

Economic data and Fed's dovish tone dragged down core yields this week

Financial markets ended the week in a pessimistic mood amid a pickup in global growth concerns after the release of poor confidence indicators in the US and EZ. Also, the Fed's dovish tone in its March meeting, coupled with a bulk of mixed reports regarding US-China trade negotiations, were drivers for markets. The optimism amid the announcement of further trade talks starting next week (see) was offset due to US willingness to maintain tariffs on Chinese imports for a certain period of time (see), among other things. The EU summit, which took place this week, was key for discussions over Brexit issues and the state of EU-China trade relations (see).

As expected, the FOMC kept its interest rates unchanged and intensified its dovish stance, reducing markets expectations for a rate hike this year. Also the Fed revised down projections for 2019 GDP growth and inflation (see). Market reaction to the Fed's dovish tone was in line with expectations.

Core sovereign yields fell further this week, hitting new lows. US Treasury yields declined sharply, with the 10Y yield hovering below 2.50% after the dovish Fed tone and disappointing confidence indicators in the US (see). The German 10Y Bund yield followed suit, declining sharply into negative territory (-0.03%), a level not seen since October 2016, dragged also by lower-than-expected PMLs in EZ (see) and Germany (see). Peripheral risk premia widened this week with the sole exception of the Spanish risk premium ahead of today's rating revision by S&P.

Developed equity markets were not able to find support from lower yields: US equity indices fell as trade-war fears resurfaced and the equity volatility VIX jumped to 17%, while European stock markets also fell with the banking sector underperforming. In contrast, Asian equity indices rose this week.

The USD was able to recover its lost ground after the FOMC meeting as trade noise weighed. Following this movement and amid weak economic indicators, the EUR, which surpassed the 1.14 EUR/USD level after the Fed's dovish tone, ended weaker.

UK assets were highly volatile this week, with the GBP depreciating as fears over a cliff-edge Brexit resurfaced, despite the EU agreeing to a short delay in the Brexit deadline (see), thereby granting UK PM May's request early in the week (see). Moreover, the Bank of England left its interest rate unchanged at its latest policy meeting, but acknowledged concerns over a no-deal Brexit scenario (see).

Finally, most EM currencies depreciated in the week. The pressure on the ARS and the TRY remained, the former despite the release of 4Q18 GDP in line with expectations (see) and the latter amid the release of a higher-than-expected fall in international reserves. The BRL depreciated amid idiosyncratic factors even after the Brazilian Central Bank left rates unchanged, as expected (see).

Update 17:05 CET 22 March 2019

Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.31	-9.4	-12.3	-18	-17	
US	2.43	-10.9	-15.9	-22	-26	
GER (2-yr)	-0.57	-1.6	-2.4	0	5	
Germany	-0.03	-6.7	-11.0	-13	-27	
France	0.34	-5.9	-11.5	-18	-37	
Spain	1.07	-3.2	-12.0	-24	-45	
Italy	2.45	-0.2	-4.2	-41	-29	
Portugal	1.26	-2.1	-4.9	-40	-60	
Greece	3.77	3.5	-2.8	-1	-63	
Japan (2-yr)	-0.17	-1.5	-1.8	1	-3	
Japan	-0.07	-3.3	-3.5	-4	-7	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.00	23.7	17.3	4	-24	
Chile	3.96	-5.5	-9.6	-18	-29	
Colombia	6.51	1.1	-22.2	-38	-24	
Mexico	7.92	-2.7	-11.3	-36	-72	
Peru	4.88	-1.9	-8.7	-27	-48	
Poland	2.85	-4.9	-4.8	21	3	
Russia	8.30	8.3	-12.8	-17	-48	
Turkey	15.91	55.0	36.0	110	11	
India	7.34	-2.3	-0.2	0	-3	
Indonesia	7.61	2.4	-16.2	-29	-41	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	37	0.8	-0.5	0	-4	
Italy	248	6.5	6.8	-28	-2	
Portugal	129	4.6	6.1	-13	-27	
Spain	110	3.5	-1.0	-11	-12	
2-yr sovereign spread vs Germany						
France	6	0.1	-1.5	-6	-10	
Italy	78	4.1	8.4	-27	-31	
Portugal	29	0.6	-0.5	-5	3	
Spain	21	0.3	-2.9	-9	-15	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	163	2.6	8	1	-45	
Chile	46	-1.1	1	-2	-17	
Colombia	109	-3.3	2	-6	-49	
Argentina	738	-6.6	0	80	-69	
Mexico	125	-4.2	1	-9	-30	
Peru	68	-1.1	3	-6	-27	
Poland	69	-1.3	5	4	1	
Russia	133	-2.3	7	-8	-21	
Turkey	346	15.9	29	33	-14	
China	48	-2.3	2	-5	-19	
India	86	-3.0	5	-7	-28	
Indonesia	101	-4.6	4	-9	-37	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	17	3.1	4	3	-9	
VSTOXX	18	1.9	5	3	-6	
EMEFT volatility Index	19	3.2	4	2	-6	
Dollar/euro volatility	6	0.0	1	0	-1	
EMFX volatility index	8	0.1	0	-1	-2	
Credit spread (BAA) (change in bps)	239	10.9	11	16	-6	
US bonds volatility index	45	2.0	-2	0	-22	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.24	-	-5	2	11	
EZ Inflation expectations (5Y5Y)	1.41	-	-6	-4	-20	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	62	-2.4	-2	-3	-21	
EZ	86	4.2	8	-8	-34	
UK	72	4.0	10	-1	-22	
Large Spanish	63	2.7	6	-2	-25	
Medium Spanish	102	-0.5	-2	-7	-10	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	162	-2.4	-2	-3	-21	
EZ Non-financial	82	4.2	8	-8	-34	
UK Non-financial	105	-1.0	7	2	-14	
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	-0.11	0	0	0	1	
Libor 3m	2.60	-1	-1	-4	-20	
Libor 12m	2.79	-2	-5	-10	-22	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,810	-1.6	-0.5	0.9	12	
Dow Jones	25,571	-1.5	-1.1	-1.5	10	
Nikkei	21,627	0.1	0.8	0.9	8	
FTSE 100	7,197	-2.2	-0.4	-0.4	7	
EuroStoxx 50	3,304	-1.9	-2.4	1.4	10	
IBEX	9,189	-1.8	-1.6	0.1	8	
DAX	11,367	-1.6	-2.7	-0.3	8	
CAC	5,269	-2.0	-2.5	1.4	11	
MIB	21,071	-1.4	0.1	3.8	15	
ASE Athens	708	-1.3	-1.9	5.5	15	
MSCI Latam *	93,158	-0.7	-0.3	-0.7	8	
Ibovespa (Brazil)	94,381	-2.4	-4.8	-2.2	7	
Mexbol (Mexico)	42,596	-1.5	0.9	-1.3	2	
Merval (Argentina)	33,279	-2.7	-1.9	-8.8	10	
MSCI EM Europe *	5,708	0.3	2.2	2.5	8	
Poland	2,319	-1.7	-1.2	-2.1	2	
Micex 10 (Russia)	4,430	-0.8	-0.1	0.0	6	
Ise 100 (Turkey)	99,835	-3.5	-3.4	-2.1	9	
MSCI EM Asia *	874	0.1	1.8	3.8	12	
Shanghai Com (China)	3,104	0.1	2.7	12.4	24	
Jakarta (Indonesia)	6,525	0.7	1.7	0.5	5	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	125.0	-4.1	-6.5	-6.0	8	
JPM	99.6	-3.2	-6.5	-5.7	2	
Citi	60.6	-5.2	-7.1	-6.3	16	
BoA	26.8	-5.0	-8.7	-9.0	9	
MS	41.3	-4.2	-4.7	-2.6	4	
GS	189.2	-2.8	-4.6	-4.8	13	
EZ banks	73.6	-3.4	-5.0	-1.2	7	
BNP	41.5	-3.5	-6.3	-2.5	5	
Crédit Agricole	10.5	-3.6	-4.7	-0.6	12	
Deutsche Bank	7.3	-1.9	-6.7	-5.1	5	
ING	10.5	-2.7	-5.7	-5.8	11	
Intesa	2.1	-3.0	-2.3	4.5	11	
SG	25.5	-3.9	-6.4	0.9	-8	
Unicredito	11.3	-4.8	-3.5	-0.8	15	
UK banks	77.3	-2.2	-4.6	-2.7	6	
HSBC	612.5	-2.8	-1.5	-4.8	-5	
RBS	247.6	-0.5	-7.9	-4.0	14	
Barclays	155.0	-3.4	-6.6	-3.6	3	
Lloyds	62.2	-1.6	-4.1	1.7	20	
Large Spanish banks	63.1	-3.7	-4.5	-0.5	8	
Santander	4.2	-3.7	-5.2	0.3	5	
BBVA	5.2	-3.8	-3.8	-1.3	12	
Medium Spanish banks	53.8	-1.7	-2.9	-4.4	-6	
Caixabank	2.8	-2.9	-5.1	-8.0	-12	
Sabadell	0.9	-2.0	-5.2	-4.4	-9	
Bankinter	6.9	-0.3	-0.8	0.0	-1	
Bankia	2.3	-2.9	-2.5	-9.3	-8	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.128	-0.8	-0.4	-0.5	-2	
GBPUSD	1.32	0.8	-0.6	1.2	4	
USDJPY	109.82	0.9	1.5	0.9	0	
DXY	96.66	0.2	0.1	0.2	1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	42.06	-2.5	-4.9	-5.7	-10	
USDBRL (Brazil)	3.89	-2.4	-1.9	-4.1	0	
USDCPL (Chile)	679.41	-1.5	-1.6	-3.9	2	
USDCOP (Colombia)	3133	-1.4	-0.4	-0.7	4	
USDMXN (Mexico)	19.14	-1.5	0.4	0.4	3	
USDPEN (Peru)	3.41	-0.6	-0.3	0.3	2	
LACI	54.47	-1.8	-1.2	-2.3	0	
USDPLN (Poland)	3.81	-1.1	-0.4	0.2	-2	
USDRUB (Russia)	64.71	-1.3	0.1	1.5	7	
USDTRY (Turkey)	5.70	-4.2	-4.5	-6.6	-7	
USDCNY (China)	6.72	-0.3	-0.1	0.0	2	
USDINR (India)	68.96	-0.2	0.2	3.1	1	
USDIDR (Indonesia)	14163	-0.2	0.7	-0.8	2	
ADXY	106.25	-0.4	-0.1	-0.2	1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	66.3	-2.3	-1.3	-1	23	
WTx	58	-2.7	-0.3	3	29	
Copper		-2.0	-2.1	-3	8	
Gold	1313	0.2	0.8	-2	2	
S&P Spot commodity *	438	-0.2	1.4	3	17	
S&P Brent Spot *	576	-0.9	0.9	1	26	
S&P Metals Spot *	342	-1.2	0.2	1	7	
S&P Agricultural *	280	0.6	0.5	-2	-1	

Source: Bloomberg, Datastream and Haver

* With one day delay