
EuroStoxx 50	3600	0,6	1,2	1,3	20
IBEX	9406	0,8	1,7	3,0	10
DAX	12748	0,9	2,1	2,3	21
CAC	5648	0,2	0,1	-0,2	19
MIB	22478	0,7	1,7	1,6	23
ASE Athens	867	0,5	1,3	-0,8	41
MSCI Latam *	94667	-0,5	0,4	0,0	10
Ibovespa (Brazil)	104791	0,1	0,5	0,4	19
Mexbol (Mexico)	43392	0,5	0,2	0,9	4
Merval (Argentina)	32176	0,6	1,2	5,8	6
MSCI EM Europe *	5918	0,3	1,2	-1,3	12
Poland	2183	0,9	1,6	-0,4	-4
Micex 10 (Russia)	4842	0,3	3,2	0,3	16
Ise 100 (Turkey)	97324	-1,1	3,6	-3,0	7
MSCI EM Asia *	844	-0,7	1,2	0,5	8
Shanghai Com (China)	2940	0,1	-2,3	-2,0	18
Jakarta (Indonesia)	6199	0,3	1,5	-1,2	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	145,4	2,4	4,8	2,3	26
Citi	123,3	2,3	5,9	3,3	26
BoA	71,5	2,6	1,9	2,6	37
MS	31,1	2,4	6,7	4,3	26
GS	44,9	2,8	6,2	1,9	13
GS	210,4	1,9	2,2	-2,3	26
EZ banks					
BNP	78,3	1,8	5,2	4,8	14
BNP	47,8	1,7	5,3	6,8	21
Crédit Agricole	11,8	2,1	4,8	4,8	25
Deutsche Bank	7,3	2,9	6,6	-0,8	5
ING	10,4	2,0	5,4	7,6	10
Intesa	2,3	0,8	3,3	4,1	16
SG	26,5	2,0	5,3	2,1	-5
Unicredito	11,7	2,1	8,0	5,3	19
UK banks					
HSBC	77,5	1,1	5,0	8,0	6
HSBC	604,7	0,5	-0,4	-1,8	-7
RBS	242,6	1,8	12,7	16,6	12
Barclays	165,6	0,4	5,1	10,1	10
Lloyds	61,4	2,1	6,3	13,7	18
Large Spanish banks					
Santander	60,0	2,4	5,6	4,2	3
Santander	4,0	2,5	5,6	6,5	0
BBVA	4,9	2,4	5,6	2,2	6
Medium Spanish banks					
Caixabank	51,3	3,8	7,4	10,1	-11
Sabadell	2,7	3,5	5,3	11,0	-16
Sabadell	1,1	3,8	9,8	19,8	6
Bankinter	6,5	4,6	8,3	7,9	-8
Bankia	1,9	3,5	7,2	4,8	-27

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,114	-0,2	1,1	0,9	-3
GBPUSD	1,299	0,0	3,0	3,7	2
USDJPY	108,580	-0,1	-0,2	-0,5	1
DXY	97,334	0,1	-1,1	-1,0	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	58,52	-0,3	-0,8	-3,3	-36
USDBRL (Brazil)	4,14	-0,6	-0,3	0,7	-6
USDCLP (Chile)	727,22	-2,1	-2,0	-1,5	-5
USDCOP (Colombia)	3447	-0,6	-0,41	-1,78	-6
USDMXN (Mexico)	19,15	-0,3	0,6	1,6	3
USDPEN (Peru)	3,35	-0,2	0,2	0,3	1
LACI	50,82	-0,6	-0,2	-0,1	-6
USDPLN (Poland)	3,84	-0,3	1,5	2,4	-3
USDRUB (Russia)	63,71	-0,1	0,8	0,5	9
USDTRY (Turkey)	5,86	-1,2	1,2	-2,4	-10
USDCNY (China)	7,07	0,1	-0,1	0,3	-3
USDINR (India)	71,15	0,0	0,1	0,2	-2
USDIDR (Indonesia)	14081	0,5	0,4	-0,1	2
ADX	103,78	0,1	0,3	0,6	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	58,7	-1,3	-1,2	-9	9
WTx	53	-1,1	-0,7	-8	17
Copper	263	0,1	0,1	1	0
Gold	1485	-0,3	-0,6	-1	16
S&P Spot commodity *	407	-0,1	0,4	-3	9
S&P Brent Spot *	503	-0,6	-0,1	-7	10
S&P Metals Spot *	323	0,7	0,6	-1	1
S&P Agricultural *	289	0,2	0,5	6	2

* Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

ECB preview

- At October meeting – Draghi's last one as ECB President- the ECB is expected to continue monetary policy unchanged. The cautious tone will be maintained as recent indicators suggest that weakness will continue in 2H19 due to the persistence of both industrial sector weakness and uncertainty (trade tensions and Brexit), leaving the door open for further measures if needed.
- Since the last ECB meeting, hard data in the Eurozone was disappointed, but the slowing trend seems to be containing. Exports increased slightly up to August and the deterioration of industrial production is slowing, falling slowing retail sales point to a more moderate private consumption. Inflation declined further in September driven by falling energy prices, while core inflation remains relatively stable. A somewhat more gradual increase is expected due to the moderation of domestic demand and a more gradual improvement in labor markets along with a limited pass-through from inputs to consumer prices. All in all, recent indicators show more evident negative effects from a worsening global outlook and higher uncertainty on exports and investment, pointing to a further slowdown in GDP growth in 2020 (from 1.1% in 2019 to 0.8% in 2020) that contrasts with more upbeat steady growth in the ECB forecasts updated in September
- However, this dovish tone is likely not to be reinforced as comments from and minutes of the September meeting confirmed the intense division among ECB board member over the bold easing package delivered. Against this background, this disagreement among ECB board members could make it difficult for the next ECB president, Ms. Lagarde, to step-up non-disinflationary measures, such as the increase in the ECB's self-imposed limits for QE. All in all, we continue to expect another depo rate cut, as soon as December 19 to -0.6%, but it is less likely given the strong division on easing measures within the ECB governing council.