

Risk-on mood returned to markets amid positive economic data and trade hopes

■ Risk-on mood returned to financial markets this week, with investors shifting to equity and corporate bonds from sovereign bonds. The positive surprises in PMIs from both US and China, rising hopes for a near term US-China trade deal and declining probability for a no-deal Brexit were the main drivers, which together offset a cautious view from the IMF on the growth outlook (see). This week, ECB's March policy minutes confirmed its "wait-and-see" policy approach (see) ahead of next week's ECB meeting.

■ Growth fears declined: the rebound in China's March PMIs (into expansionary territory) suggested that recent stimulus measures are slowly taking effect, while the US ISM data showed manufacturing sector stabilizing. On trade, this week, China's vice-premier Liu He continued talks in the US, including a meeting with President Trump. During the negotiations, Trump noted that the US and China are aiming to reach a trade deal in the next four weeks (see). However, USTR Lighthizer sounded more cautious, noting that major issues still remain (see). Nonetheless, the US is seen mulling over giving China until 2025 to fulfill its pledges on trade (see) rising expectations for a final deal at an unscheduled Trump-Xi summit. Against this backdrop, equity markets increased across the board.

■ In the context of positive data which offset some weaker economic indicators, core sovereign yields rose: the UST 10Y yield recovered levels of around 2.50% driven mainly by the upbeat ISM Manufacturing (see). Today's release of US job data showed a strong job creation however the slightly weaker wage growth reflected subdued inflationary pressures, underpinning the Fed's patient policy approach (see). In Europe, the German 10Y Bund yield was able to crept back into positive territory, although still around 0%, underpinned by the better-than-expected EZ retail sales (see) and German industrial production (see). Peripheral risk premia narrowed but to a lesser extend in Italy after the government revised down its GDP growth estimate for 2019 (see).

■ The USD and the EUR were little change in the week. So was the GBP, which ended almost flat despite some volatility, amid declining probability of a no-deal Brexit. Time is running out ahead of the EU summit on April 10th with little progress so far. After May's agreement was defeated for a third time, she offered to work with Labour's leader Corbyn to come up with a cross-party solution to Brexit issues (see). Moreover, today Mrs. May asked the EU for additional Brexit delay until June 30th, while pledging to reach a deal before May 23rd in order to avoid participating in the European elections. Meanwhile, European Council President Tusk proposed a '12-month flexible delay' to Brexit (see).

■ Finally, most EM currencies appreciated with Latam outperforming amid higher oil prices. The TRY underperformed despite the expected inflation prints (see), reflecting caution ahead of the upcoming new economic plan. The INR was flat after the RBI signaled a neutral policy stance despite cutting interest rates as expected (see). The ARS was penalized by poor economic indicators (see).

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.34	0.2	7.9	-18	-15	
US	2.50	-1.4	9.6	-19	-18	
GER (2-yr)	-0.57	0.8	3.0	-5	4	
Germany	0.01	1.2	7.6	-12	-24	
France	0.36	-0.5	4.4	-15	-35	
Spain	1.11	-0.5	0.8	-11	-42	
Italy	2.48	-4.1	-1.0	-11	-26	
Portugal	1.26	-0.7	0.4	-31	-61	
Greece	3.53	-8.1	-20.6	-22	-87	
Japan (2-yr)	-0.15	0.6	2.0	-1	-1	
Japan	-0.03	1.5	5.2	-3	-3	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	8.89	0.5	-7.6	-19	-35	
Chile	3.96	-0.4	-2.3	-19	-29	
Colombia	6.65	0.1	3.2	-26	-10	
Mexico	7.98	-2.7	-3.8	-11	-66	
Peru	4.83	-2.2	-7.1	-30	-54	
Poland	2.93	1.7	9.2	2	11	
Russia	8.38	-3.8	-3.5	-10	-40	
Turkey	16.59	-7.0	-59.0	174	79	
India	7.36	0.8	0.5	-3	-1	
Indonesia	7.57	-1.6	-6.0	-32	-45	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	36	-1.7	-3.2	-3	-5	
Italy	247	-5.3	-8.6	1	-3	
Portugal	125	-1.9	-7.2	-5	-31	
Spain	110	-1.7	-6.8	1	-12	
2-yr sovereign spread vs Germany						
France	7	-0.4	-0.2	0	-8	
Italy	83	-3.3	-0.5	10	-25	
Portugal	25	-1.6	-4.0	-1	-1	
Spain	23	0.1	-0.4	0	-14	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	172	2.4	-8	10	-35	
Chile	41	0.1	-5	-6	-22	
Colombia	106	0.2	-5	-5	-52	
Argentina	809	24.2	21	57	3	
Mexico	119	0.2	-5	-9	-36	
Peru	59	0.0	-8	-9	-35	
Poland	69	0.0	2	4	1	
Russia	132	-0.6	-5	4	-22	
Turkey	381	-12.3	-71	67	21	
China	43	1.1	-3	-4	-25	
India	83	-0.2	-4	-3	-30	
Indonesia	97	1.5	-9	2	-40	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	13	-0.6	-1	-3	-12	
VSTOXX	14	-0.7	-2	0	-10	
EM EFT volatility Index	16	-0.7	-2	-2	-9	
Dollar/euro volatility	5	-0.3	0	-1	-2	
EM FX volatility index	8	-0.2	-1	0	-1	
Credit spread (BAA) (change in bps)	223	1.4	-4	-2	-23	
US bonds volatility index	52	-2.1	-7	6	-15	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.26	-	2	-2	12	
EZ Inflation expectations (5Y5Y)	1.36	-	1	-14	-24	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	59	0.1	-5	-2	-23	
EZ	84	0.2	-7	-3	-36	
UK	63	0.5	-4	-1	-31	
Large Spanish	63	-0.8	-7	1	-25	
Medium Spanish	105	-0.3	-4	1	-8	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	161	0.1	-5	-2	-23	
EZ Non-financial	79	0.2	-7	-3	-36	
UK Non-financial	104	0.1	-3	7	-15	
Interbank markets (% , changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	-1	0	-1	
Euribor 3m	-0.31	0	0	0	0	
Euribor 12m	-0.11	0	0	0	1	
Libor 3m	2.59	-1	0	-2	-21	
Libor 12m	2.74	-1	4	-15	-28	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,889	0.3	1.9	4.2	15	
Dow Jones	26,411	0.1	1.9	2.9	13	
Nikkei	21,808	0.4	2.8	1.0	9	
FTSE 100	7,447	0.6	2.3	3.5	11	
EuroStoxx 50	3,447	0.2	2.9	3.7	15	
IBEX	9,510	-0.2	2.9	2.3	11	
DAX	12,010	0.2	4.2	3.6	14	
CAC	5,476	0.2	2.3	3.5	16	
MIB	21,759	0.2	2.2	4.4	19	
ASE Athens	754	1.3	4.6	6.7	23	
MSCI Latam *	93,028	1.6	2.0	2.5	8	
Ibovespa (Brazil)	97,244	1.0	1.9	3.2	11	
Mexbol (Mexico)	44,633	1.6	3.1	6.5	7	
Merval (Argentina)	32,857	2.2	-1.8	1.6	8	
MSCI EM Europe *	5,720	0.2	2.4	2.3	8	
Poland	2,351	-1.6	1.7	1.0	3	
Micex 10 (Russia)	4,547	0.2	2.6	2.6	9	
Ise 100 (Turkey)	98,783	0.5	5.3	-4.5	8	
MSCI EM Asia *	888	0.1	3.1	2.6	14	
Shanghai Com (China)	3,247	0.0	5.0	4.7	30	
Jakarta (Indonesia)	6,474	0.0	-0.1	0.5	5	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	134.5	-0.1	5.3	3.4	16	
JPM	105.3	-0.3	4.0	1.5	8	
Citi	65.4	-0.6	5.1	4.6	26	
BoA	29.1	-0.1	5.5	1.0	18	
MS	45.0	0.1	6.5	8.0	13	
GS	203.0	0.4	5.7	4.2	22	
EZ banks	78.2	-0.8	4.3	0.8	13	
BNP	44.5	-0.8	4.4	-0.4	13	
Crédit Agricole	11.3	-1.1	5.3	3.0	20	
Deutsche Bank	7.5	-1.2	3.2	-8.3	8	
ING	11.3	-1.0	4.8	2.8	20	
Intesa	2.2	0.0	2.9	2.4	15	
SG	26.7	-1.2	3.4	-1.7	-4	
Unicredito	12.0	-0.7	5.2	1.6	22	
UK banks	80.0	-0.4	3.1	0.1	10	
HSBC	653.1	0.7	4.8	4.8	1	
RBS	251.7	-0.9	1.9	-3.7	16	
Barclays	162.8	-1.2	5.2	-1.5	8	
Lloyds	62.2	-0.7	0.1	-1.1	20	
Large Spanish banks	67.0	-0.1	7.1	2.2	15	
Santander	4.4	-0.1	6.2	2.0	11	
BBVA	5.5	-0.1	7.9	2.3	19	
Medium Spanish banks	56.1	-0.2	5.9	-3.8	-2	
Caixabank	3.0	0.2	6.8	-4.4	-6	
Sabadell	1.0	-1.1	8.0	-5.4	-4	
Bankinter	7.2	0.0	5.3	-0.1	2	
Bankia	2.4	-0.6	5.1	-9.6	-5	
Currencies (% , red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.122	0.0	0.0	-0.8	-2	
GBPUSD	1.30	-0.5	-0.2	-1.2	2	
USDJPY	111.71	0.0	-0.8	0.1	-2	
DX	97.41	0.1	0.1	0.6	1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	43.64	-0.5	-0.7	-6.7	-14	
USDBRL (Brazil)	3.86	-0.1	1.5	-0.6	0	
USDCLP (Chile)	663.50	0.3	2.4	-0.7	5	
USDCOP (Colombia)	3126	0.1	2.0	-0.6	4	
USDMXN (Mexico)	19.08	0.4	1.8	1.5	3	
USDPEN (Peru)	3.30	0.0	0.6	0.3	2	
LACI	54.61	0.0	1.4	-0.5	1	
USDPLN (Poland)	3.83	-0.2	0.2	-0.7	-2	
USDRUB (Russia)	65.30	0.2	0.7	0.9	6	
USDTRY (Turkey)	5.64	-0.8	-1.2	-3.7	-6	
USDCNY (China)	6.71	0.1	0.1	0.0	3	
USDINR (India)	69.23	-0.1	-0.1	1.5	1	
USDIDR (Indonesia)	14133	0.4	0.8	0.1	2	
ADXY	106.29	-0.1	0.1	0.0	1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	69.9	0.7	2.2	6	30	
WTx	63	0.9	4.2	11	38	
Copper	289	-0.6	-1.6	-1	10	
Gold	1292	0.0	0.0	0	1	
S&P Spot commodity *	444	0.1	2.3	5	19	
S&P Brent Spot *	591	0.1	2.7	5	29	
S&P Metals Spot *	343	-0.6	-0.7	0	7	
S&P Agricultural *	279	0.7	2.2	1	-2	