

Market Comment | Risk-off mood slightly eased this week

Global Financial Markets Unit
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- **US Producer Prices index (PPI) was flat in August**, surprising expectations (0.0% MoM; consensus: -0.1% MoM), whereas in YoY terms it dropped less than estimated (-0.8% YoY; consensus: -0.9%). Meanwhile, PPI ex-food and energy rose more than expected (by 0.3% MoM and 0.9% YoY; consensus: 0.1% MoM and 0.7% YoY). On another front, the University of Michigan sentiment index dropped in September more than estimations (by 6.2 points to 85.7; consensus: 91.1).
- **German EU harmonised remained stable at 0.1% YoY August**. In line with expectations, the CPI EU harmonised increased (0.1% YoY; BBVAe and consensus: 0.1%) for the third month in a row the inflation remain stable at 0.1%, due to the fall in energy prices. Excluding energy, the inflation rate increased (1.1% YoY, previous month 1.0% YoY). On the other side, Spanish headline inflation returned to negative territory (-0.3% MoM and -0.4% YoY), due to the sharp fall in energy prices. However, core inflation remained virtually stable again (see). On another front, Italian industrial production rose in July more than estimated (by 1.1% MoM; BBVAe: 0.4%, consensus: 0.8%), and in YoY terms also surged more than expected (by 2.7% YoY; consensus: 0.9%). ([see](#))
- **Risk-off mood slightly eased this week**. Expectations of further growth support measures in Japan and helped some rebound in equity markets across the board after last week's falls (S&P 500: +1.2% Euro Stoxx: +0.8%, CAC: +1.1%, DAX: +1.4%, Nikkei: +2.7%). Nonetheless, the Spanish equity index (Ibex-35) dropped (-0.4%), dragged by the downgrade of Brazil's sovereign credit rating to junk, as Brazil represents a high share of its EBITDA. Despite the easing in equity implied volatility this week, it remains at high levels across both markets and asset classes. Meanwhile, bond markets showed a mixed performance in safe-haven yields (the 10Y yield was +6bp in US and -1bp in Germany) this week. On the periphery, yields also performed unevenly (ITA 10Y: -5bp, GRE 10Y: -53bp, SPA 10Y: +3bp, POR 10Y: +9bp). The spread between Italian and Spanish 10Y yields increased (+4.5bp to 43.72bp). On FX markets, the USD depreciated against other major currencies (EUR: +1.24% GBP: +1.63%), whereas EM showed mixed performance, with negligible spillover effects from the Brazilian sovereign credit downgrade. Nonetheless, idiosyncratic factors weighed this week on several currencies, which depreciated against USD (BRL: -1.0%, TRY: -1.4%, MYR: -1.3%, IDR: -1.1%), while other EM currencies appreciated (COP: +3.4%, RUB: +0.5%, CLP: +1.0%). In China, the offshore/onshore RMB spread continued narrowing due to rumours of the SAFE introduced further measures to tighten the administration of foreign exchange controls. In the commodity markets, oil prices plunged during the week (Brent: -4.5%, WTI: -3.8%), while the copper price surged by 5.2%.

FOMC Preview

- **Risks to Delaying Liftoff are Rising, but Dovish Undertones Rule**. The latest economic developments are not pointing to a clear path for the FOMC. Despite the fact that inflation is low and global financial

markets remain vulnerable, labor market conditions have shown “some further improvement” and the unemployment rate has dropped to the Fed’s long-run goal. According to fed funds futures, the probability of an interest rate hike in September has increased from 24% on the first day of the Jackson Hole Symposium to 30% with just one week to go before the big event. We maintain our view that the Fed should increase rates next week, but there is a real possibility that some FOMC members may be spooked by the ongoing weakness in the global economy. Increasing rates in September would send a positive signal on the economic outlook, whereas delaying would prolong this period of economic uncertainty ([see](#))

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Table1

Current level and changes at daily, weekly, monthly and annual frequencies

Debt markets (changes in bp)

US 2yr 0.74 (2) (1) (5) (5)
 US 5yr 1.51 (4) (3) (1) (4)
 US 10yr 2.78 (4) (8) (3) (1)
 Japan 10yr 1.25 (1) (2) (1) (2)
 UK 2yr 0.20 (1) (1) (1) (1)
 UK 5yr 0.82 (2) (3) (2) (1)
 UK 10yr 1.66 (2) (1) (1) (1)
 Belgium 10yr 0.98 (2) (2) (1) (1)
 France 10yr 1.06 (2) (5) (1) (4)
 Germany 10yr 0.62 (2) (1) (1) (1)
 Ireland 10yr 1.20 (2) (1) (1) (1)
 Italy 10yr 1.81 (3) (4) (1) (4)
 Netherlands 10yr 0.84 (2) (1) (1) (1)
 Portugal 10yr 2.61 (3) (8) (2) (4)
 Spain 10yr 1.81 (3) (1) (1) (1)

Emerging Markets

Brazil 10yr 11.29 (2) (25) (18) (20)
 Chile 10yr 6.37 (5) (1) (1) (1)
 Colombia 10yr 6.61 (2) (1) (1) (1)
 Mexico 10yr 6.08 (2) (1) (1) (1)
 Peru 10yr 10.14 (1) (1) (1) (1)
 Poland 10yr 2.88 (1) (1) (1) (1)
 Russia 10yr 11.08 (4) (1) (1) (1)
 Turkey 10yr 18.44 (3) (1) (1) (1)
 India 10yr 7.77 (2) (2) (1) (1)
 Indonesia 10yr 5.27 (4) (1) (1) (1)

Country risk (changes in bp)

US 100yr sovereign spread (against Germany)
 Belgium 23 (1) (1) (2)
 France 42 (2) (1) (1)
 Germany 106 (2) (1) (1) (1)
 Ireland 32 (1) (1) (1) (1)
 Italy 107 (4) (1) (1) (1)
 Netherlands 18 (1) (1) (1) (1)
 Portugal 195 (1) (1) (1) (1)
 Spain 144 (1) (1) (1) (1)

10yr government spreads (against Germany)

Belgium 14 (1) (1) (1) (1)
 France 15 (1) (1) (1) (1)
 Germany 160 (2) (1) (1) (1)
 Ireland 21 (1) (1) (1) (1)
 Italy 26 (1) (1) (1) (1)
 Netherlands 6 (1) (1) (1) (1)
 Portugal 132 (1) (1) (1) (1)
 Spain 91 (1) (1) (1) (1)

5yr government spreads (against Germany)

Belgium 8 (1) (1) (1) (1)
 France 8 (1) (1) (1) (1)
 Germany 11 (1) (1) (1) (1)
 Italy 24 (1) (1) (1) (1)
 Netherlands 1 (1) (1) (1) (1)
 Portugal 55 (1) (1) (1) (1)
 Spain 20 (1) (1) (1) (1)

5yr sovereign CDS

EUR CDS Belgium 18 (1) (1) (1) (1)
 EUR CDS France 32 (1) (1) (1) (1)
 EUR CDS Germany 14 (1) (1) (1) (1)
 EUR CDS Greece 192 (1) (1) (1) (1)
 EUR CDS Ireland 49 (1) (1) (1) (1)
 EUR CDS Italy 112 (1) (1) (1) (1)
 EUR CDS Netherlands 17 (1) (1) (1) (1)
 EUR CDS Portugal 167 (1) (1) (1) (1)
 EUR CDS Spain 99 (1) (1) (1) (1)
 EUR CDS US 17 (1) (1) (1) (1)

10yr CDS

EUR CDS Belgium 28 (1) (1) (1) (1)
 EUR CDS France 42 (1) (1) (1) (1)
 EUR CDS Germany 21 (1) (1) (1) (1)
 EUR CDS Greece 146 (1) (1) (1) (1)
 EUR CDS Ireland 79 (1) (1) (1) (1)
 EUR CDS Italy 163 (1) (1) (1) (1)
 EUR CDS Netherlands 34 (1) (1) (1) (1)
 EUR CDS Portugal 183 (1) (1) (1) (1)
 EUR CDS Spain 104 (1) (1) (1) (1)

Credit risk

US 30yr Treasury 6.82 (1) (1) (1) (1)
 US 10yr Treasury 3.41 (1) (1) (1) (1)
 EUR 10yr Treasury 3.01 (1) (1) (1) (1)
 US 10yr Corporate 7.13 (1) (1) (1) (1)
 EUR 10yr Corporate 5.41 (1) (1) (1) (1)
 US 10yr High Yield 8.37 (1) (1) (1) (1)
 EUR 10yr High Yield 6.41 (1) (1) (1) (1)

Bank CDS (changes in bp)

US Bank CDS 76 (1) (1) (1) (1)
 EUR Bank CDS 52 (1) (1) (1) (1)
 UK Bank CDS 54 (1) (1) (1) (1)
 Large Spanish bank CDS 118 (1) (1) (1) (1)
 Italian Spanish bank CDS 168 (1) (1) (1) (1)

Bank CDS (changes in bp)

US Bank CDS 76 (1) (1) (1) (1)
 EUR Bank CDS 52 (1) (1) (1) (1)
 UK Bank CDS 54 (1) (1) (1) (1)
 Large Spanish bank CDS 118 (1) (1) (1) (1)
 Italian Spanish bank CDS 168 (1) (1) (1) (1)

Interbank markets (changes in bp)

EUR 3M Eurozone 10 (1) (1) (1) (1)
 EUR 6M Eurozone 21 (1) (1) (1) (1)
 EUR 12M Eurozone 31 (1) (1) (1) (1)
 US 3M Fed funds 12 (1) (1) (1) (1)
 US 6M Fed funds 14 (1) (1) (1) (1)
 US 12M Fed funds 21 (1) (1) (1) (1)
 Spain 3M Spanish 5 (1) (1) (1) (1)

Stock markets (change in percentage)

US S&P 500 1.12 (1) (1) (1) (1)
 Dow Jones 1428.7 (2) (1) (1) (1)
 NYSE 1544.1 (1) (1) (1) (1)
 FTSE 100 1.02 (1) (1) (1) (1)
 Nikkei 225 1.08 (1) (1) (1) (1)
 DAX 1.01 (1) (1) (1) (1)
 CAC40 1.01 (1) (1) (1) (1)
 IBEX 35 1.01 (1) (1) (1) (1)
 ASI 1.01 (1) (1) (1) (1)

Bank stocks

US Bank 0.2 (2) (1) (1) (1)
 UK Bank 0.2 (2) (1) (1) (1)
 EUR Bank 0.2 (2) (1) (1) (1)
 JPM 0.2 (2) (1) (1) (1)
 BAC 0.2 (2) (1) (1) (1)
 WFC 0.2 (2) (1) (1) (1)
 C 0.2 (2) (1) (1) (1)
 GS 0.2 (2) (1) (1) (1)
 MS 0.2 (2) (1) (1) (1)
 BBK 0.2 (2) (1) (1) (1)

Bank stocks

US Bank 0.2 (2) (1) (1) (1)
 UK Bank 0.2 (2) (1) (1) (1)
 EUR Bank 0.2 (2) (1) (1) (1)
 JPM 0.2 (2) (1) (1) (1)
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 GS 0.2 (2) (1) (1) (1)
 MS 0.2 (2) (1) (1) (1)
 BBK 0.2 (2) (1) (1) (1)

Commodities (in percentage, positive for dollar depreciation)

US 10yr T-bill 1.00 (1) (1) (1) (1)
 US 10yr Treasury 3.41 (1) (1) (1) (1)
 US 10yr Corporate 7.13 (1) (1) (1) (1)
 US 10yr High Yield 8.37 (1) (1) (1) (1)
 US 10yr Treasury Inflation Protected Securities 2.38 (1) (1) (1) (1)

Commodities (change in percentage)

US 10yr T-bill 1.00 (1) (1) (1) (1)
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*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

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