

Market Comment

Markets stepped up prospects of Fed and ECB easing

- During this week, financial markets stepped up expectations of Fed monetary easing (86% probability of a rate cut in July, and 93% probability of two rate cuts in 2019) to quell the negative impact of increasing headwinds (dim prospects of a short-term resolution of China-US trade conflict, and softer inflation and employment data in the US, despite better-than-expected control retail sales). Expectations of monetary easing extended also to the ECB (60% probability of a rate cut in 2019, and 78% in 2020) after the market-based long-term inflation expectations reached a new low (5y5y forward inflation swap 1.9%) and after dovish comments coming from ECB's officials.
- Safe-haven bond oscillated during the week ending flat with no weekly changes, and the US yield curve steepened, suggesting that an insurance cut could help push US inflation higher while aiding growth. Search for yield strategies underpinned peripheral and EM bonds and also supported equity markets.
- Spain's risk premium declined to 76bps and Portugal's narrowed to 87bps. Italy risk premium also dropped though is still elevated (260bps), as the European Commission is likely to start disciplinary action against Italy over its rising debt although the Eurogroup seeks reassurance that Italy will meet fiscal targets.
- In FX, G-10 currencies were volatile with the US dollar swayed by opposing forces of trade tensions and monetary easing expectations, while the Euro trimmed early appreciation on the back of trade tensions, and some rumors suggesting that the ECB wants to avoid a strong appreciation of the euro, signaling EURUSD 1.20 as a critical level to watch. The increasing probability of a disorderly Brexit also weighed on the EUR and GBP, after the rejection of the bid to block a no-deal Brexit. EM currencies recovered some ground, led by easing funding conditions. The MXN bounced back (+2.6% since last Friday) after the US-Mexico deal that shelved Trump's tariffs on Mexico with migration reduction measures to be reviewed after 45 days. In addition, PBoC moved to shore up the RMB while the stalemate in US-China trade talks continued. Meanwhile, the TRY depreciated amid ongoing frictions with the US.
- Oil prices recovered losses accumulated during the week, as two oil tankers were damaged in an attack in the Persian Gulf, which increased concerns about a confrontation between the US and Iran.
- Markets will be focus on next week Fed monetary policy meeting and the PMI data in the US and Europe.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.84	0.9	-0.5	-32	-64
US	2.08	-1.2	0.1	-29	-60
GER (2-yr)	-0.69	-1.8	-2.3	-4	-8
Germany	-0.26	-1.4	0.2	-16	-50
France	0.09	-1.7	0.9	-21	-62
Spain	0.50	-4.3	-5.3	-46	-102
Italy	2.35	-0.8	-1.0	-40	-54
Portugal	0.61	-3.2	-1.4	-52	-125
Greece	2.71	0.5	-11.4	-85	-169
Japan (2-yr)	-0.20	-0.5	-0.4	-5	-6
Japan	-0.13	-1.6	-0.9	-8	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.90	1.6	-20.9	-96	-133
Chile	3.19	4.4	-22.3	-66	-106
Colombia	6.21	-0.2	-25.7	-56	-54
Mexico	7.63	-6.1	-27.5	-41	-101
Peru	4.20	-11.3	-30.4	-59	-116
Poland	2.40	-4.8	-7.0	-45	-43
Russia	7.73	-4.3	-6.7	-53	-106
Turkey	17.29	-7.0	-83.0	-139	149
India	6.92	-9.0	-5.5	-46	-45
Indonesia	7.68	-1.4	-28.1	-35	-34

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	-0.3	0.7	-5	-6
Italy	260	0.6	-1.2	-24	-4
Portugal	87	-1.8	-1.6	-36	-70
Spain	76	-2.9	-5.5	-30	-46
2-yr sovereign spread vs Germany					
France	7	-0.2	1.1	-1	-8
Italy	109	0.3	5.5	-31	0
Portugal	37	1.3	7.5	6	11
Spain	30	-0.1	1.1	-2	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	162	-3.1	-9	-11	-45
Chile	41	-0.8	-6	-4	-22
Colombia	107	-0.1	-5	-2	-52
Argentina	1011	-17.3	-170	-230	205
Mexico	121	-0.6	-4	1	-34
Peru	61	-0.3	-5	-6	-34
Poland	66	-0.3	0	1	-2
Russia	124	0.3	-3	-6	-30
Turkey	468	4.1	-3	-17	109
China	51	-0.6	-4	1	-17
India	83	0.4	0	1	-30
Indonesia	102	0.6	-4	-3	-35

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	0.0	-1	-1	-10
VSTOXX	14	0.0	-1	-2	-10
EM EFT volatility Index	20	0.5	0	-2	-5
Dollar/euro volatility	5	0.0	-1	0	-2
EM FX volatility index	8	0.0	0	-1	-1
Credit spread (BAA) (change in bps)	244	1.2	1	18	-2
US bonds volatility index	76	7.3	7	18	9
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.01	-	-6	-16	-13
EZ Inflation expectations (5Y5Y)	1.13	-	-10	-20	-47
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	58	0.0	-2	-1	-24
EZ	75	-0.2	-5	0	-29
UK	62	1.9	-2	-2	-32
Large Spanish	52	-0.1	-2	-5	-35
Medium Spanish	79	-2.2	-10	-6	-34
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	170	0.0	-2	-1	-24
EZ Non-financial	81	-0.2	-5	0	-29
UK Non-financial	104	0.4	-2	-3	-14

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	-11	1	-1
Euribor 3m	-0.32	0	0	-1	-1
Euribor 12m	-0.17	0	0	-5	-5
Eonia Swap 3m	-0.37	0	0	0	-1
Eonia Swap 12m	-0.43	-1	-2	-5	-8
Libor 3m	2.41	-2	-4	-11	-39
Libor 12m	2.31	-3	-4	-33	-71

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,884	-0.2	0.4	1.2	15
Dow Jones	26,056	-0.2	0.3	1.6	12
Nikkei	21,117	0.4	1.1	-0.3	6
FTSE 100	7,346	-0.3	0.2	0.7	9
EuroStoxx 50	3,379	-0.3	0.0	-0.2	13
IBEX	9,194	-0.6	-0.5	0.2	8
DAX	12,096	-0.6	0.4	0.0	15
CAC	5,368	-0.1	0.1	-0.1	13
MIB	20,612	-0.1	1.2	-1.2	12
ASE Athens	847	-0.4	3.8	17.2	38
MSCI Latam *	92,921	0.0	1.7	4.9	8
Ibovespa (Brazil)	98,654	-0.1	0.9	7.7	12
Mexbol (Mexico)	43,089	-0.9	-0.5	-0.6	3
Merval (Argentina)	40,789	0.4	14.4	22.8	35
MSCI EM Europe *	5,924	0.2	1.0	7.1	12
Poland	2,286	-0.6	0.3	5.4	0
Micex 10 (Russia)	4,746	-1.0	-0.9	4.7	13
Ise 100 (Turkey)	90,787	0.3	-3.2	3.9	-1
MSCI EM Asia *	832	-0.3	1.8	-0.9	6
Shanghai Com (China)	2,882	-1.0	1.9	-1.9	16
Jakarta (Indonesia)	6,250	-0.4	0.7	2.9	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	132.5	-0.3	0.7	-0.8	15
Citi	109.2	-0.3	0.0	-0.7	12
BoA	67.0	-0.2	1.9	3.2	29
MS	27.9	-0.1	1.4	-1.3	13
GS	42.7	-0.5	0.0	-2.7	8
US banks	190.3	-0.6	0.2	-3.1	14
EZ banks	67.3	-0.8	-0.4	-9.4	-2
BNP	40.9	-0.6	0.1	-9.7	4
Crédit Agricole	10.3	-0.9	0.0	-7.0	9
Deutsche Bank	6.0	-1.2	1.0	-11.9	-13
ING	9.8	-1.1	-0.3	-2.6	4
Intesa	1.8	-0.2	0.3	-13.8	-5
SG	21.2	-1.1	-3.9	-17.1	-24
Unicredit	10.1	-0.7	1.1	-4.8	2
UK banks	74.3	-0.5	-0.7	-5.2	2
HSBC	645.6	-0.4	-0.8	-2.7	0
RBS	212.4	-1.1	-1.0	-7.7	-2
Barclays	149.0	-0.3	-1.4	-6.9	-1
Lloyds	57.7	-0.6	0.2	-5.4	11
Large Spanish banks	59.8	-0.7	-0.6	-4.0	2
Santander	4.0	-0.7	-0.3	-3.7	0
BBVA	4.9	-0.7	-0.9	-4.2	5
Medium Spanish banks	49.7	-1.1	-2.2	-7.7	-13
Caixabank	2.6	-0.4	-1.5	-5.4	-19
Sabadell	0.9	-1.3	-2.2	-11.6	-8
Bankinter	6.2	-1.5	-3.1	-8.2	-12
Bankia	2.1	-1.2	-1.4	-6.9	-16

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.122	-0.5	-1.0	0.1	-2
GBPUSD	1.26	-0.6	-1.0	-1.9	-1
USDJPY	108.45	-0.1	-0.2	1.1	1
DXY	97.46	0.5	0.9	-0.1	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43.83	-0.7	2.4	2.6	-14
USDBRL (Brazil)	3.89	-1.1	-0.3	2.8	0
USDCLP (Chile)	698.96	-0.4	-1.0	-1.2	-1
USDCOP (Colombia)	3270	0.0	0.0	0.5	0
USDMXN (Mexico)	19.13	0.4	2.6	-0.4	3
USDPEN (Peru)	3.34	-0.2	-0.3	-0.6	1
LACI	53.87	-0.2	0.9	0.7	-1
USDPLN (Poland)	3.80	-0.6	-1.0	1.2	-2
USDRUB (Russia)	64.37	0.3	0.6	0.4	8
USDTRY (Turkey)	5.88	-0.2	-0.9	2.0	-10
USDCNY (China)	6.93	-0.1	-0.2	-0.7	-1
USDINR (India)	69.80	-0.4	-0.5	0.8	0
USDIDR (Indonesia)	14325	-0.3	-0.4	1.0	0
ADXY	104.13	-0.3	-0.3	-0.3	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62.2	1.4	-1.8	-13	16
WTx	53	0.9	-2.3	-15	16
Copper	264	-0.8	0.3	-4	0
Gold	1350	0.6	0.7	4	5
S&P Spot commodity *	405	1.3	-0.5	-8	8
S&P Brent Spot *	514	1.9	-4.2	-15	12
S&P Metals Spot *	314	-0.2	1.2	-3	-2
S&P Agricultural *	305	1.6	5.5	15	7

Source: Bloomberg, Datastream and Haver

* With one day delay