

Market Comment

Softer US inflation further fuels Fed rate cut speculation

- The US inflation and ongoing US-China trade frictions have been the main global market drivers today. Both of them have increased markets expectation of monetary policy easing.
- US CPI inflation in May came in below expectations** (1.8% YoY, consensus 1.9% YoY, previous month 2% YoY), supporting the markets view that there is room for the Fed to cut rates if escalating trade tensions continue to weigh on US economic outlook (see). Market implied probability of a Fed rate cut in July increased to 82% while the US 5y5y forward inflation swap declined, hitting its lowest level since 2017.
- On the trade front, **the uncertainty over whether Trump and Xi will meet at G-20 left investors unnerved**. Despite Mnuchin confirming the meeting, the White House as well as the Chinese authorities have declined to comment on any such plans (see).
- In China, while headline CPI inflation picked up for the third straight month in May, led by food prices, core CPI as well as PPI inflation remained subdued, reflecting lacklustre demand pressures (see).
- In bond markets, the softer US inflation outturn impacted short term yields relatively more than the long term yields. The UST 10Y yield fell following the release of the inflation data but rapidly trimmed partially its decline, ending slightly lower. On the other hand, the US 2Y Treasury Note decreased significantly with the US 10-2Y yield slope steepening, in turn reflecting rising investor expectations of Fed rate cuts in the near term and boost economic growth. In Europe, bond yields remained flat across the board, although ECB's official showed a dovish tone (see). Italy's risk premium widened ahead of the Eurogroup meeting, amid the country trying to persuade the EU to postpone a decision on whether to open disciplinary procedures over its finances until after the summer, as it awaits tax data (see).
- The US dollar was range bound, reversing the depreciation driven by a tame inflation. The TRY trimmed early depreciation after Turkey's Central Bank maintained its policy rate unchanged, as expected (see), while the increasing expectations of Fed monetary policy easing also helped to support the TRY. Meanwhile, oil prices dropped sharply amid rising worries over slowing demand and US supply glut (see).
- Equity markets in Europe fluctuated in a narrow range where the inflation data injected some risk appetite, trimming slightly today's losses.

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DEBT MARKETS (10Y, %, CHANGES IN BP)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.88	-5.3	-0.7	-31	-61
US	2.12	-1.9	-0.6	-28	-56
GER (2-yr)	-0.68	-0.8	-3.3	-5	-7
Germany	-0.24	-0.3	-2.9	-17	-48
France	0.12	-0.5	-7.0	-22	-60
Spain	0.57	-0.5	-9.1	-42	-95
Italy	2.43	3.9	-8.3	-27	-46
Portugal	0.66	1.0	-6.5	-50	-121
Greece	2.75	-2.7	-17.9	-81	-164
Japan (2-yr)	-0.19	-0.5	-0.5	-4	-5
Japan	-0.11	-0.2	-0.9	-6	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.90	-7.8	-29.3	-97	-133
Chile	3.14	-1.3	-31.3	-70	-111
Colombia	6.34	1.8	-23.6	-40	-41
Mexico	7.66	-4.3	-28.4	-44	-98
Peru	4.28	-20.2	-34.1	-55	-108
Poland	2.50	-3.8	-11.3	-35	-33
Russia	7.73	0.0	-21.2	-54	-105
Turkey	16.57	-82.0	-155.0	-310	77
India	7.01	-2.6	-0.8	-38	-36
Indonesia	7.72	-0.2	-24.4	-32	-31

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	-0.2	-4.1	-5	-6
Italy	267	4.2	-5.4	-10	2
Portugal	89	1.3	-3.6	-33	-67
Spain	81	-0.2	-6.2	-25	-41
2-yr sovereign spread vs Germany					
France	7	0.4	1.9	1	-8
Italy	114	3.2	-6.2	-11	5
Portugal	37	2.0	11.0	7	11
Spain	30	0.7	3.9	2	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	165	-2.1	-11	-6	-42
Chile	43	-0.9	-7	-1	-20
Colombia	104	-2.6	-12	-3	-54
Argentina	1062	-53.1	-191	-100	256
Mexico	119	-1.4	-10	1	-36
Peru	61	-1.6	-9	-4	-33
Poland	66	0.0	0	0	-1
Russia	123	-0.6	-9	-5	-31
Turkey	467	5.7	-21	-18	107
China	50	-1.5	-11	3	-18
India	82	-0.7	-4	2	-32
Indonesia	100	-0.7	-15	-2	-38

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	0.1	-1	-5	-9
VSTOXX	15	0.1	-1	-4	-9
EM EFT volatility Index	20	0.5	-1	-8	-5
Dollar/euro volatility	5	-0.1	0	0	-2
EM FX volatility index	8	-0.1	0	-1	-1
Credit spread (BAA) (change in bps)	241	2.1	0	16	-5
US bonds volatility index	65	-0.7	-10	7	-2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.08	-	-4	-12	-6
EZ Inflation expectations (5Y5Y)	1.20	-	-9	-15	-41
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	57	-1.0	-11	-3	-26
EZ	75	-1.0	-11	-11	-45
UK	59	-1.5	-11	-3	-35
Large Spanish	51	-0.4	-10	-6	-37
Medium Spanish	84	1.6	-5	1	-28
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	169	-1.0	-11	-3	-26
EZ Non-financial	79	-1.0	-11	-11	-45
UK Non-financial	103	-1.0	-7	-3	-15

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	-1	0	-1
Euribor 3m	-0.32	0	0	-1	-1
Euribor 12m	-0.17	1	0	-6	-6
Eonia Swap 3m	-0.37	0	0	0	-1
Eonia Swap 12m	-0.42	-1	-2	-4	-7
Libor 3m	2.45	1	-3	-8	-35
Libor 12m	2.34	1	-7	-35	-67

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,879	-0.2	2.7	2.4	15
Dow Jones	25,984	-0.2	2.6	2.6	11
Nikkei	21,130	-0.4	3.5	-0.3	6
FTSE 100	7,368	-0.4	2.1	2.8	10
EuroStoxx 50	3,387	-0.4	1.6	2.0	13
IBEX	9,243	-0.4	1.4	2.2	8
DAX	12,116	-0.3	1.2	2.0	15
CAC	5,375	-0.6	2.0	2.1	14
MIB	20,463	-0.7	1.2	-0.6	12
ASE Athens	844	-0.3	3.7	16.4	38
MSCI Latam *	93,085	1.2	2.0	3.3	8
Ibovespa (Brazil)	99,017	0.1	1.7	7.9	13
Mexbol (Mexico)	43,841	0.3	1.4	1.6	5
Merval (Argentina)	40,601	5.9	17.0	25.7	34
MSCI EM Europe *	5,941	0.1	1.0	8.1	12
Poland	2,283	-0.6	2.2	5.1	0
Micex 10 (Russia)	4,790	0.0	1.1	7.1	14
Ise 100 (Turkey)	92,606	-0.2	2.5	7.3	1
MSCI EM Asia *	840	0.8	2.0	-1.6	7
Shanghai Com (China)	2,909	-0.6	1.6	0.2	17
Jakarta (Indonesia)	6,276	-0.2	1.1	1.1	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	132.9	-1.3	0.6	-0.3	15
JPM	109.3	-1.3	-0.4	-0.1	12
Citi	67.2	-1.0	2.0	4.4	29
BoA	28.0	-1.0	0.1	-1.0	13
MS	42.9	-1.8	0.9	-2.9	8
GS	191.2	-1.8	0.7	-2.0	14
EZ banks	67.9	-1.3	-1.8	-8.9	-1
BNP	41.1	-1.0	-2.0	-8.1	4
Crédit Agricole	10.4	-1.2	-1.4	-7.9	10
Deutsche Bank	6.1	-0.9	-1.7	-9.9	-12
ING	10.0	-1.0	0.4	-2.1	7
Intesa	1.8	-1.0	-2.0	-13.7	-6
SG	21.8	-2.0	-3.9	-14.4	-21
Unicredit	10.1	-2.1	-3.6	-7.7	2
UK banks	74.8	-0.8	-0.8	-2.5	3
HSBC	648.9	-1.1	0.2	0.2	0
RBS	213.9	-1.1	-2.1	-5.5	-1
Barclays	150.5	-1.1	-2.3	-3.0	0
Lloyds	58.0	-0.1	0.2	-1.0	12
Large Spanish banks	60.3	-1.1	-1.6	-3.5	3
Santander	4.0	-0.9	-1.7	-2.3	0
BBVA	4.9	-1.2	-1.4	-0.9	7
Medium Spanish banks	50.5	-1.7	-4.9	-6.2	-12
Caixabank	2.6	-1.7	-8.0	-5.3	-18
Sabadell	0.9	-1.8	-7.8	-9.3	-7
Bankinter	6.3	-2.1	-2.7	-6.3	-10
Bankia	2.2	-1.2	-2.7	-4.6	-14

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.131	-0.1	0.6	0.8	-1
GBPUSD	1.27	-0.2	0.0	-2.0	0
USDJPY	108.44	0.1	-0.3	0.8	1
DXY	96.77	0.1	-0.3	-0.6	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43.75	2.2	2.2	3.2	-14
USDBRL (Brazil)	3.84	0.5	0.5	4.0	1
USDCLP (Chile)	695.34	-0.4	-0.2	-0.3	0
USDCOP (Colombia)	3261	0.0	0.9	1.3	0
USDMXN (Mexico)	19.15	-0.1	2.1	0.4	3
USDPEN (Peru)	3.33	0.1	0.6	0.0	1
LACI	54.15	0.4	1.1	1.7	0
USDPLN (Poland)	3.76	0.0	1.1	1.9	-1
USDRUB (Russia)	64.74	-0.3	0.5	1.1	7
USDTRY (Turkey)	5.79	0.2	-0.1	4.7	-9
USDCNY (China)	6.92	-0.1	-0.1	-0.6	-1
USDINR (India)	69.35	0.1	-0.1	1.7	1
USDIDR (Indonesia)	14241	0.0	0.2	1.3	1
ADXY	104.47	-0.1	-0.1	0.1	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	60.8	-2.3	-1.8	-13	13
WTx	52	-2.9	-3.3	-15	14
Copper	266	-0.4	-0.3	-2	1
Gold	1335	0.6	0.7	3	4
S&P Spot commodity *	407	0.4	0.1	-6	9
S&P Brent Spot *	526	-0.2	-0.3	-11	15
S&P Metals Spot *	315	0.4	0.2	-1	-1
S&P Agricultural *	296	1.7	0.6	14	4

Source: Bloomberg, Datastream and Haver

* With one day delay