

## The ECB dovish stance had mute impact on yields

■ **The ECB reinforced its dovish tone** by taken more accommodative decisions than expected. **Forward guidance** was delayed for six months, from the end of 2019 to mid-2020. Although this delay was expected, the decision was not expected as early as today. Mr. Draghi said the ECB is determined to act in case of adverse contingencies to ensure inflation trend toward its target, while ECB recognized that all possible measures have been debated, including lower deposit rates, restarting the APP programme (QE) or a further extension of forward guidance. The **Staff Projections** have been revised upwards for 2019 (+0.1pp to 1.2%) but downwards for 2020 and 2021 by -0.2pp and -0.1pp, respectively, on higher and prolonged uncertainty linked to global factors, mostly protectionist tensions. Risks continue tilted to the downside. Minor changes on inflation forecasts.

■ **The ECB approved the conditions for the new TLTRO** with a cost of depo plus 10bps -30bps actual level- at the beginning if banks exceed the benchmark net lending. However, the banks that do not reach the benchmark will be penalized (cost equal to MRO +10bps). As expected, counterparties can borrow up to 30% of eligible stock -the same as in TLTRO II, including loans to non-financial corporations and households but excluding loans for house purchases-. However to ensure a smoother repayment of those new operations, banks' take-up in each TLTROIII will be limited to 10% of their stock of eligible loans, while there will not be early repayments.

■ **On the trade front, tensions remain** high after US and Mexico failed to agree on a deal to halt illegal immigration. Trump stated that tariffs at the 5% level will begin on Monday if no agreement is reached. Additionally, investors will keep an eye on Mnuchin meeting with Chinese central banker at G-20 gathering this weekend.

■ **The German 10Y yield fluctuated** in a narrow range, and despite reaching a fresh record low, dovish ECB did not drag it further. Search for yield continued benefiting peripheral bonds, with Spain and Portugal risk premia narrowing further. Italy's risk premium continued widening due to the ongoing friction with the European Commission, while Draghi also stated that Italy needs a credible plan for reducing its public debt over the medium term. The UST 10Y yield also fluctuated in a trade-range awaiting for tomorrow's payroll release.

■ **In FX, the EUR appreciated suggesting markets view was far more dovish** than the ECB does -markets implied probability of a depo cut by April 2020 were placed at 66% before the ECB meeting. The US dollar depreciated against the G10 across the board. EM currencies trimmed some gains today, as Mexico and the US failed to reach an agreement to avoid a tariff hike. Moreover, the MXN weakened against the US dollar after Mexico's credit rating was downgraded by Fitch to BBB from BBB+ and its outlook was changed to negative from stable at Moody's ([see](#)). Moreover, the TRY were the most penalised currency across the EM board due to emerging geopolitical issues.

■ **Equity indices were broadly steady, but the European banking underperformed.** Some banks were dragged by the extension of the ECB forward guidance and a more restrictive TLTROIII take-up. Moreover, the automobile industry slipped after Fiat withdrew its offer to merge with Renault.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Weekly	Month	YTD
US (2-yr)	1.84	-1.4	-21.8	-44	-65
<b>US</b>	2.09	-4.2	-12.0	-36	-59
GER (2-yr)	-0.65	2.3	-1.4	-5	-4
<b>Germany</b>	-0.24	-1.3	-6.4	-20	-48
France	0.12	-3.8	-12.1	-21	-60
Spain	0.61	-1.9	-15.4	-35	-91
Italy	2.49	1.8	-16.9	-13	-40
Portugal	0.67	-0.4	-19.0	-42	-119
Greece	2.92	-3.9	-13.8	-43	-148
Japan (2-yr)	-0.20	1.6	-3.9	-5	-6
<b>Japan</b>	-0.12	0.3	-4.1	-7	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.22	-5.2	-20.3	-64	-101
Chile	3.43	0.7	-4.8	-49	-82
Colombia	6.50	-3.4	-16.7	-34	-25
Mexico	7.92	0.8	-1.1	-22	-72
Peru	4.55	-3.2	-6.2	-32	-81
Poland	2.49	-4.4	-22.4	-49	-33
Russia	7.82	-7.1	-17.0	-43	-96
Turkey	18.12	0.0	-14.0	-155	232
India	6.93	-8.6	-20.1	-45	-44
Indonesia	7.96	0.0	-8.7	-1	-6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	35	-2.5	-5.7	-1	-5
Italy	273	3.1	-10.5	7	8
Portugal	91	0.9	-12.6	-22	-65
Spain	85	-0.6	-9.0	-15	-37
<b>2-yr sovereign spread vs Germany</b>					
France	7	-0.7	1.2	1	-9
Italy	116	-4.6	-13.2	4	7
Portugal	28	-0.6	4.5	-1	2
Spain	29	-0.7	0.4	3	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	174	2.5	-5	3	-34
Chile	48	-0.5	-3	7	-15
Colombia	113	1.0	-1	11	-45
Argentina	1196	14.3	25	33	390
Mexico	124	0.5	0	11	-31
Peru	68	-0.6	-3	8	-27
Poland	67	0.0	0	1	-1
Russia	126	-2.6	-2	-2	-28
Turkey	465	-9.3	-54	29	105
China	57	-0.8	0	13	-10
India	83	-1.6	0	4	-30
Indonesia	109	-1.8	-5	10	-29
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	-0.1	-1	-3	-9
VSTOXX	16	-0.5	-1	-2	-8
EMEFT volatility Index	20	-0.4	-1	-3	-4
Dollar/euro volatility	6	-0.3	1	0	-2
EM FX volatility index	9	0.0	0	0	-1
Credit spread (BAA) (change in bps)	248	4.2	14	31	2
US bonds volatility index	78	2.4	16	25	11
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.11	-	0	-10	-2
EZ Inflation expectations (5Y5Y)	1.24	-	-7	-15	-37
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	61	-1.9	-5	3	-21
EZ	81	-0.8	-7	2	-39
UK	65	-1.5	-12	7	-30
Large Spanish	54	-2.4	-7	1	-33
Medium Spanish	88	2.7	1	-2	-24
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	174	-1.9	-5	3	-21
EZ Non-financial	85	-0.8	-7	2	-39
UK Non-financial	109	-0.3	0	5	-10
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	1	0	-1
Euribor 3m	-0.32	0	0	-2	-1
<b>Euribor 12m</b>	-0.18	-1	-2	-7	-7
Eonia Swap 3m	-0.37	1	0	-1	-1
<b>Eonia Swap 12m</b>	-0.40	2	-1	-3	-5
Libor 3m	2.47	0	-5	-9	-33
Libor 12m	2.38	-2	-19	-36	-63
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,831	0.2	1.5	-1.9	13
Dow Jones	25,578	0.2	1.6	-1.5	10
Nikkei	20,774	0.0	-0.8	-5.2	4
FTSE 100	7,260	0.5	0.6	0.0	8
<b>EuroStoxx 50</b>	3,338	0.0	0.6	-1.8	11
IBEX	9,169	0.2	0.1	-0.7	7
DAX	11,953	-0.2	0.4	-1.2	13
CAC	5,278	-0.3	0.6	-2.2	12
MIB	20,178	0.1	1.2	-4.9	10
ASE Athens	817	-0.5	-0.2	7.6	33
<b>MSCI Latam *</b>	90,788	-0.9	0.3	-0.6	5
Ibovespa (Brazil)	96,390	0.4	-1.1	2.1	10
Mexbol (Mexico)	43,093	-0.8	-0.6	-1.1	3
Merval (Argentina)	35,460	0.5	3.6	8.3	17
<b>MSCI EM Europe *</b>	5,819	-0.1	2.3	2.4	10
Poland	2,261	1.7	1.8	1.2	-1
Micex 10 (Russia)	4,783	0.8	3.2	4.6	14
Ise 100 (Turkey)	90,346	0.0	0.4	-1.2	-1
<b>MSCI EM Asia *</b>	820	0.0	1.1	-6.6	5
Shanghai Com (China)	2,828	-1.2	-2.7	-3.4	13
Jakarta (Indonesia)	6,209	0.0	1.7	-0.8	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	131.6	-0.4	2.0	-5.9	14
JPM	109.6	-0.5	2.4	-3.2	12
Citi	65.9	0.2	3.6	-3.3	27
BoA	27.7	-0.8	2.0	-7.5	12
MS	42.3	-0.3	1.1	-9.4	7
GS	188.1	-0.2	0.4	-7.2	13
<b>EZ banks</b>	67.4	-1.3	-1.1	-14.4	-2
BNP	41.0	-1.7	-0.8	-12.5	4
Crédit Agricole	10.2	-1.7	-0.8	-15.3	9
Deutsche Bank	6.0	-2.9	-3.8	-15.1	-14
ING	9.8	-0.9	0.4	-9.3	4
Intesa	1.8	-1.3	-2.1	-18.5	-6
SG	22.3	-0.5	-1.2	-17.6	-20
Unicredito	10.0	-1.1	-2.1	-13.0	1
<b>UK banks</b>	74.4	-0.6	-1.0	-5.7	2
HSBC	644.1	-0.3	-1.5	-2.7	0
RBS	213.4	-0.5	-1.7	-9.2	-2
Barclays	151.2	-0.8	0.2	-5.1	0
Lloyds	57.2	-1.0	-0.7	-7.4	10
<b>Large Spanish banks</b>	60.3	-0.9	-2.3	-5.2	3
Santander	4.0	-1.0	-2.0	-6.6	0
<b>BBVA</b>	4.9	-0.7	-2.6	-3.9	7
<b>Medium Spanish banks</b>	51.0	-3.2	-5.5	-6.8	-11
Caixabank	2.7	-2.0	-6.0	-4.8	-16
Sabadell	0.9	-5.0	-7.2	-8.1	-5
Bankinter	6.3	-2.8	-4.5	-7.6	-10
Bankia	2.2	-4.2	-5.9	-7.7	-15
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.129	0.6	1.5	0.9	-2
GBPUSD	1.27	0.2	0.8	2.8	0
USDJPY	108.10	0.3	1.4	2.0	1
DXY	96.86	-0.5	-1.3	-0.8	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45.03	-0.2	-1.0	0.6	-16
USDBRL (Brazil)	3.87	0.2	2.8	2.5	0
USDCLP (Chile)	693.96	0.0	2.2	-1.3	0
USDCOP (Colombia)	3289	0.5	2.2	0.4	-1
USDMXN (Mexico)	19.73	-0.7	-3.0	-3.5	0
USDPEN (Peru)	3.33	0.2	0.9	-0.6	1
LACI	53.29	-0.2	0.2	-0.4	-2
USDPLN (Poland)	3.79	0.7	1.9	1.3	-1
USDTRY (Turkey)	65.13	0.3	0.0	0.4	6
USDTRB (Russia)	5.79	-0.9	1.6	6.3	-9
USDCNY (China)	6.91	0.0	-0.1	-1.9	0
USDINR (India)	69.28	0.0	0.9	0.2	1
USDIDR (Indonesia)	14269	0.0	1.0	0.1	1
ADXNY	104.60	0.2	0.6	-0.6	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	60.3	-0.5	-9.8	-14	12
WTX	51	-0.7	-9.3	-16	13
Copper	263	0.1	-1.1	-6	0
Gold	1338	0.6	3.9	4	4
S&P Spot commodity *	399	-2.1	-5.5	-8	6
S&P Metal Spot *	516	-2.2	-7.2	-13	13
S&P Metals Spot *	311	-0.9	-1.1	-4	-2
S&P Agricultural *	287	-2.4	-3.3	8	1

Source: Bloomberg, Datastream and Haver / \* With one day delay