

Risk-off mood prevails in financial markets

- **Safe-haven bond yields continued to trend lower**, dragged by the ongoing US-China trade strains, alongside the release of a gloomy business survey in Europe and increasing anxiety over a no-deal Brexit.
- **Since US-China trade friction escalated, optimism about a potential trade deal has waned**, especially after no further trade talks between China and the US have been scheduled since the last round ended on May 10th, when US hiked tariffs on \$200 bn Chinese goods. Moreover, the US Treasury Secretary Mnuchin noted that he is not planning to visit China again, saying Trump and Xi Jinping may meet at the end of June on the sidelines of the G20 summit.
- **Meanwhile, the Fed minutes confirmed that the Fed members do not want to act in hastily**, suggesting they support patience on rate moves for 'some time'. Moreover, the Fed minutes seem to backing Powell's view that low inflation is 'transitory'.
- **The risk is that the polarization of Brexit debate could lead to corner results**. In UK MP May “new and improved” Brexit was reviled by Eurospectic Tories as a sellout to Labour, while it seems to be too minimal to win over the opposition Remainers. May now faces growing pressures to pull bill voting and resign within days. The risk is that the polarization of Brexit debate could lead to corner results
- **The European economic data disappointed**. The Eurozone Manufacturing PMI declined in May against consensus expectations of an increase (47.7, consensus 48.1, previous month 47.9), as did European Services PMI (52.5, consensus 53, previous moth 52.8). German business confidence also came in weaker than expected (IFO business climate 95.3, consensus 95.0, previous month95.3), casting a shadow over recent recovery in economic indicators.
- **ECB minutes confirmed the recent dovish tone**, as the ECB considers that inflation remains too low, amid falling inflation expectations. Regarding growth, the ECB acknowledged the extension of the slower growth momentum but it also considered that recent data has improved, showing more solid growth, in line with the baseline scenario. Regarding TLTRO-III, members suggested that its pricing should warrant it use as a backstop, providing insurance in times of elevated uncertainty.
- **Sovereign bond yields extended declines on the back of increasing risk-off mood** in financial markets,with falls in both the US and UK yields outpacing the decline across their peers, while it risk premia inched up slightly in peripherals, while HY spreads also widened slightly. Market implied probability for a rate cut in 2019 remained broadly increased to 80%, while the probability of an additional cut in 2020 rose to 69%, due to the sharp fall in equity markets.
- **In FX markets investors sought shelter in both the JPY and the CHF**, whereas the GBP and cyclical currencies underperformed. EM currencies have remained under pressure, with the CNY continuing to sliding back although the PBoC set a stronger-than-expected fixing.
- **Equity markets declined sharply across the board**, led by the cyclical sectors, while implied market volatility bounced back.
- **The falls across commodity prices**, especially oil and industry metal commodities, underscored market concerns about the impact of the ongoing trade friction on global growth. Oil prices have slumped today.

Update 17:25 CET 23 May 2019					
Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.15	-7.3	-4.2	-21	-34
US	2.32	-6.2	-7.4	-24	-36
GER (2-yr)	-0.63	-0.6	1.1	-6	-2
Germany	-0.12	-3.4	-2.5	-16	-36
France	0.28	-2.6	-1.4	-11	-43
Spain	0.85	-1.6	-5.3	-26	-67
Italy	2.63	0.2	-5.0	-4	-26
Portugal	1.01	-1.4	-6.7	-19	-85
Greece	3.43	1.6	-3.6	11	-97
Japan (2-yr)	-0.15	0.1	0.5	0	-1
Japan	-0.06	-0.3	0.2	-3	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.83	-3.3	-16.4	-3	-41
Chile	3.77	-2.2	-6.6	-14	-48
Colombia	6.82	3.9	3.7	19	7
Mexico	8.03	-1.0	-1.7	-3	-61
Peru	4.74	0.8	-2.2	-12	-62
Poland	2.82	-4.2	-6.0	-8	0
Russia	8.05	6.4	-16.4	-32	-73
Turkey	18.79	-7.0	11.0	154	299
India	7.24	-2.4	-14.1	-24	-13
Indonesia	7.99	-10.6	-1.7	32	-4
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	0.8	1.1	5	-1
Italy	275	3.6	-2.5	12	11
Portugal	113	2.0	-4.2	-3	-43
Spain	97	1.8	-2.8	-10	-25
2-yr sovereign spread vs Germany					
France	7	-0.2	-1.1	0	-9
Italy	120	0.0	-12.1	6	12
Portugal	25	0.4	-4.7	1	-1
Spain	29	0.2	-0.9	4	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	178	1.1	2	8	-30
Chile	47	1.6	1	12	-16
Colombia	109	1.3	1	15	-49
Argentina	1164	22.2	-63	189	357
Mexico	116	2.2	0	7	-39
Peru	67	1.1	0	14	-28
Poland	67	0.3	1	-1	-1
Russia	128	0.0	0	-2	-26
Turkey	500	12.4	7	65	140
China	50	1.2	1	9	-17
India	80	0.2	-2	-2	-33
Indonesia	106	2.2	1	13	-31
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	17	2.1	2	5	-9
VSTOXX	18	2.2	3	5	-6
EMEFT volatility Index	22	1.9	0	6	-3
Dollar/euro volatility	5	0.2	0	0	-2
EM FX volatility index	9	-0.3	0	0	-1
Credit spread (BAA) (change in bps)	233	6.2	8	18	-13
US bonds volatility index	55	-0.4	-2	5	-12
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.11	-	-5	-19	-2
EZ Inflation expectations (5Y5Y)	1.31	-	-1	-10	-29
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	58	1.7	-1	3	-24
EZ	83	2.0	3	6	-36
UK	72	3.8	7	16	-22
Large Spanish	59	1.9	1	3	-28
Medium Spanish	84	3.0	-1	-14	-29
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	170	1.7	-1	3	-24
EZ Non-financial	83	2.0	3	6	-36
UK Non-financial	106	1.0	-1	3	-13
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	0	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.15	0	-2	-4	-3
Libor 3m	2.52	0	0	-6	-27
Libor 12m	2.67	1	3	-8	-35
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,821	-1.2	-1.9	-3.8	13
Dow Jones	25,409	-1.4	-1.8	-4.7	9
Nikkei	21,151	-0.6	0.4	-5.0	6
FTSE 100	7,229	-1.4	-1.7	-3.9	7
EuroStoxx 50	3,329	-1.7	-3.2	-5.0	11
IBEX	9,124	-1.2	-1.9	-4.2	7
DAX	11,964	-1.7	-2.8	-2.2	13
CAC	5,284	-1.8	-3.0	-5.5	12
MIB	20,150	-2.1	-4.7	-8.0	10
ASE Athens	726	-0.8	-0.1	-6.5	18
MSCI Latam *	89,404	-0.3	1.4	-3.1	4
Ibovespa (Brazil)	94,336	0.0	4.8	-1.7	7
Mexbol (Mexico)	42,682	-0.6	-1.7	-5.5	3
Merval (Argentina)	34,289	-0.8	1.2	10.9	13
MSCI EM Europe *	5,658	0.7	2.6	-2.1	7
Poland	2,173	-1.9	-0.7	-8.3	-5
Micex 10 (Russia)	4,591	0.1	0.9	-0.6	10
Ise 100 (Turkey)	84,596	1.1	-3.0	-11.8	-7
MSCI EM Asia *	824	-0.2	-2.2	-8.0	5
Shanghai Com (China)	2,853	-1.4	-3.5	-10.8	14
Jakarta (Indonesia)	6,033	1.4	0.9	-6.0	-3
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	131.0	-2.1	-3.2	-7.1	13
JPM	108.6	-2.0	-2.4	-4.5	11
Citi	63.5	-1.8	-3.8	-8.3	22
BoA	27.8	-2.4	-2.7	-7.5	13
MS	42.6	-2.1	-3.9	-10.1	7
GS	191.3	-2.2	-4.0	-6.3	14
EZ banks	70.5	-2.0	-6.8	-14.7	2
BNP	43.7	-1.9	-4.9	-9.2	11
Crédit Agricole	10.7	-2.7	-5.7	-12.2	13
Deutsche Bank	6.4	-2.6	-6.7	-15.8	-7
ING	9.7	-2.1	-5.5	-18.9	3
Intesa	1.9	-1.9	-12.8	-18.0	-2
SG	24.6	-1.6	-5.3	-12.9	-12
Unicredit	10.1	-1.0	-6.3	-17.9	2
UK banks	75.3	-0.9	-4.2	-8.8	3
HSBC	658.8	0.2	-0.3	-1.3	2
RBS	218.5	0.6	-5.8	-15.9	1
Barclays	149.2	-2.3	-7.1	-10.4	-1
Lloyds	57.9	-2.1	-5.9	-11.7	12
Large Spanish banks	60.9	-0.9	-4.2	-10.4	4
Santander	4.0	-1.0	-4.3	-11.8	1
BBVA	5.0	-0.9	-4.1	-9.1	7
Medium Spanish banks	53.1	-0.7	-3.3	-4.7	-8
Caixabank	2.8	-0.6	-1.5	-3.7	-13
Sabadell	1.0	-0.2	-4.0	2.0	2
Bankinter	6.5	-0.5	-3.4	-8.4	-7
Bankia	2.2	-2.0	-5.3	-5.7	-13
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.117	0.1	-0.1	-0.6	-3
GBPUSD	1.27	0.0	-1.1	-2.1	-1
USDJPY	109.63	0.7	0.2	2.0	0
DXY	97.96	-0.1	0.1	0.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45.11	-0.5	-0.8	-6.0	-16
USDBRL (Brazil)	4.04	0.0	0.2	-2.9	-4
USDCLP (Chile)	696.53	0.1	-0.4	-4.1	0
USDCOP (Colombia)	3368	-1.0	-2.1	-5.9	-3
USDMXN (Mexico)	19.01	-0.1	0.6	-0.5	3
USDPEN (Peru)	3.35	-0.1	-0.9	-1.0	1
LACI	53.08	-0.2	0.1	-2.7	-2
USDPLN (Poland)	3.85	0.2	-0.1	-1.0	-3
USD RUB (Russia)	64.67	-0.5	-0.1	-1.5	7
USDTRY (Turkey)	6.10	0.0	-0.9	-4.4	-13
USDCNY (China)	6.91	-0.1	-0.4	-2.7	0
USDINR (India)	70.02	-0.5	0.0	-0.6	0
USDIDR (Indonesia)	14480	0.3	-0.2	-2.8	-1
ADXY	104.07	0.1	0.0	-1.9	-1
Commodities (%)					