

Trade talks falter, boost bond demand

- Although the main market driver was trade tension, **economic data disappointed in both the US and China, overshadowing positive indicators published in Europe.** Weaker US industrial activity and retail sales curve Atlanta Fed 2Q19GDPNow projections (1.2% -0.4pp). While in China, a softening in both retail sales and industrial production in April undermined the durability of the data strength seen in March, building a case for more policy easing as the fiscal front loading effect may be fading. In Germany, the 1Q19 GDP advanced 0.4% QoQ, after showing no growth in the previous period and matching market expectations. Fixed investment and household consumption led the expansion. The Eurozone 1Q19 GDP grew in line with expectations (0.4% QoQ, consensus 0.4% QoQ, previous quarter 0.4% QoQ), whereas the trade balance reached a higher-than-expected surplus.
- **Safe-haven bonds remained bid.** US 10Y yield ended at 2.38% (-8.5bps), dropping to the lowest level since Dec 2017. The 10Y German bund was close to its lower level (-0.1%), dragged by the global risk-off mood and Italy's woes. **Market's implied probability of Fed rate cut in 2019 increased to above 70%.**
- **In FX markets, JPY attracted safe-haven flows, while the US dollar gained some ground at the end of the week. Pressure on EM FX intensified** (aggregate EM FX -1%). **The RMB slid back, heading toward the psychological CNY 7 per USD threshold, prompting the PBoC to allay concerns,** amid new reports that it would not allow the currency to breach that level. **The GBP continued to fall (-1.8%)** with Brexit options becoming rather polarized and PM Theresa May facing calls to step down. The euro inched down (0.4% despite reassuring data).
- **Oil prices increased** (Brent \$72 per barrel) due to geopolitical issues **but failed to boost oil-export countries' currencies.**
- **Italy's risk premium widened (+5bps to 278)** as Salvini (Lega) said government could break fiscal rules to boost employment, though Di Maio (5SM) allayed concerns saying that Italy's government wants to rein in debt. Spillovers to Spain or Portugal were limited.
- **Limited positive impact on both Mexican and automobile assets** from the announcement that the US would lift tariffs on Mexican steel or the delay of Trump's decision on European and Japanese auto tariffs.
- Although the trade war remains in the spotlight for markets, a host of other key events will also be watched, including Powell's speech and global PMI data.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.20	1.2	-6.2	-20	-28
US	2.40	0.2	-7.1	-20	-29
GER (2-yr)	-0.65	0.0	-3.0	-8	-4
Germany	-0.11	-1.0	-6.0	-19	-35
France	0.29	-1.0	-6.3	-14	-43
Spain	0.87	-3.1	-10.4	-23	-65
Italy	2.67	-1.8	-1.7	5	-22
Portugal	1.05	-3.1	-6.9	-16	-81
Greece	3.43	-3.3	-7.5	11	-97
Japan (2-yr)	-0.16	0.0	0.1	-1	-2
Japan	-0.05	0.9	-0.3	-5	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.04	5.5	27.2	4	-19
Chile	3.84	-0.4	-4.6	-8	-42
Colombia	6.79	0.1	12.1	13	4
Mexico	8.05	-0.2	-5.9	2	-59
Peru	4.83	6.2	1.0	-2	-54
Poland	2.89	0.5	-1.7	0	6
Russia	8.16	-4.8	-11.9	-16	-62
Turkey	18.32	-36.0	-183.0	188	252
India	7.36	-1.3	-4.9	-3	0
Indonesia	8.05	5.0	5.9	44	3
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	39	0.0	-0.3	5	-2
Italy	277	-0.8	4.3	24	13
Portugal	115	-2.1	-0.9	2	-41
Spain	98	-2.1	-4.4	-5	-24
2-yr sovereign spread vs Germany					
France	9	0.6	2.7	2	-7
Italy	125	-6.7	4.3	19	17
Portugal	29	-1.0	0.9	7	3
Spain	29	-1.0	1.9	5	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	180	4.5	7	13	-28
Chile	46	-0.1	2	9	-17
Colombia	107	-0.4	0	12	-51
Argentina	1231	3.7	77	342	424
Mexico	116	-0.3	-2	6	-39
Peru	67	-0.3	2	13	-28
Poland	66	0.0	-1	-3	-2
Russia	128	-0.5	-3	-4	-26
Turkey	488	-4.3	-4	51	129
China	48	-1.7	-1	6	-20
India	81	-0.9	0	0	-32
Indonesia	103	-2.8	-3	8	-35
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	15	-0.3	-1	2	-10
VSTOXX	15	-0.1	-4	4	-9
EM EFT volatility Index	22	0.6	1	7	-3
Dollar/euro volatility	5	0.1	0	1	-2
EM FX volatility index	9	-0.1	0	1	-1
Credit spread (BAA) (change in bps)	224	-0.2	4	12	-21
US bonds volatility index	57	-0.4	3	8	-10
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.14	-	-8	-13	1
EZ Inflation expectations (5Y5Y)	1.32	-	-5	-8	-29
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	56	-3.9	-4	1	-27
EZ	78	-1.4	-8	1	-41
UK	64	-1.3	2	8	-30
Large Spanish	57	-1.8	-2	-1	-31
Medium Spanish	81	-3.1	-3	-18	-31
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	168	-3.9	-4	1	-27
EZ Non-financial	82	-1.4	-8	1	-41
UK Non-financial	106	-0.9	-1	4	-13
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	-1	0	-2
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.13	-1	-2	-2	-2
Libor 3m	2.52	-1	-2	-8	-28
Libor 12m	2.61	-2	-9	-14	-40
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,884	0.3	0.1	-0.6	15
Dow Jones	25,925	0.2	-0.1	-2.0	11
Nikkei	21,250	0.9	-0.4	-4.6	6
FTSE 100	7,352	0.0	2.1	-1.6	9
EuroStoxx 50	3,429	-0.3	2.0	-1.4	14
IBEX	9,280	-0.3	1.8	-2.8	9
DAX	12,259	-0.4	1.7	0.9	16
CAC	5,442	-0.1	2.2	-2.2	15
MI	21,098	-0.3	1.1	-4.1	15
ASE Athens	729	0.4	-0.9	-5.7	19
MSCI Latam *	87,257	-1.1	-3.3	-5.3	1
Ibovespa (Brazil)	91,138	1.2	-3.3	-2.3	4
Mexbol (Mexico)	43,600	0.4	0.5	-4.2	5
Merval (Argentina)	33,924	0.1	1.6	5.9	12
MSCI EM Europe *	5,557	0.8	0.6	-3.4	5
Poland	2,184	-0.2	-0.3	-8.2	-4
Micex 10 (Russia)	4,540	-0.2	0.8	-1.1	8
Ise 100 (Turkey)	86,796	-0.5	-2.0	-11.6	-5
MSCI EM Asia *	838	-0.5	-1.5	-6.9	7
Shanghai Com (China)	2,882	-2.5	-1.9	-11.7	16
Jakarta (Indonesia)	5,827	-2.6	-6.0	-10.1	-6
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	135.2	-0.1	-2.6	-5.1	17
JPM	111.4	0.0	-1.0	-2.6	14
Citi	65.8	-0.2	-3.0	-6.4	26
BoA	28.6	0.0	-3.3	-4.8	16
MS	44.2	-0.1	-4.5	-8.3	12
GS	198.9	-0.1	-1.5	-4.3	19
EZ banks	74.8	-1.1	-1.8	-10.8	8
BNP	45.4	-1.3	-0.3	-6.4	15
Crédit Agricole	11.2	-0.9	-2.9	-8.9	19
Deutsche Bank	6.8	-1.0	-1.5	-12.6	-2
ING	10.1	-1.4	-3.2	-15.7	7
Intesa	2.2	-0.7	0.4	-7.4	12
SG	25.8	-0.8	-1.2	-11.1	-7
Unicredit	10.6	-1.9	-5.3	-18.2	7
UK banks	77.7	-1.2	-0.2	-6.8	7
HSBC	656.6	-0.7	0.7	-1.3	1
RBS	227.3	-2.0	-2.4	-13.7	5
Barclays	159.0	-1.1	0.9	-5.9	17
Lloyds	60.6	-1.4	-0.7	-8.9	16
Large Spanish banks	63.1	-0.6	1.3	-8.8	8
Santander	4.2	-0.8	0.9	-9.9	5
BBVA	5.2	-0.5	1.7	-7.8	11
Medium Spanish banks	54.6	-0.4	0.5	-4.8	-5
Caixabank	2.8	-0.4	1.7	-6.8	-12
Sabadell	1.1	0.3	2.4	3.5	7
Bankinter	6.7	-0.4	-0.6	-8.3	-4
Bankia	2.3	-1.4	-0.6	-3.9	-9
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.116	-0.1	-0.6	-1.2	-3
GBPUSD	1.27	-0.5	-2.0	-2.4	0
USDJPY	109.93	-0.1	0.0	1.9	0
DXY	97.98	0.1	0.7	1.0	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.97	-0.4	-0.3	-6.9	-16
USDBRL (Brazil)	4.08	-0.9	-3.1	-3.4	-5
USDCLP (Chile)	696.94	-0.4	-1.5	-5.1	0
USDCOP (Colombia)	3311	-0.3	-1.1	-4.8	-2
USDMXN (Mexico)	19.14	-0.1	-0.2	-1.7	3
USDPEN (Peru)	3.32	-0.1	-0.2	-0.7	1
LACI	52.88	-0.3	-1.4	-3.2	-3
USDPLN (Poland)	3.86	-0.2	-0.8	-2.0	-3
USDRUB (Russia)	64.70	-0.1	0.8	-1.4	7
USDTRY (Turkey)	6.05	-0.1	-1.2	-5.1	-1
USDCNY (China)	6.92	-0.5	-1.3	-3.3	-1
USDINR (India)	70.22	-0.3	-0.4	-0.9	-1
USDIDR (Indonesia)	14450	0.0	-0.9	-2.5	0
ADXY	103.88	-0.2	-1.1	-2.6	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	72.6	0.0	2.8	1	35
WTX	63	0.8	2.8	-1	40
Copper	275	-0.3	-1.3	-8	5
Gold	1276	-0.8	-0.8	0	0
S&P Spot commodity *	445	1.3	2.5	-1	19
S&P Metals Spot *	610	1.1	2.7	1	33
S&P Metals Spot *	326	0.4	1.1	-4	2
S&P Agricultural *	271	2.0	5.3	-2	-5

Source: Bloomberg, Datastream and Haver

* With one day delay