

Risk-off mood prevails ahead of decisive US-China trade talks

- The 'risk-off' mood persisted across markets today as global growth concerns mounted in the wake of escalating US-China trade conflict, downbeat China exports data, and a flair-up in geopolitical tensions in the Middle East with Iran poised to breach parts of the nuclear deal.
- **US-China trade brinkmanship remained in the spotlight** as the US carried through on Trump's recent threat by filing paperwork to formally raise tariffs to 25% from 10% on \$200 billion of Chinese imports, effective this Friday. In this context, tomorrow will be a decisive day for US-China trade talks in Washington amid a last-ditch bid by Chinese Vice Premier Liu He to salvage a trade deal ([see](#)).
- **China's April trade surplus came in weaker than expected** as negative exports growth offset a pick up in imports. Notwithstanding seasonal effects, slowing global demand, exacerbated by trade tensions with the US, have weighed on China's external demand. Meanwhile, higher import growth largely reflects positive effects of ongoing policy stimulus. Looking ahead, the latest escalation of US-China trade tensions clouds China's exports outlook ([see](#)).
- **On monetary policy, Fed's Clarida** backed recent comments from Fed Chairman, suggesting that transitory factors contributed to a low inflation, while downplaying expectations of a Fed interest cut.
- **Meanwhile, Iran said it would stop complying** with some of its commitments under the 2015 nuclear deal, in turn putting Iran on a possible collision course with the EU by jeopardizing the landmark agreement while further intensifying tensions with the US ([see](#)).
- **Equity markets remained under pressure**, particularly in Asia, and to a lesser extent in the US, while volatility (VIX) surged for the third consecutive day amid escalating US-China trade tensions. European equity indices ended slightly positive, helped in part by stronger than expected German March industrial production outturn.
- **The safe haven appeal saw major sovereign bond indices hit one-month lows** with the 10-year US treasury yield at 2.45% (-0.7 bps) and 10 yr German Bund yields still in negative territory at -0.05% (-1.1 bps). Eurozone periphery bond yields also ended lower.
- **In currencies, the pound was a notable underperformer** following news that cross-party Brexit talks have stalled while the Euro saw marginal appreciation. Across EM FX, the Turkish Lira as well as Indian rupee came saw notable depreciation, while most Latam currencies, except MXN appreciated.
- **Global benchmark Brent crude oil was up 0.2% at \$70** amid increasing risks of tighter supply due to US sanctions on Iran and Venezuela.

Update 18:00 CET 08 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.28	-0.6	-2.6	-8	-21
US	2.46	0.0	-4.3	-7	-23
GER (2-yr)	-0.61	-0.8	-2.9	-3	0
Germany	-0.04	-0.6	-5.7	-5	-29
France	0.33	0.5	-3.6	-3	-38
Spain	0.96	-0.4	-4.1	-13	-56
Italy	2.61	-0.5	5.9	-2	-28
Portugal	1.09	-0.7	-2.9	-14	-78
Greece	3.44	9.4	7.3	-4	-96
Japan (2-yr)	-0.15	-0.1	-0.4	0	-1
Japan	-0.05	0.3	-0.9	0	-5
Developed Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.82	-4.3	-15.9	-13	-42
Chile	3.91	-0.8	-2.4	-3	-34
Colombia	6.83	-1.1	-1.4	22	8
Mexico	8.13	-1.6	3.7	18	-52
Peru	4.86	-1.6	4.9	4	-51
Poland	2.95	-2.4	-5.8	3	13
Russia	8.23	-2.9	-0.4	-11	-55
Turkey	19.99	32.0	95.0	320	419
India	7.38	-0.6	-3.5	-3	1
Indonesia	8.03	5.2	19.9	39	0
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	38	1.1	2.1	2	-3
Italy	266	0.1	11.6	3	1
Portugal	113	-0.1	2.8	-9	-43
Spain	100	0.2	1.6	-8	-22
2-yr sovereign spread vs Germany					
France	6	-0.1	2.2	-2	-10
Italy	114	2.4	7.4	31	6
Portugal	28	-0.7	4.6	2	2
Spain	26	0.1	1.5	1	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	176	5.2	4	6	-31
Chile	43	1.9	4	2	-20
Colombia	106	4.4	9	1	-52
Argentina	1166	2.8	-20	328	359
Mexico	118	5.3	5	0	-37
Peru	63	3.3	6	4	-32
Poland	66	0.0	0	-2	-2
Russia	130	2.3	6	-1	-24
Turkey	464	27.4	14	77	104
China	45	0.6	4	2	-22
India	78	-0.6	0	-5	-35
Indonesia	101	2.0	6	1	-36
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	19	0.1	5	6	-6
VSTOXX	18	-0.4	4	3	-6
EM EFT volatility Index	23	-0.2	7	6	-2
Dollar/euro volatility	5	-0.1	0	0	-2
EM FX volatility index	9	0.3	1	0	-1
Credit spread (BAA) (change in bps)	216	0.0	3	-4	-29
US bonds volatility index	52	4.5	6	4	-14
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.21	-	-3	-7	8
EZ Inflation expectations (5Y5Y)	1.39	-	-1	2	-22
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	60	2.0	4	2	-23
EZ	81	1.8	4	0	-39
UK	59	1.3	1	-3	-36
Large Spanish	54	1.1	0	-6	-33
Medium Spanish	86	-4.8	-13	-17	-27
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	167	2.0	4	2	-23
EZ Non-financial	82	1.8	4	0	-39
UK Non-financial	105	1.2	2	0	-14
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	0	1	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.12	0	0	-1	0
Libor 3m	2.56	0	-1	-3	-24
Libor 12m	2.72	-2	0	-3	-29
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,885	0.0	-1.3	-0.4	15
Dow Jones	26,005	0.2	-1.6	-1.3	11
Nikkei	21,603	-1.5	-2.9	-0.7	8
FTSE 100	7,271	0.1	-1.5	-2.4	8
EuroStoxx 50	3,417	0.5	-2.8	-0.6	14
IBEX	9,227	-0.1	-3.6	-2.2	8
DAX	12,180	0.7	-1.3	1.8	15
CAC	5,418	0.4	-3.0	-1.0	15
MIB	21,204	-0.1	-3.1	-2.6	16
ASE Athens	743	-2.1	-3.9	-1.4	21
MSCI Latam *	90,518	-0.9	-2.4	-3.8	5
Ibovespa (Brazil)	96,180	1.9	-0.2	-1.2	9
Mexbol (Mexico)	43,433	-0.3	-2.6	-4.4	4
Merval (Argentina)	33,582	2.6	13.6	1.5	11
MSCI EM Europe *	5,618	-1.2	-1.6	-1.7	6
Poland	2,222	-0.5	-4.8	-5.8	-2
Micex 10 (Russia)	4,560	-0.3	0.4	-0.3	9
Ise 100 (Turkey)	90,272	-1.3	-5.4	-6.9	-1
MSCI EM Asia *	876	-0.3	-1.9	-1.7	12
Shanghai Com (China)	2,894	-1.1	-6.0	-10.8	16
Jakarta (Indonesia)	6,270	0.2	-2.9	-3.1	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	139.9	0.1	-1.6	3.7	21
JPM	113.1	-0.1	-1.8	7.1	16
Citi	68.4	0.4	-2.2	3.6	31
BoA	30.0	0.1	-1.0	2.7	22
MS	46.8	0.2	-1.6	4.1	18
GS	201.7	-0.4	-1.5	-0.4	21
EZ banks	78.5	-0.4	-3.8	0.8	14
BNP	46.8	-0.1	-1.3	5.3	19
Crédit Agricole	12.1	0.2	-0.9	7.1	28
Deutsche Bank	7.0	0.3	-4.5	-4.2	1
ING	10.8	-0.6	-5.3	-4.8	14
Intesa	2.2	-1.2	-5.2	-0.8	14
SG	26.9	-0.7	-4.7	1.4	-3
Unicredit	11.4	-0.1	-7.3	-4.0	16
UK banks	78.7	-0.1	-1.9	-1.7	8
HSBC	659.0	-0.5	-0.9	1.0	2
RBS	235.2	0.1	-1.7	-6.9	9
Barclays	159.6	0.0	-2.4	-1.6	6
Lloyds	61.8	0.0	-2.8	-1.3	19
Large Spanish banks	64.0	0.6	-4.9	-2.8	10
Santander	4.3	0.0	-5.8	-3.2	7
BBVA	5.2	1.1	-4.0	-2.5	12
Medium Spanish banks	55.4	1.2	-1.6	-0.3	-4
Caixabank	2.8	1.3	-0.4	-4.6	-11
Sabadell	1.1	2.4	1.8	12.7	5
Bankinter	6.9	1.0	-2.9	-2.7	-2
Bankia	2.4	0.6	-4.3	-1.3	-8
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.121	0.2	0.1	-0.5	-2
GBPUSD	1.130	-0.5	-0.3	-0.4	0
USDJPY	110.10	0.1	1.2	1.3	2
DXY	97.50	-0.1	-0.2	0.5	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45.06	0.5	-1.9	-3.0	-16
USDBRL (Brazil)	3.93	1.0	-0.3	-2.1	-1
USDCLP (Chile)	683.18	0.3	-0.7	-2.8	2
USDCOP (Colombia)	3281	0.6	-1.5	-5.3	-1
USDMXN (Mexico)	19.07	-0.2	-0.4	-0.5	3
USDPEN (Peru)	3.31	0.0	-0.2	-0.7	2
LACI	53.75	0.4	-0.6	-1.8	-1
USDPLN (Poland)	3.83	0.1	-0.1	-0.6	-2
USDRUB (Russia)	64.97	0.6	-0.2	-0.2	7
USDTRY (Turkey)	6.18	-0.6	-3.5	-8.0	-14
USDCNY (China)	6.78	-0.1	-0.7	-1.0	1
USDINR (India)	69.71	-0.4	-0.2	-0.1	0
USDIDR (Indonesia)	14295	-0.1	-0.3	-0.9	1
ADXY	105.29	0.0	-0.4	-0.9	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	70.5	0.8	-2.4	-1	31
WTX	62	1.2	-2.3	-4	37
Copper	279	-0.1	-0.4	-5	6
Gold	1281	-0.2	0.4	-1	0
S&P Spot commodity *	435	-1.0	-2.5	-4	16
S&P Brent Spot *	593	-2.1	-3.4	-2	30
S&P Metals Spot *	326	-0.6	-0.8	-5	2
S&P Agricultural *	266	0.2	-1.2	-4	-6

Source: Bloomberg, Datastream and Haver

* With one day delay