

Markets cap a rough week with modest gains

- Major global equity indices advanced today, reflecting investor appetite for risk assets, but not enough to salvage a tumultuous week battered by intensifying trade tensions, lackluster activity data and increased uncertainty on Brexit trajectory following UK PM May's decision to quit.
- Fears of a protracted US-China trade war surged as US restrictions against Huawei fueled risks of retaliation against US firms in China. US President Trump intends to use Huawei as a bargaining chip for trade talks. Meanwhile, Chinese President Xi warned the public to 'prepare for difficult times'. With no further talks scheduled, investors hope that the two Presidents, Trump and Xi, can rekindle negotiations when they meet at the G-20 summit on June 28.
- In the US, the minutes of the Fed's April 30-May 1 policy meeting offered a neutral guidance on rates, in turn pushing back against rising investor expectations of a rate cut this year, while backing Fed chair Powell's recent statement that low inflation would be 'transitory'. Separately, several Fed members voiced concerns over the implications of trade uncertainties on US economic growth.
- In Europe, dovish ECB minutes revealed concerns over low inflation and recent run of soft economic data, while emphasizing that the pricing of TLTRO III should warrant its use as a backstop. Meanwhile, in the UK, Brexit led political crisis drags on and it remains to be seen whether Mrs May's departure will be a game changer to break Brexit impasse.
- The week gone by was rough for financial markets, with equity markets declining across the board (-1.3% on average in the week) and volatility bouncing back (VIX 17). The technology sector led the decline, but the banking sector sharply underperformed, especially in the Eurozone, due to low yields. Oil and industry metal prices slumped, as the threat of higher tariffs on imports from China continued to reverberate through global growth. EM Corporate and sovereign spreads widened (+8bps both) but differentiation persist.
- Meanwhile, safe-haven bond yields sharply declined, hitting multi year lows, (10y US Treasuries -7.2 bps to 2.32%; UK -13 bps to 0.94% and Bund -1.3 bps to -0.12%). Italian bonds rallied, probably led by trimming short positions ahead of European election results. The US yield curve flattened, with the 5Y-2Y and the 10Y-3m slopes inverting, in turn, increasing market anxiety. The drops were led by lower long-term inflation expectations in the US (5Y5Y inflation swap -5bps). Search for yield strategies in bond markets benefited peripheral risk premia while HY spreads widened.
- In FX markets investors sought shelter in safe-haven currencies, whereas the GBP underperformed. Pressure on EM FX abated somewhat, although with differentiation against vulnerable currencies. The CNY continued to sliding back although the PBoC set a stronger-than-expected fixing. COP depreciated (-2%) on the back weaker activity data and mixed credit rating view (Outlook changed to negative by Moody's and to positive by S&P).

Update 17:35 CET 24 May 2019					
Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.15	0.6	-4.6	-17	-34
US	2.32	0.0	-7.2	-20	-37
GER (2-yr)	-0.64	0.0	1.0	-5	-3
Germany	-0.12	0.3	-1.3	-11	-36
France	0.28	-0.1	-0.5	-7	-43
Spain	0.82	-2.9	-5.2	-25	-70
Italy	2.55	-8.7	-10.9	-8	-34
Portugal	0.97	-4.1	-7.7	-20	-89
Greece	3.36	-7.3	-7.3	6	-104
Japan (2-yr)	-0.15	-0.1	0.4	0	-1
Japan	-0.07	-1.1	-1.8	-3	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.79	-1.3	-30.5	-18	-44
Chile	3.72	-0.1	-10.9	-18	-53
Colombia	6.83	0.3	5.0	14	8
Mexico	8.01	-0.9	-3.6	-8	-63
Peru	4.70	-0.9	-6.4	-17	-66
Poland	2.83	0.9	-5.5	-6	1
Russia	8.04	-0.6	-12.8	-30	-74
Turkey	18.78	-1.0	46.0	125	298
India	7.21	-3.0	-15.8	-22	-16
Indonesia	7.92	-6.6	-13.3	24	-10
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	-0.4	0.8	4	-1
Italy	267	-9.0	-9.6	2	2
Portugal	109	-4.4	-6.4	-9	-47
Spain	94	-3.2	-3.9	-15	-28
2-yr sovereign spread vs Germany					
France	6	-0.6	-2.0	1	-9
Italy	112	-9.7	-12.6	-4	3
Portugal	25	0.2	-3.4	0	-1
Spain	29	-0.6	-0.3	2	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	181	3.1	1	13	-27
Chile	49	1.7	3	12	-14
Colombia	114	5.3	7	20	-44
Argentina	1148	-15.2	-82	150	342
Mexico	121	4.7	5	10	-34
Peru	70	2.7	3	16	-25
Poland	67	0.0	1	-1	-1
Russia	129	0.9	1	2	-25
Turkey	520	20.4	32	88	161
China	54	3.4	6	13	-14
India	82	1.8	0	0	-32
Indonesia	109	3.2	6	17	-28
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	-0.5	1	3	-9
VSTOXX	17	-0.5	2	5	-7
EMEFT volatility Index	21	-0.8	-1	5	-4
Dollar/euro volatility	5	0.0	0	-1	-2
EM FX volatility index	9	0.1	-1	0	-1
Credit spread (BAA) (change in bps)	227	0.0	3	12	-18
US bonds volatility index	61	6.1	4	11	-6
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.20	-	5	-10	6
EZ Inflation expectations (5Y5Y)	1.32	-	0	-8	-29
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	60	1.9	5	5	-22
EZ	88	4.5	9	10	-32
UK	77	4.5	13	20	-17
Large Spanish	61	2.0	5	5	-26
Medium Spanish	82	-1.7	1	-15	-30
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	174	1.9	5	5	-22
EZ Non-financial	85	4.5	9	10	-32
UK Non-financial	108	1.7	2	6	-11
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
Euribor 12m	-0.15	0	-2	-4	-3
Libor 3m	2.52	0	0	-6	-28
Libor 12m	2.64	-2	3	-9	-37
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,821	0.0	-1.3	-3.6	13
Dow Jones	25,549	0.2	-0.8	-3.9	10
Nikkei	21,117	-0.2	-0.6	-4.9	6
FTSE 100	7,271	0.5	-1.1	-2.7	8
EuroStoxx 50	3,346	0.6	-2.3	-4.5	11
IBEX	9,172	0.6	-1.2	-3.0	7
DAX	11,993	0.3	-2.0	-2.6	14
CAC	5,309	0.5	-2.4	-4.8	12
MIB	20,365	1.1	-3.5	-6.3	11
ASE Athens	732	0.9	0.4	-5.3	19
MSCI Latam *	88,962	-0.5	2.0	-4.2	3
Ibovespa (Brazil)	93,805	-0.1	4.2	-1.3	7
Mexbol (Mexico)	42,349	-1.1	-2.5	-6.0	2
Merval (Argentina)	34,462	0.2	3.4	15.9	14
MSCI EM Europe *	5,609	-0.9	0.9	-3.2	6
Poland	2,188	0.7	0.2	-7.8	-4
Micex 10 (Russia)	4,592	0.0	1.3	-0.3	10
Ise 100 (Turkey)	86,072	1.7	-0.8	-10.5	-6
MSCI EM Asia *	814	-1.3	-2.9	-9.3	4
Shanghai Com (China)	2,853	0.0	-1.0	-10.9	14
Jakarta (Indonesia)	6,057	2.0	2.7	-6.3	-2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	131.8	0.4	-1.8	-6.1	14
JPM	109.3	0.6	-1.3	-3.7	12
Citi	64.3	0.5	-1.3	-6.7	23
BoA	27.9	0.6	-1.7	-7.0	13
MS	42.8	0.2	-2.5	-9.7	8
GS	192.1	0.0	-2.7	-4.2	15
EZ banks					
BNP	70.2	-0.3	-6.1	-13.5	2
BNP	43.9	0.5	-3.3	-7.0	11
Crédit Agricole	10.2	-4.4	-8.9	-15.3	8
Deutsche Bank	6.4	-1.3	-6.9	-16.1	-9
ING	9.8	0.6	-3.5	-16.8	4
Intesa	1.9	0.9	-11.6	-15.6	-1
SG	24.8	0.7	-3.7	-10.0	-11
Unicredit	10.4	2.4	-2.2	-14.4	5
UK banks					
HSBC	75.5	0.2	-2.7	-7.9	4
HSBC	659.8	0.1	0.8	-0.4	2
RBS	217.2	-0.1	-4.6	-15.4	0
Barclays	148.9	-0.4	-6.2	-10.5	-1
Lloyds	58.5	1.1	-3.0	-9.7	13
Large Spanish banks					
61.2	0.6	-3.0	-8.7	5	
Santander	4.0	0.4	-3.2	-10.1	1
BBVA					
5.0	0.8	-2.7	-7.3	8	
Medium Spanish banks					
53.2	0.1	-2.7	-2.6	-7	
Caixabank	2.8	-0.1	-0.9	-1.9	-13
Sabadell	1.0	0.1	-4.5	4.6	2
Bankinter	6.6	0.0	-2.9	-6.3	-7
Bankia	2.2	0.7	-3.2	-3.1	-12
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.120	0.2	0.4	0.4	-2
GBPUSD	1.27	0.3	-0.3	-1.6	0
USDJPY	109.33	0.3	0.7	2.6	0
DXY	97.61	-0.2	-0.4	-0.6	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.95	0.3	0.1	-2.2	-16
USDBRL (Brazil)	4.03	0.4	1.8	-0.8	-4
USDCLP (Chile)	694.71	0.3	0.2	-3.2	0
USDCOP (Colombia)	3362	0.5	-1.3	-4.4	-3
USDMXN (Mexico)	19.08	-0.2	0.5	-0.1	3
USDPEN (Peru)	3.34	0.1	-0.4	-0.6	1
LACI	53.10	0.0	0.6	-1.2	-2
USDPLN (Poland)	3.83	0.5	0.8	0.6	-2
USDRUB (Russia)	64.53	0.5	0.2	-0.2	7
USDTRY (Turkey)	6.09	0.1	-0.6	-3.5	-13
USDCNY (China)	6.90	0.2	0.3	-2.6	0
USDINR (India)	69.53	0.7	1.0	0.5	0
USDIDR (Indonesia)	14392	0.6	0.4	-2.0	0
ADXY	104.19	0.1	0.4	-1.5	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	67.7	-0.1	-6.3	-9	26
WTx	58	-0.1	-7.8	-12	27
Copper	271	1.0	-1.2	-7	3
Gold	1284	0.1	0.5	1	0
S&P Spot commodity *	423	-3.1	-4.6	7	13
S&P Brent Spot *	566	-5.0	-6.7	-10	24
S&P Metals Spot *	316	0.3	-2.1	-6	-1
S&P Agricultural *	273	-0.6	1.2	1	-4