

Market Comment

Volatile markets amid trade news

- Markets were very volatile during the week**, with investors focused on how U.S.-China trade talks and Brexit negotiations evolve. Market volatility (VIX) hit levels above 20 but retreated to 16 as optimism about a potential trade deal rose towards the end of the week. Increased prospects of a limited U.S.-China trade deal underpinned the risk-on mood, with **equity indices rallying, led by cyclicals, while safe-haven assets declined**.
- Despite the trade talks and higher chances of a Brexit deal, risky assets got an additional boost from upbeat economic data today. The **US Michigan consumer confidence** index surprisingly recovered in September (96, consensus 92, previous 93.2), suggesting that consumption spending positive momentum remains.
- Sovereign bonds yields soared**, recovering from last week's sharp declines (**10Y US +22bps, 10Y GER +15bps**). Markets expectations of a 25bp Fed rate cut in October moderated to 65%, while those of an additional cut by year end fell to 25%, down from 65% last Friday. Part of the upward pressure on European yields stemmed from the ECB minutes and press reports confirming the **division emerging within the ECB board, particularly on QE**. Market expectations of a further ECB rate cut moderated but still remains high (70% probability of 10 bps cut in 2H20). **Risk premia fell below 70bps in both Spain (to 67bps) and Portugal (to 64bps)**, with the latter declining below Spain's after the election results. Meanwhile Italy's risk premium remains broadly unchanged around 140 bps, ahead of the deadline to present the 2020 budget.
- Positive trade deal prospects weighed on safe-haven currencies (DXY index -0.5%, USDJPY -1.5%) **The GBP appreciated significantly by 2.6%** on increasing hopes of a Brexit-deal ([see](#)). Nonetheless, **the GBPUSD 1M implied volatility inched up**, suggesting that uncertainty remains high in the short term, while the 3M implied volatility moderated. Elsewhere, EM currencies were mixed. Idiosyncratic factors weighed on the Turkish lira, which depreciated (**USDTRY -2.9%** to 5.9) amid increasing geopolitical tensions in the Middle East (Turkey's 5Y CDS +32bps to 396bps). The Brazilian real also fell sharply this week (USDBRL -1.4%) as markets are pricing in another cut of 75bps by year-end.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,62	7,5	21,4	-6	-87
US	1,75	8,4	22,3	1	-93
GER (2-yr)	-0,72	-0,7	6,1	12	-11
Germany	-0,43	3,6	15,3	13	-68
France	-0,12	2,0	16,0	14	-83
Spain	0,23	0,7	10,2	-2	-118
Italy	0,94	-1,9	10,6	-3	-180
Portugal	0,20	0,1	6,1	-6	-152
Greece	1,45	-0,3	9,4	-21	-295
Japan (2-yr)	-0,29	1,3	4,0	-2	-15
Japan	-0,18	2,4	3,2	2	-18
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,78	-6,0	-20,5	-54	-246
Chile	2,47	2,4	1,6	2	-178
Colombia	6,01	-0,2	4,0	-6	-74
Mexico	6,77	1,6	2,4	-42	-187
Peru	3,50	4,2	-14,7	-10	-187
Poland	2,00	6,1	9,1	-8	-83
Russia	6,82	-3,0	-24,1	-33	-196
Turkey	14,13	0,0	77,0	-104	-167
India	6,51	4,4	-18,0	-17	-86
Indonesia	7,25	-2,2	1,4	-3	-78

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-1,6	0,7	1	-16
Italy	137	-5,5	-4,7	-16	-113
Portugal	64	-3,5	-9,2	-20	-85
Spain	67	-2,9	-5,1	-15	-51
2-yr sovereign spread vs Germany					
France	7	-0,5	-0,6	-2	-8
Italy	48	-2,3	-3,9	-4	-61
Portugal	13	0,3	-3,3	-9	-13
Spain	25	1,6	-0,9	-8	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	137	-2,1	-1	12	-70
Chile	36	-0,7	-1	4	-27
Colombia	92	-1,4	-2	10	-66
Argentina	4645	-402,6	-904	-878	3839
Mexico	114	-1,4	-2	14	-41
Peru	60	-1,3	-2	15	-35
Poland	67	-0,1	0	2	-1
Russia	89	-2,4	-3	4	-66
Turkey	396	10,0	32	1	36
China	48	-0,7	-2	8	-20
India	74	0,7	0	9	-39
Indonesia	91	-0,6	-2	14	-46

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	-1,6	-1	1	-9
VSTOXX	80	0,0	-3	3	14
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	6	0,2	0	-1	-2
EM FX volatility index	19	-0,5	0	2	-6
Credit spread (BAA) (change in bps)	213	-8,4	-15	-10	-33
US bonds volatility index	8	0,0	0	0	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,96	-	6	0	-17
EZ Inflation expectations (5Y5Y)	1,19	-	7	-3	-41
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	-1,5	-2	15	-24
EZ	58	-2,1	-2	7	-46
UK	59	-3,6	-3	3	-35
Large Spanish	43	-1,2	-1	7	-44
Medium Spanish	96	-0,1	0	8	-16
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	220	-6,0	-19	35	7
EZ Non-financial	79	-1,3	-1	13	-18
UK Non-financial	109	-1,4	-1	13	-10

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,55	0	0	n.a.	n.a.
Euribor 3m	-0,42	0	1	1	-11
Euribor 12m	-0,30	2	3	7	-19
Libor 3m	-0,47	0	0	-10	-11
Libor 12m	1,98	0	-6	-15	-81

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2984	1,6	1,1	-0,6	19
Dow Jones	26881	1,5	1,2	-0,9	15
Nikkei	21799	1,1	1,8	0,9	9
FTSE 100	7231	0,6	1,1	-1,5	7
EuroStoxx 50	3556	1,8	3,2	1,1	18
IBEX	9241	1,5	3,1	2,0	8
DAX	12460	2,4	3,7	0,8	18
CAC	5649	1,4	2,9	0,6	19
MIB	22085	1,5	2,9	0,9	21
ASE Athens	856	2,0	3,8	-0,2	40
MSCI Latam *	92829	0,7	0,7	-0,3	8
Ibovespa (Brazil)	103935	2,1	1,3	0,5	18
Mexbol (Mexico)	43314	0,9	-0,2	1,3	4
Merval (Argentina)	32141	1,3	1,0	12,3	6
MSCI EM Europe *	5784	0,1	0,4	-2,2	9
Poland	2158	1,7	1,8	-1,4	-5
Micex 10 (Russia)	4719	0,3	1,0	-2,4	13
Ise 100 (Turkey)	99017	0,2	-4,3	-2,9	8
MSCI EM Asia *	823	0,1	0,0	-1,2	5
Shanghai Com (China)	2974	0,9	2,4	-1,2	19
Jakarta (Indonesia)	6106	1,3	1,1	-3,6	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	139,1	2,7	2,8	-1,3	20
Citi	117,1	2,5	2,2	-0,1	20
BoA	70,5	2,8	3,5	2,4	35
MS	29,2	2,5	2,7	-1,1	18
GS	42,3	3,0	3,7	-3,7	7
GS	205,5	2,8	2,4	-5,2	23
EZ banks					
BNP	74,1	3,4	6,0	0,4	7
Crédit Agricole	45,4	4,0	7,4	2,6	15
Deutsche Bank	11,2	4,1	5,7	0,4	19
ING	6,8	2,5	6,4	-9,8	-3
Intesa	9,7	4,6	6,2	0,9	3
SG	2,2	1,3	3,9	3,3	12
Unicredito	25,1	4,6	7,2	-2,2	-10
UK banks					
HSBC	10,9	3,3	6,9	1,4	10
RBS	74,8	7,3	8,5	5,3	3
HSBC	606,2	1,4	0,7	-3,1	-6
RBS	220,7	12,7	13,1	10,5	2
Barclays	159,4	6,8	11,5	7,2	6
Lloyds	59,1	12,3	13,7	12,4	14
Large Spanish banks					
Santander	57,3	2,5	5,1	0,9	-2
BBVA	3,8	3,8	7,0	1,7	-5
BBVA	4,7	1,3	3,4	0,2	1
Medium Spanish banks					
Caixabank	47,7	3,7	7,7	5,8	-17
Sabadell	2,5	4,0	9,4	10,6	-21
Sabadell	1,0	5,8	8,9	11,7	-5
Bankinter	6,0	3,1	7,7	2,4	-15
Bankia	1,8	2,9	5,2	1,5	-31

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,104	0,3	0,6	0,3	-4
GBPUSD	1,265	1,7	2,6	2,6	-1
USDJPY	108,530	-0,5	-1,5	-0,7	1
DXY	98,267	-0,4	-0,5	-0,4	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	58,06	-0,1	-0,6	-3,3	-35
USDBRL (Brazil)	4,12	-0,2	-1,4	-1,2	-6
USDCLP (Chile)	713,62	0,6	0,3	0,2	-3
USDCOP (Colombia)	3430	0,9	0,14	-1,60	-5
USDMXN (Mexico)	19,33	0,6	1,0	0,9	2
USDPEN (Peru)	3,36	0,3	0,7	-0,5	0
LACI	50,93	0,3	-0,2	-0,6	-6
USDPLN (Poland)	3,89	0,6	1,1	1,2	-4
USD RUB (Russia)	64,14	0,5	0,8	2,1	8
USDTRY (Turkey)	5,87	-0,6	-2,9	-2,0	-10
USDCNY (China)	7,09	0,4	0,8	0,4	-3
USDINR (India)	71,02	0,1	-0,2	0,9	-2
USDIDR (Indonesia)	14138	0,1	0,0	-0,6	2
ADXY	103,61	0,2	0,3	0,6	-2

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	60,0	1,5	2,7	-1	11
WTx	54	0,9	2,3	-3	19
Copper	260	-0,2	1,7	0	-1
Gold	1475	-1,3	-2,0	-2	15
S&P Spot commodity *	402	0,5	0,7	-1	7
S&P Brent Spot *	500	1,2	0,6	-3	9
S&P Metals Spot *	324	1,5	1,9	-1	2
S&P Agricultural *	279	-1,6	-0,4	5	-2

Source: Bloomberg, Datastream and Haver

* With one day delay