

Market Comment

## Trade deal optimism spurs sovereign bonds yields and global equities

- Markets' risk-on mood intensified this week on the back of increasing optimism over a US-China trade deal that would also lead to a gradual rollback in bilateral tariffs. Strong U.S. non-farm payrolls and services sector figures, along with better-than-feared earnings also helped to improve market sentiment.
- China noted that it has agreed with the U.S. to roll back tariffs on each other's goods in a 'phase one' trade deal if it is completed. However, the U.S. has not agreed to fully rollback tariffs. China's statements have sparked divisions amongst White House advisors, with trade advisor Navarro saying that there is no agreement at this time to remove any of the existing tariffs as a condition of the phase one deal, and that only President Trump can make that decision. Meanwhile, U.S. congressmen have urged Trump to phase out tariffs in stages as China complies. The phase-one deal is expected to be signed before year-end by Presidents' Trump and Xi at a yet-to-be determined location.
- This week's positive economic data in the U.S. also supported risk appetite. The U.S. showed **better-than-forecast ISM non-manufacturing** figures in October (54.7, consensus 53.5, previous 52.6), tempering concerns that the widespread weakness in manufacturing will spill over into the service sector. In the Eurozone, the final PMIs for October were slightly revised upwards across sectors. Nonetheless, the manufacturing index remains in contractionary territory, alongside the cuts of the EC forecasts for the EZ growth and inflation in the next two years. Moreover, **China's trade surplus widened** in October with exports declining less than expected (-0.9% y/y, consensus -3.9% y/y, previous -3.2% y/y).
- Safe-haven yields saw a significant increase (10Y yield +20 bps in US and 12.5 bps in Germany), with both the US and German yield curves steepening, suggesting investors are pricing in some reflation. In fact, market-based inflation expectations climbed (+12 bps in U.S. to 2.06, and +5 in Germany) while the U.S. term premium increased (+8 bps). Risky bonds attracted fresh demand, (corporate spreads narrowed by -14 bps and the EMBIG by -9 bps), while the Italian risk premium remained high in Italy (146 bps) after the EC cut Italy's growth estimate and increased debt projections.
- The prospect of the U.S. rolling-back China tariffs strengthened the yuan against USD (USDCNY breached below the 7 threshold intraday). Unlike other safe haven currencies (such as the JPY), this time, **risk-on mood did not weigh on the USD**, which appreciated against main DM (DXY +1.1%) as robust labor and services data supported the Fed's recent rate pause signal. In fact, markets continued easing expectations of additional interest rate cuts (60% probability of at least a 25 bps cut by December 2020, down from 78% last week). The euro and the GBP depreciated (-1% against the USD), the latter especially after the Bank of England cut its growth forecast, and left monetary policy unchanged in an unexpectedly split decision. Apart from the yuan, EM FX currencies performance was uneven. MXN and COP were flat, while **TRY slightly depreciated** (-0.8%), despite improving inflation dynamics, as geopolitical factors still weigh. **The BRL also depreciated** (-3.6%) led by the absence of foreign firms in the auction of oil deposits, thwarting expectations of strong dollar inflows.
- Equity indices gained across the board, led by cyclical sectors, with the banking sector in Europe and the U.S. increasing significantly (+6% in EZ and 2% in the US).

UPDATE 16:00 CET 08 NOVEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,65	-1,3	10,2	19	-83
<b>US</b>	1,91	-0,7	20,0	33	-77
GER (2-yr)	-0,61	-0,2	4,3	14	0
<b>Germany</b>	-0,26	-2,4	12,5	29	-50
France	0,04	-1,6	11,1	26	-67
Spain	0,39	0,3	11,1	23	-103
Italy	1,21	4,2	21,4	34	-154
Portugal	0,32	1,6	11,7	19	-140
Greece	1,36	11,0	16,9	-6	-304
Japan (2-yr)	-0,17	0,8	9,7	14	-3
<b>Japan</b>	-0,05	1,4	12,6	15	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,66	0,7	26,1	-27	-258
Chile	2,78	-0,1	-21,4	37	-147
Colombia	6,16	0,5	12,1	21	-60
Mexico	6,87	4,0	9,9	15	-177
Peru	3,81	-0,1	1,1	27	-155
Poland	2,17	2,1	19,8	27	-66
Russia	6,55	5,1	4,3	-40	-223
Turkey	12,39	5,0	2,0	-114	-341
India	6,56	5,3	11,0	11	-81
Indonesia	6,98	-2,2	-4,4	-30	-105

### COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	30	0,8	-1,4	-3	-17
Italy	146	6,6	8,9	5	-104
Portugal	58	4,0	-0,8	-11	-90
Spain	64	2,7	-1,4	-6	-53
<b>2-yr sovereign spread vs Germany</b>					
France	4	-1,2	-0,1	-5	-11
Italy	50	2,7	2,2	-1	-58
Portugal	10	2,5	-1,6	-5	-17
Spain	23	1,2	0,4	-2	-14
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	115	-3,9	-6	-28	-92
Chile	42	-1,5	-2	5	-21
Colombia	74	-2,8	-8	-21	-84
Argentina	7126	254,7	528	1830	6319
Mexico	84	-2,2	-8	-32	-71
Peru	48	-1,4	-5	-14	-47
Poland	66	-0,6	-1	-2	-2
Russia	71	-2,0	-6	-22	-83
Turkey	312	-12,1	-24	-68	-48
China	36	-1,3	-5	-14	-31
India	69	-0,6	-2	-4	-44
Indonesia	72	-1,2	-5	-21	-65

### RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	0,2	1	-6	-12
VSTOXX	67	0,0	10	-12	0
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	0	-1	-3
EM FX volatility index	17	-0,2	1	-2	-8
Credit spread (BAA) (change in bps)	204	0,7	-14	-26	-42
US bonds volatility index	7	-0,2	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,05	-	10	15	-8
EZ Inflation expectations (5Y5Y)	1,25	-	5	11	-35
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	46	-0,3	-3	-16	-36
EZ	51	-1,4	-4	-11	-53
UK	45	-0,7	-4	-19	-49
Large Spanish	37	-1,5	-4	-9	-51
Medium Spanish	90	0,9	0	-6	-22
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	244	-11,0	10	15	31
EZ Non-financial	69	-0,6	-4	-13	-28
UK Non-financial	100	-0,4	-3	-11	-19

### INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	1	2	n.a.
Euribor 3m	-0,40	1	0	2	-9
<b>Euribor 12m</b>	-0,26	1	2	7	-15
Libor 3m	-0,45	0	0	1	-10
Libor 12m	1,90	0	0	-11	-89

### STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	3075	-0,3	0,3	5,3	23
Dow Jones	27621	-0,2	1,0	4,8	18
Nikkei	23392	0,3	2,4	9,0	17
FTSE 100	7352	-0,7	0,7	2,6	9
<b>EuroStoxx 50</b>	3691	-0,4	1,9	6,6	23
IBEX	9371	-0,8	0,5	4,2	10
DAX	13202	-0,7	1,9	9,2	25
CAC	5870	-0,4	1,9	6,8	24
MB	23450	-0,2	2,2	8,9	28
ASE Athens	865	-0,5	-1,7	4,0	41
<b>MSCI Latam *</b>	97417	1,0	1,9	6,5	13
Ibovespa (Brazil)	108160	-1,3	0,0	6,8	23
Mexbol (Mexico)	44008	-0,3	0,4	3,5	6
Merval (Argentina)	34899	-2,7	-2,4	15,0	15
<b>MSCI EM Europe *</b>	6373	1,1	3,8	10,4	21
Poland	2256	-0,7	2,8	5,7	-1
Micex 10 (Russia)	5164	-0,6	2,0	9,9	23
Ise 100 (Turkey)	103317	-0,2	4,9	3,7	13
<b>MSCI EM Asia *</b>	883	0,4	3,2	7,3	13
Shanghai Comex (China)	2964	-0,5	0,2	1,3	19
Jakarta (Indonesia)	6178	-0,6	-0,8	2,3	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	153,8	-0,7	2,2	15,4	33
JPM	129,4	-0,5	1,2	14,9	33
Citi	75,1	-0,9	1,8	11,4	44
BoA	33,0	-0,8	3,7	18,3	34
MS	48,3	-0,7	2,1	19,5	22
GS	221,5	-0,8	1,9	12,5	33
<b>EZ banks</b>	81,6	-1,6	5,8	17,3	18
BNP	50,6	-1,4	7,4	19,2	28
Crédit Agricole	12,3	-2,5	4,2	16,9	30
Deutsche Bank	6,9	-2,0	4,9	9,9	-1
ING	10,7	-1,4	5,2	18,4	14
Intesa	2,3	-0,9	2,7	11,0	20
SG	28,3	-1,3	9,5	21,9	2
Unicredito	12,6	-1,6	9,3	24,0	2
<b>UK banks</b>	73,7	-1,3	-0,3	7,6	1
HSBC	595,9	-0,8	1,2	-1,4	-8
RBS	211,9	-1,8	-1,3	11,5	-2
Barclays	167,4	-1,5	0,2	15,5	11
Lloyds	56,3	-1,6	-1,7	11,1	9
<b>Large Spanish banks</b>	58,8	-1,6	4,3	8,0	1
Santander	3,8	-2,2	4,2	6,1	-5
<b>BBVA</b>	4,9	-1,0	4,3	9,6	7
<b>Medium Spanish banks</b>	51,2	-1,6	3,4	15,9	-11
Caixabank	2,8	-0,7	4,9	20,9	-12
Sabadell	1,0	-1,3	4,1	19,8	3
Bankinter	6,4	-2,0	1,8	15,0	-9
Bankia	1,8	-2,6	4,7	9,5	-29

### CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,103	-0,2	-1,3	0,5	-4
GBPUSD	1,282	0,0	-1,0	5,0	0
USDJPY	109,200	0,1	-0,9	-1,6	0
DXY	98,324	0,2	1,1	-0,8	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,50	0,2	0,4	-2,5	-37
USDBRL (Brazil)	4,14	-0,9	-3,6	-0,8	-6
USDCPL (Chile)	746,26	-0,6	-0,7	-3,0	-7
USDCOP (Colombia)	3339	-0,6	-0,45	3,82	-3
USDMXN (Mexico)	19,10	0,2	0,1	2,4	3
USDPEN (Peru)	3,35	-0,3	-0,2	0,4	0
LACI	50,72	-0,4	-1,5	0,3	-7
USDPLN (Poland)	3,86	-0,3	-1,4	2,0	-3
USD RUB (Russia)	63,83	-0,5	-0,5	1,7	9
USDTRY (Turkey)	5,76	-0,1	-0,8	1,9	-8
USDCNY (China)	7,00	-0,2	0,6	2,0	-2
USDINR (India)	71,29	-0,4	-0,7	-0,3	-2
USDIDR (Indonesia)	14014	-0,1	0,2	1,1	3
ADXY	104,45	-0,1	0,2	1,2	-1

### COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	60,8	-2,4	-1,4	4	13
WTx	56	-2,2	-0,5	6	23
Copper	269	-1,3	1,4	5	2
Gold	1464	-0,3	-3,3	-3	14
S&P Spot commodity *	419	0,4	0,4	5	12
S&P Brent Spot *	529	0,6	0,7	7	15
S&P Metals Spot *	331	0,5	0,6	4	4
S&P Agricultural *	284	0,0	-0,9	0	0

Source: Bloomberg, Datastream and Haver

\* With one day delay