

## Central bank caution, moderate inflation weighs on bond yields

Investors had been cautiously shifting into risky assets ahead of key events this afternoon. However, European yield declined across the board and the Euro depreciated after the ECB meeting and ahead of the EU summit on Brexit.

The ECB showed a slight dovish tone sending the European bond yields lower. Although the ECB left its monetary policy unchanged and maintained a cautious tone (“the slower momentum is expected to extend into the current year”), as expected, it confirmed that details on TLTROs III will be unveiled in forthcoming meetings, and their prices will be linked to the transmission channel of monetary policy. Mr. Draghi said that the ECB council did not discuss a tiered deposit system but the statement revealed that they are considering ways to mitigate the side effect of negative interest rates on banks’ profitability. Mr. Draghi reaffirmed market’s expectation of lower yields, stating that the market reaction to the ECB Watchers’ speech (postponing the expectation of rate rises) signals that markets understand well the ECB’s reaction function. Moreover, regarding the decline in markets’s long-term inflation expectations measures, he linked it to the negative risk premium. Draghi noted that the market wrongly perceives : 1) that ECB lacks the tools to lead inflation toward its target or 2) that ECB is not committed to its inflation target. Draghi reaffirmed its commitment with bringing inflation towards its targets, and he also said that 2 percent inflation is not a ceiling (see) . Peripheral risk premia inched down underpinned also by positive industrial production outturn in Italy. The US bond yields also declined led by both the lower US core inflation data (which reinforced the wait and see stance of the Fed) and the fall in German yields. Minutes from the Fed’s last meeting, to be released later today, could further underscore central bank caution, and in turn weigh further on yields.

Meanwhile, G-10 FX were broadly flat today. The Euro swung, halting early appreciation after the ECB press conference but ending flat ahead of the release of the FOMC minutes and the EU summit on Brexit. Also, the EM FX, slightly appreciated, especially those linked to the oil prices (Brent 71 \$/B +1%), which kept its upward trend due to supply factors. The TRY remained steady, after new policy measures were announced (see).

Equity markets were little changed, as investors remained on the sidelines ahead of key events. Eurozone banking sectors declined as although the ECB confirmed that it is considering ways to mitigate the side effects of negative interest rates on banking sector profitability, it did not discuss a tiered deposit system in today’s meeting.

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| Debt markets (10Y, %, changes in bp)           |        |       |        |         |     |  |
|--|--------|-------|--------|---------|-----|--|
| Developed Markets                              | level  | Daily | Week   | Month   | YTD |  |
| US (2-yr)                                      | 2.32   | -3.1  | -1.6   | -16     | -17 |  |
| <b>US</b>                                      | 2.48   | -2.5  | -4.8   | -16     | -21 |  |
| GER (2-yr)                                     | -0.59  | -1.3  | -0.7   | -5      | 2   |  |
| <b>Germany</b>                                 | -0.03  | -1.9  | -3.7   | -10     | -27 |  |
| France   | 0.32   | -2.5  | -7.9   | -9      | -39 |  |
| Spain  | 1.04   | -3.3  | -9.9   | -22     | -48 |  |
| Italy  | 2.41   | -1.6  | -13.3  | -15     | -33 |  |
| Portugal                                       | 1.17   | -3.1  | -10.5  | -29     | -70 |  |
| Greece   | 3.42   | -4.2  | -23.6  | -30     | -98 |  |
| Japan (2-yr)                                   | -0.16  | -0.2  | -1.0   | -2      | -2  |  |
| <b>Japan</b>                                   | -0.05  | -0.5  | -0.8   | -2      | -6  |  |
| Emerging Markets                               | level  | Daily | Weekly | Monthly | YTD |  |
| Brazil   | 8.90   | -6.7  | -8.9   | 2       | -33 |  |
| Chile  | 3.84   | -5.9  | -12.2  | -25     | -41 |  |
| Colombia                                       | 6.55   | -1.2  | -9.1   | -26     | -20 |  |
| Mexico   | 7.94   | -2.0  | -8.3   | -12     | -70 |  |
| Peru   | 4.81   | -1.5  | -6.4   | -25     | -55 |  |
| Poland   | 2.90   | -1.8  | 0.9    | 1       | 8   |  |
| Russia   | 8.27   | -7.1  | -12.8  | -20     | -51 |  |
| Turkey   | 16.85  | 12.0  | 12.0   | 197     | 105 |  |
| India  | 7.37   | -0.9  | 9.7    | 2       | 0   |  |
| Indonesia                                      | 7.68   | 2.5   | 5.2    | -26     | -35 |  |
| Country risk (bp, changes in bp)               |        |       |        |         |     |  |
| Developed Markets                              | level  | Daily | Weekly | Monthly | YTD |  |
| <b>10-yr sovereign spread vs Germany</b>       |        |       |        |         |     |  |
| France   | 35     | -0.6  | -4.2   | 1       | -6  |  |
| Italy  | 244    | 0.3   | -9.6   | -6      | -6  |  |
| Portugal                                       | 120    | -1.2  | -6.8   | -5      | -37 |  |
| Spain  | 107    | -1.4  | -6.2   | -12     | -15 |  |
| <b>2-yr sovereign spread vs Germany</b>        |        |       |        |         |     |  |
| France   | 7      | -0.5  | -0.9   | 0       | -9  |  |
| Italy  | 81     | 1.3   | -4.9   | 5       | -28 |  |
| Portugal                                       | 25     | 0.8   | -1.5   | -2      | -1  |  |
| Spain  | 24     | -0.1  | 2.2    | 1       | -12 |  |
| Emerging Markets                               | level  | Daily | Weekly | Monthly | YTD |  |
| <b>5-yr sovereign CDS *</b>                    |        |       |        |         |     |  |
| Brazil   | 169    | -1.2  | -1     | 6       | -38 |  |
| Chile  | 40     | -1.0  | -2     | -7      | -23 |  |
| Colombia                                       | 103    | -1.6  | -4     | -11     | -55 |  |
| Argentina                                      | 908    | 32.4  | 116    | 144     | 102 |  |
| Mexico   | 116    | -1.7  | -5     | -12     | -39 |  |
| Peru   | 57     | -1.2  | -4     | -11     | -38 |  |
| Poland   | 68     | -0.5  | -1     | 4       | 0   |  |
| Russia   | 131    | -0.3  | -2     | 3       | -23 |  |
| Turkey   | 407    | 3.0   | 0      | 77      | 47  |  |
| China  | 43     | -0.1  | 1      | -8      | -24 |  |
| India  | 83     | 0.1   | -1     | -4      | -30 |  |
| Indonesia                                      | 99     | -0.4  | -1     | -6      | -39 |  |
| Risk indicators                                |        |       |        |         |     |  |
| Volatility indicators                          | level  | Daily | Weekly | Monthly | YTD |  |
| VIX  | 14     | -0.3  | 0      | 0       | -11 |  |
| VSTOXX   | 14     | -0.2  | 0      | 0       | -10 |  |
| EMEFT volatility Index                         | 16     | -0.4  | -1     | -2      | -9  |  |
| Dollar/euro volatility                         | 5      | -0.1  | -1     | -1      | -2  |  |
| EM FX volatility index                         | 8      | -0.1  | 0      | 0       | -2  |  |
| Credit spread (BAA) (change in bps)            | 222    | 2.5   | 0      | -5      | -23 |  |
| US bonds volatility index                      | 49     | 0.9   | -5     | 4       | -18 |  |
| Inflation expectations                         | level  | Daily | Weekly | Monthly | YTD |  |
| US Inflation expectations (5Y5Y)               | 2.30   | -     | 4      | 5       | 16  |  |
| EZ Inflation expectations (5Y5Y)               | 1.35   | -     | -2     | -12     | -26 |  |
| Banking 5y CDS                                 | level  | Daily | Weekly | Monthly | YTD |  |
| US   | 59     | 0.7   | -1     | -7      | -24 |  |
| EZ   | 80     | -0.6  | -6     | -6      | -40 |  |
| UK   | 61     | -1.0  | -5     | -6      | -34 |  |
| Large Spanish                                  | 60     | -0.2  | -5     | -2      | -27 |  |
| Medium Spanish                                 | 104    | 3.4   | 0      | 2       | -8  |  |
| Corporate 5y CDS                               | level  | Daily | Weekly | Monthly | YTD |  |
| US Non-financial                               | 163    | 0.7   | -1     | -7      | -24 |  |
| EZ Non-financial                               | 80     | -0.6  | -6     | -6      | -40 |  |
| UK Non-financial                               | 105    | 0.3   | 1      | 2       | -14 |  |
| 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   |  |
| <b>Euribor 12m</b>                             | -0.11  | 0     | 0      | 0       | 1   |  |
| Libor 3m                                       | 2.58   | 0     | -2     | -2      | -22 |  |
| Libor 12m                                      | 2.75   | 0     | 2      | -11     | -26 |  |
| Stock markets (%)                              |        |       |        |         |     |  |
| Main indices                                   | level  | Daily | Weekly | Monthly | YTD |  |
| <b>S&amp;P500</b>                              | 2,885  | 0.2   | 0.4    | 3.7     | 15  |  |
| Dow Jones                                      | 26,140 | 0.0   | -0.3   | 1.9     | 12  |  |
| Nikkei   | 21,688 | -0.5  | -0.1   | 2.7     | 8   |  |
| FTSE 100                                       | 7,422  | 0.0   | 0.0    | 4.1     | 10  |  |
| <b>EuroStoxx 50</b>                            | 3,424  | 0.2   | -0.3   | 3.6     | 14  |  |
| IBEX   | 9,407  | 0.0   | -0.9   | 2.6     | 10  |  |
| DAX  | 11,906 | 0.5   | -0.4   | 3.1     | 13  |  |
| CAC  | 5,450  | 0.2   | -0.3   | 3.5     | 15  |  |
| MIB  | 21,672 | 0.0   | -0.4   | 5.0     | 18  |  |
| ASE Athens                                     | 756    | 0.3   | 0.8    | 8.5     | 23  |  |
| <b>MSCI Latam *</b>                            | 93,749 | -0.8  | 1.9    | 2.9     | 9   |  |
| Ibovespa (Brazil)                              | 95,950 | -0.4  | 1.5    | -2.1    | 9   |  |
| Mexbol (Mexico)                                | 44,985 | -0.4  | 3.8    | 7.4     | 8   |  |
| Merval (Argentina)                             | 32,427 | 2.2   | 2.1    | -4.0    | 7   |  |
| <b>MSCI EM Europe *</b>                        | 5,778  | 0.5   | 1.7    | 3.6     | 9   |  |
| Poland   | 2,392  | 1.0   | -0.7   | 4.0     | 5   |  |
| Micex 10 (Russia)                              | 4,620  | 0.8   | 2.2    | 5.1     | 10  |  |
| Ise 100 (Turkey)                               | 97,015 | -1.1  | 2.7    | -3.8    | 6   |  |
| <b>MSCI EM Asia *</b>                          | 899    | 0.4   | 2.0    | 6.4     | 15  |  |
| Shanghai Com (China)                           | 3,242  | 0.1   | 0.8    | 7.1     | 30  |  |
| Jakarta (Indonesia)                            | 6,478  | 0.8   | 0.0    | 1.5     | 5   |  |
| Banking sector                                 | level  | Daily | Weekly | Monthly | YTD |  |
| <b>US banks</b>                                | 133.4  | 0.0   | -0.1   | 2.2     | 15  |  |
| JPM  | 104.8  | -0.1  | -0.5   | 0.4     | 7   |  |
| Citi   | 65.1   | -0.1  | 0.1    | 4.5     | 25  |  |
| BoA  | 28.9   | -0.1  | 0.0    | -0.3    | 17  |  |
| MS   | 44.3   | 0.0   | -0.3   | 5.7     | 12  |  |
| GS   | 201.5  | 0.4   | 0.3    | 2.8     | 21  |  |
| <b>EZ banks</b>                                | 77.6   | -0.6  | -1.1   | 2.3     | 13  |  |
| BNP  | 44.2   | -0.9  | -0.7   | 2.0     | 12  |  |
| Crédit Agricole                                | 11.4   | 0.2   | 0.0    | 4.5     | 21  |  |
| Deutsche Bank                                  | 7.2    | -0.7  | -5.3   | -10.1   | 4   |  |
| ING  | 11.2   | -0.6  | -0.7   | 4.9     | 20  |  |
| Intesa   | 2.2    | -0.7  | 0.2    | 3.9     | 15  |  |
| SG   | 26.3   | -1.3  | -2.2   | -0.4    | -6  |  |
| Unicredito                                     | 11.8   | -0.9  | -2.9   | 1.1     | 20  |  |
| <b>UK banks</b>                                | 80.1   | -0.3  | -1.1   | 3.6     | 10  |  |
| HSBC   | 652.7  | -0.4  | 0.6    | 4.5     | 1   |  |
| RBS  | 253.2  | -0.4  | -0.3   | -1.5    | 17  |  |
| Barclays                                       | 161.1  | -0.2  | -1.7   | 0.1     | 7   |  |
| Lloyds   | 62.8   | -0.2  | -3.2   | 1.6     | 21  |  |
| <b>Large Spanish banks</b>                     | 65.5   | -0.6  | -1.1   | 3.6     | 12  |  |
| Santander                                      | 4.4    | -0.2  | 0.2    | 5.6     | 10  |  |
| <b>BBVA</b>                                    | 5.3    | -1.0  | -2.2   | 1.8     | 14  |  |
| <b>Medium Spanish banks</b>                    | 54.2   | -1.3  | -2.4   | -1.0    | -6  |  |
| Caixabank                                      | 2.9    | -2.4  | -2.2   | -2.0    | -9  |  |
| Sabadell                                       | 0.9    | -0.5  | -1.8   | 0.5     | -7  |  |
| Bankinter                                      | 7.0    | -0.9  | -1.7   | 1.3     | -1  |  |
| Bankia   | 2.3    | -1.9  | -5.1   | -6.2    | -11 |  |
| Currencies (% , red for currency depreciation) |        |       |        |         |     |  |
| Developed                                      | level  | Daily | Weekly | Monthly | YTD |  |
| <b>EURUSD</b>                                  | 1.127  | 0.0   | 0.3    | 0.2     | -2  |  |
| GBPUSD   | 1.121  | 0.3   | -0.5   | -0.4    | -3  |  |
| USDJPY   | 110.92 | 0.2   | 0.5    | 0.3     | -1  |  |
| DXY  | 96.94  | -0.1  | -0.2   | -0.3    | 1   |  |
| Emerging                                       | level  | Daily | Weekly | Monthly | YTD |  |
| USDARS (Argentina)                             | 43.13  | 0.6   | -0.6   | -4.3    | -13 |  |
| USDBRL (Brazil)                                | 3.83   | 0.7   | 1.1    | 0.3     | 1   |  |
| USDCPL (Chile)                                 | 662.41 | 0.2   | 0.7    | 1.2     | 5   |  |
| USDCOP (Colombia)                              | 3096   | 0.2   | 0.9    | 2.6     | 5   |  |
| USDMXN (Mexico)                                | 18.83  | 0.6   | 2.1    | 3.1     | 4   |  |
| USDPEN (Peru)                                  | 3.29   | 0.0   | 0.1    | 0.4     | 2   |  |
| LACI   | 55.14  | 0.5   | 1.1    | 1.1     | 2   |  |
| USDPLN (Poland)                                | 3.80   | 0.1   | 0.5    | 0.7     | -2  |  |
| USDRUB (Russia)                                | 64.33  | 1.0   | 1.4    | 2.5     | 8   |  |
| USDTRY (Turkey)                                | 5.70   | 0.0   | -1.3   | -4.4    | -7  |  |
| USDCNY (China)                                 | 6.72   | -0.1  | -0.1   | 0.2     | 2   |  |
| USDINR (India)                                 | 69.12  | 0.3   | -1.0   | 1.1     | 1   |  |
| USDIDR (Indonesia)                             | 14153  | -0.1  | 0.5    | 1.0     | 2   |  |
| ADXY   | 106.53 | 0.1   | -0.1   | 0.1     | 1   |  |
| Commodities (%)                                |        |       |        |         |     |  |
|  | level  | Daily | Weekly | Monthly | YTD |  |
| <b>Brent</b>                                   | 71.3   | 0.9   | 2.8    | 7       | 32  |  |
| WTx  | 64     | 0.3   | 2.8    | 13      | 41  |  |
| Copper   | 293    | 0.0   | -0.5   | 1       | 12  |  |
| Gold   | 1308   | 0.3   | 1.4    | 1       | 2   |  |
| S&P Spot commodity *                           | 450    | -0.4  | 1.4    | 6       | 20  |  |
| S&P Brent Spot *                               | 599    | -0.8  | 1.5    | 6       | 31  |  |
| S&P Metals Spot *                              | 342    | 0.0   | -0.8   | 1       | 7   |  |
| S&P Agricultural *                             | 278    | 0.1   | 0.5    | 3       | -2  |  |

Source: Bloomberg, Datastream and Haver

\* With one day delay