

## US-China trade tensions resumed, unexpectedly

■ Risk-off mood in financial markets. Trump's threat to introduce further tariff barriers against China took a heavy toll on equity markets today, boosting flows towards safe-haven bonds, amid mute inflation pressure.

■ **US-China trade tensions resumed.** President Trump's Sunday tweet, threatening further tariff barriers against China, took a heavy toll on global financial markets today. The jolt was most severe amongst Chinese markets, with the Shanghai Composite Index falling 5.6% and the Yuan hitting a three-and-a-half-month low of 6.798 against the USD after Trump threatened to raise tariffs to 25%, up from 10% currently, on \$200 billion worth of Chinese imports, and add an additional 25% tariffs on \$325 billion worth of Chinese imports. Trump's unexpected threat, despite recent 'meaningful' progress in US-China trade talks and increased prospects of a final deal, has cast doubt on a new round of talks, which were set to begin this week in Washington.

■ **In an effort to prop up investor sentiment, Chinese policymakers announced a cut in the RRR** for small and medium-sized banks, effective from May 15th, in turn releasing around \$41 bn (RMB 280 bn) in liquidity. Of the six RRR cuts since 2018, today's cut is the smallest.

■ **Fed's view on inflation, some members did not support Jerome Powell's views that low inflation is due to transitory factors**, instead Dallas Federal Reserve Bank President Robert Kapla sees low inflation as a result of structural changes in the economy, suggesting that inflation will remain low, despite Kaplan expect inflation to rebound slightly in coming months.

■ **Safe-haven bond attracted fresh demand, on the back of renewed trade frictions** between China and the US, and the lack of inflation pressure in the US, dragging sharply the US yields across the whole yield curve, while the German yield slightly declined, but remained in the positive territory. Peripheral risk premium and HY spread remained broadly stable today.

■ **The performance in currency markets also showed a slight risk-off mood** led by the increase trade tensions. Safe-haven currencies appreciated (the USD and the JPY), while cyclical currencies depreciated, as well as EM FX. Crude prices also decline as trade tension weighed negatively on growth expectations.

■ **Today's surge in market volatility**, following months of relative calm, jointly with the decline in equity markets across the board, **reflects underlying investor fears** over the fallout of re-escalating US-China trade tensions on global growth prospects.

■ While the trade war remains in spotlight for markets this week, a host of other key events will also be watched, including US CPI, China trade and credit figures, the ECB minutes and Brexit talks.

Update 17:50 CET 06 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.30	-3.7	0.4	-4	-19
<b>US</b>	2.49	-3.8	-3.8	-3	-20
GER (2-yr)	-0.59	-0.6	-1.3	-1	2
<b>Germany</b>	0.01	-2.0	0.2	1	-24
France	0.36	-1.4	-0.7	-1	-35
Spain	0.98	-0.4	-3.3	-13	-54
Italy	2.58	1.5	-0.9	-9	-31
Portugal	1.12	0.2	-0.2	-14	-74
Greece	3.34	0.0	3.5	-27	-105
Japan (2-yr)	-0.15	0.0	0.0	1	-1
<b>Japan</b>	-0.04	0.0	0.0	0	-4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.86	-2.2	-13.6	-2	-37
Chile	3.93	-1.8	-2.6	-4	-33
Colombia	6.82	0.1	-1.0	17	7
Mexico	8.11	1.7	0.7	11	-53
Peru	4.79	-0.9	-3.8	-5	-57
Poland	3.02	-1.7	7.4	11	20
Russia	8.27	2.5	0.8	-15	-52
Turkey	18.90	33.0	38.0	224	310
India	7.40	0.2	-1.6	5	3
Indonesia	7.95	7.2	17.0	36	-7
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	-0.9	-2	-5
Italy	257	3.5	-1.1	-10	-7
Portugal	112	2.2	-0.4	-15	-44
Spain	98	1.6	-3.5	-14	-24
<b>2-yr sovereign spread vs Germany</b>					
France	5	0.0	0.7	-2	-10
Italy	105	2.1	-6.8	18	-4
Portugal	26	0.6	2.0	-1	0
Spain	26	1.1	0.9	3	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	169	-3.9	-5	0	-38
Chile	39	-1.2	1	-2	-24
Colombia	99	-2.8	2	-7	-59
Argentina	1175	-66.6	-100	390	369
Mexico	111	-4.3	-3	-8	-44
Peru	58	-0.8	2	-1	-36
Poland	66	0.0	0	-2	-2
Russia	128	-1.9	1	-4	-26
Turkey	437	-6.4	-21	44	77
China	41	-0.4	0	-1	-26
India	79	-0.3	1	-5	-35
Indonesia	96	-0.2	0	0	-41
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	3.1	3	2	-9
VSTOXX	16	2.4	3	1	-8
EM EFT volatility Index	19	3.1	3	2	-6
Dollar/euro volatility	5	0.5	0	0	-2
EM FX volatility index	8	0.0	0	0	-2
Credit spread (BAA) (change in bps)	216	3.8	2	-5	-29
US bonds volatility index	46	-0.9	-2	-6	-21
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.22	-	-8	-3	9
EZ Inflation expectations (5Y5Y)	1.40	-	5	4	-20
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	56	-2.0	-1	-3	-27
EZ	78	-0.1	-3	-6	-42
UK	57	-1.1	-2	-6	-38
Large Spanish	52	-0.5	-5	-11	-35
Medium Spanish	94	-3.9	-5	-11	-19
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	168	-2.0	-1	-3	-27
EZ Non-financial	79	-0.1	-3	-6	-42
UK Non-financial	104	0.6	0	0	-15
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	1	1	0
Euribor 3m	-0.31	0	0	0	0
<b>Euribor 12m</b>	-0.11	0	0	0	0
Libor 3m	2.56	-1	-2	-4	-24
Libor 12m	2.75	1	3	0	-27
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,922	-0.8	-0.7	1.5	17
Dow Jones	26,322	-0.7	-0.9	-0.2	13
Nikkei	22,259	0.0	0.0	2.5	11
FTSE 100	7,381	0.0	-0.8	-0.3	10
<b>EuroStoxx 50</b>	3,467	-1.0	-1.0	0.7	16
IBEX	9,346	-0.7	-1.8	-2.0	9
DAX	12,296	-0.9	-0.3	2.6	16
CAC	5,488	-1.1	-1.7	0.4	16
MIB	21,443	-1.5	-1.6	-1.2	17
ASE Athens	754	-2.6	-2.4	1.2	23
<b>MSCI Latam *</b>	92,051	0.2	-1.0	0.5	7
Ibovespa (Brazil)	94,962	-1.1	-1.3	-1.4	8
Mexbol (Mexico)	44,071	-0.5	-2.0	0.3	6
Merval (Argentina)	32,920	1.6	14.2	2.4	9
<b>MSCI EM Europe *</b>	5,708	0.0	-0.9	0.0	8
Poland	2,290	-1.2	-3.3	-4.1	1
Micex 10 (Russia)	4,584	0.0	0.5	1.1	9
Ise 100 (Turkey)	92,982	-1.0	-1.6	-5.4	2
<b>MSCI EM Asia *</b>	896	0.2	0.9	0.9	15
Shanghai Com (China)	2,906	-5.6	-5.1	-10.5	17
Jakarta (Indonesia)	6,256	-1.9	-2.3	-3.4	1
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	142.7	-0.7	-1.0	5.9	23
JPM	115.2	-0.8	-0.8	9.1	18
Citi	70.3	-0.5	-1.0	6.9	35
BoA	30.5	-0.7	-0.9	4.6	24
MS	47.7	-0.8	-1.7	6.1	20
GS	205.6	-0.9	-0.6	1.7	23
<b>EZ banks</b>	80.7	-1.5	-1.6	2.4	17
BNP	48.0	-0.6	0.7	6.9	22
Crédit Agricole	12.3	-0.9	-1.0	7.0	30
Deutsche Bank	7.2	-1.9	-2.6	-5.0	3
ING	11.0	-1.9	-3.1	-3.5	17
Intesa	2.3	-1.2	-1.7	2.7	18
SG	28.1	-2.0	-1.0	4.3	1
Unicredit	11.9	-3.1	-4.1	-2.1	20
<b>UK banks</b>	80.5	0.0	-0.2	0.2	10
HSBC	680.6	0.0	1.7	4.9	5
RBS	237.7	0.0	-1.4	-6.5	10
Barclays	163.7	0.0	-0.6	-0.6	9
Lloyds	62.6	0.0	-1.5	0.0	21
<b>Large Spanish banks</b>	65.4	-0.9	-2.9	-2.4	12
Santander	4.4	-1.1	-3.5	-1.1	10
<b>BBVA</b>	5.3	-0.7	-2.2	-3.7	14
<b>Medium Spanish banks</b>	55.5	-1.0	-2.2	-1.2	-3
Caixabank	2.9	-0.9	-2.3	-4.0	-10
Sabadell	1.0	-1.4	-1.6	5.6	2
Bankinter	7.0	-0.8	-2.9	-2.5	-1
Bankia	2.4	-1.2	-1.1	-1.4	-6
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.120	0.0	0.1	-0.2	-2
GBPUSD	1.31	-0.6	1.2	0.7	3
USDJPY	110.88	0.2	0.7	0.7	-1
DXY	97.57	0.1	-0.3	0.3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.75	-0.6	-0.9	-3.0	-16
USDBRL (Brazil)	3.95	-0.4	-0.3	-2.4	-2
USDCLP (Chile)	681.81	-0.6	-0.3	-2.4	2
USDCOP (Colombia)	3251	-0.4	0.1	-3.9	0
USDMXN (Mexico)	18.97	-0.3	0.2	0.9	4
USDPEN (Peru)	3.31	-0.4	0.0	-0.5	2
LACI	53.83	-0.3	-0.3	-1.4	-1
USDPLN (Poland)	3.83	-0.2	0.3	-0.1	-2
USDRUB (Russia)	65.26	-0.3	-1.2	0.2	6
USDTRY (Turkey)	6.01	-0.7	-1.0	-6.9	-12
USDCNY (China)	6.77	-0.5	-0.5	-0.7	2
USDINR (India)	69.41	-0.3	0.9	-0.4	1
USDIDR (Indonesia)	14298	-0.2	-0.6	-0.8	1
ADXY	105.43	-0.4	-0.3	-0.9	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	70.8	-0.1	-1.7	2	32
WTX	62	-0.2	-2.7	0	36
Copper	284	0.6	-1.9	-2	8
Gold	1280	0.1	0.0	-1	0
S&P Spot commodity *	441	0.1	-0.9	-1	18
S&P Brent Spot *	603	0.1	-1.0	2	32
S&P Metals Spot *	328	0.4	-2.1	-4	3
S&P Agricultural *	268	-0.5	0.0	-4	-5