

Market Comment | US and China escalate trade dispute

Global Financial Markets Unit
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- **Today's announcement of US tariffs on a further \$200 bn worth of Chinese imports starting next week had a relatively limited impact on financial markets(see).** Nonetheless, caution will remain as **China announced retaliatory measures(see).** Furthermore, the US said it would increase these tariffs from 10% to 25% at the beginning of next year if China retaliated.
- **Despite increasing odds of an escalating trade war, core yields inched up:** the US 10Y Treasury yield was above the 3% threshold, while the 10Y Bund yield approached 0.5%. Furthermore, Italy's risk premium continued to narrow.
- **Equity indices did not react negatively to the latest developments:** European stocks inched up as same as the US equity market, with VIX at 13%. Asian stocks were mixed, with Chinese equity indices recovering from their recent fall as the market expects new policy actions from the PBOC (see).
- **Currencies also showed no evidence of risk aversion in financial markets** as the USD was flat and the JPY depreciated. Emerging currencies showed a mixed performance, with the ARS underperforming Latam currencies. Some currencies benefited from the weakness of the USD and increasing oil prices, boosted by Saudi Arabia, and other OPEC members showed their disposition to maintain the shortage in oil supply (see).

Table 1

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Fuente: BBVA Research

Debt markets (10Y % changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US 10Y	2.79	1.3	4.7	19	97
US	3.03	4.6	5.7	17	57
GER (2-yr)	-0.52	0.7	1.6	13	9
Germany	0.48	2.2	5.0	18	4
France	0.79	1.8	5.2	12	-3
Spain	1.51	1.7	3.8	6	-17
Italy	2.79	-5.7	-15.4	-33	69
Portugal	1.85	2.3	4.0	0	-16
Greece	4.08	4.4	-1.1	-25	-3
Japan (2-yr)	-0.10	0.1	0.4	3	3
Japan	0.12	-0.1	0.2	2	7
Emerging Markets					
Brazil	12.25	2.8	20.9	38	200
Chile	4.51	0.0	0.9	2	-1
Colombia	6.90	-1.2	-5.0	5	46
Mexico	8.03	-0.5	-5.0	15	45
Peru	5.21	-1.2	1.1	3	24
Poland	3.23	0.0	-4.4	8	-8
Russia	8.94	-4.2	-12.0	17	131
Turkey	18.19	4.0	122.0	-283	683
India	8.14	3.8	-4.5	27	75
Indonesia	8.20	-3.5	-18.8	40	209
Country risk (bp, changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
France	31	0.4	0.2	-5	1
Italy	231	-7.9	-20.4	-51	74
Portugal	137	0.1	-9.0	-18	-11
Spain	103	-0.5	-1.2	-12	-13
2-yr sovereign spread vs Germany					
France	17	0.3	1.7	-5	1
Italy	115	8.4	-17.1	-79	78
Portugal	42	0.3	-0.1	-7	-5
Spain	32	-0.6	2.7	-3	5
Emerging Markets					
5-yr sovereign CDS *					
Brazil	279	-3.8	0	45	118
Chile	46	-1.9	-12	-5	-3
Colombia	104	-1.5	-12	-5	-1
Argentina	634	-13.6	-104	92	396
Mexico	108	-1.9	-16	-9	1
Peru	74	-1.3	-11	-6	2
Poland	60	0.2	-4	-3	11
Russia	162	-1.9	-18	2	44
Turkey	474	-2.2	-99	-50	260
China	56	0.6	-3	-5	5
India	99	-0.7	0	9	30
Indonesia	135	2.8	-7	12	51
Risk indicators					
Volatility indicators (change in ppt)					
VIX	13	-1.0	-1	0	3
VST OXIX	14	-0.2	-1	-2	1
EMFT volatility Index	20	-1.4	-2	-1	3
Dollar/euro volatility	7	0.0	-1	-1	0
EM FX volatility index	12	0.0	-1	-1	4
Credit stress (BAA) (change in bps)	184	-6.6	-7	-6	-2
US bonds volatility index	47	-0.6	-1	-4	-2
Inflation expectations (%)					
US Inflation expectations (CY5Y)					
US	2.42	-	-	-	19
EZ Inflation expectations (CY5Y)					
EZ	1.68	-	-2	-2	-6
Banking 5y CDS (bps) *					
US	47	0.0	-4	-7	5
EZ	79	0.6	-5	-16	39
UK	52	0.4	-5	-14	12
Large Spanish	62	1.0	-8	-24	26
Medium Spanish	88	-0.8	-3	-8	13
Corporate 5y CDS (bps) *					
US Non-financial	155	0.0	-4	-7	5
EZ Non-financial	73	0.6	-5	-16	39
UK Non-financial	97	-0.5	-2	-5	4
Interbank markets (% changes in bp)					
EONIA Index	-0.37	0	0	-1	0
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.17	0	0	0	2
Libor 3m	2.34	0	0	2	64
Libor 12m	2.88	0	2	6	77
Stock markets (%)					
Main indices					
S&P500	2,907	0.6	0.7	2.0	8
Dow Jones	26,202	0.5	0.9	2.1	6
Nikkei	23,421	1.4	3.3	5.2	3
FTSE 100	7,300	0.0	0.4	-3.4	-5
Euro Stoxx 50	3,358	0.4	1.4	-0.4	-4
IBEX	9,448	0.5	1.8	0.3	-6
DAX	12,158	0.5	1.6	-0.4	-6
CAC	5,884	0.3	1.5	0.4	-1
MI8	21,228	0.6	1.8	4.0	-3
ASE Athens *	687	0.6	-0.8	-3.3	-16
MSCI Latin *	84,825	0.7	1.0	0.8	-1
Bovespa (Brazil)	77,921	1.5	4.4	2.5	0
Mexbol (Mexico)	49,645	0.5	1.5	2.9	-1
Merval (Argentina)	31,769	2.0	8.9	21.1	2
MSCI EM Europe *	5,305	0.2	0.4	2.3	2
Poland	2,231	0.9	-0.8	0.6	-9
Mosx 10 (Russia)	4,388	0.8	4.1	3.9	6
Im100 (Turkey)	94,887	0.6	2.7	6.9	-19
MSCI EM Asia *	854	-1.2	0.2	0.2	-7
Shanghai Com (China)	2,700	1.8	1.3	1.2	-19
Jakarta (Indonesia)	5,812	-2.0	-0.3	0.5	-9
Banking sector					
US banks					
JPM	145.2	0.4	0.0	-0.4	-2
WFC	114.5	0.6	0.1	-0.2	6
CS	71.4	0.7	2.8	2.4	-4
BoA	30.3	0.1	-1.7	-1.4	1
MS	47.9	0.4	0.1	-1.0	-8
GS	229.0	0.5	0.5	-1.9	-10
EZ banks					
BNP	88.9	0.1	2.3	3.0	-19
BBVA	51.9	0.1	2.5	1.8	-16
Credit Agricole	12.5	0.1	2.9	6.0	-10
Deutsche Bank	9.9	0.6	3.0	1.6	-38
ING	11.1	0.2	0.8	-5.2	-28
Intesa	2.4	0.1	2.8	9.6	-13
SG	36.4	0.2	2.2	3.2	-16
Unicredit	13.7	-0.2	2.5	5.9	-13
UK banks					
HSBC	79.6	-0.3	-0.2	-3.5	-14
RBS	650.6	-0.7	0.0	-6.6	-15
Barclays	250.6	0.2	1.7	4.0	-10
Lloyds	169.5	-1.0	-3.0	7.2	-17
Large Spanish banks	59.5	0.4	0.5	-1.1	-12
Santander	66.8	0.4	4.4	1.0	-21
BBVA	4.4	1.3	3.4	1.1	-20
Medium Spanish banks	5.5	-0.3	5.3	0.8	-23
Cabotbank	72.5	0.9	3.3	7.2	-5
Sabadell	4.2	0.6	4.0	10.5	5
Bankinter	1.4	1.1	5.2	6.5	-16
Bankia	7.9	1.0	2.0	4.4	-1
Bankia	3.5	1.0	3.3	9.5	-15
Currencies (% ind for currency depreciation)					
Developed					
EURUSD	1.169	0.1	0.8	2.2	-3
GBPUSD	1.32	0.0	1.6	3.2	-3
USDJPY	112.30	-0.4	-0.6	-1.6	0
DXF	94.50	0.0	0.8	-1.7	3
Emerging					
USDARS (Argentina)					
USDARS	39.74	0.3	-4.5	-24.9	54
USD BRL (Brazil)	4.13	0.2	0.7	-5.2	-21
USD CLP (Chile)	684.02	0.3	1.8	-2.0	-11
USD COP (Colombia)	3909	0.5	2.5	0.8	-2
USD MXN (Mexico)	16.74	0.5	2.4	0.8	-4
USD PEN (Peru)	3.31	0.2	0.9	0.2	-2
IACI	54.21	0.1	0.7	4.7	-15
USD PLN (Poland)	3.67	0.3	1.1	2.3	-6
USD RUB (Russia)	67.36	1.1	3.0	0.4	-15
USD TRY (Turkey)	6.34	0.4	1.5	-5.0	-41
USD CNY (China)	6.86	-0.1	0.2	0.2	-5
USD INR (India)	72.97	-0.6	-0.4	-3.8	-13
USD IDR (Indonesia)	14,855	0.2	0.0	-1.8	-9
ADXY	104.7	0.1	0.1	-0.4	-5
Commodities (%)					
Brent					
Brent	79.0	1.2	-0.1	1.0	19
WTX	70	1.3	0.8	6	16
Copper	279	2.7	3.8	3	-17
Gold	1199	-0.2	0.1	1	-9
S&P Spot commodity *	463	-0.2	0.8	3	5
S&P Brent Spot *	660	0.8	-1.8	8	17
S&P Metals Spot *	331	0.6	0.9	1	-16
S&P Agricultural *	276	-1.2	-2.6	-7	-3

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

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