

Market Comment

ECB and Fed's shift towards policy easing spurs global bond rally

- Three major markets driver this week were the increasing expectations for monetary policy easing (Fed and ECB), the hopes of a resumption in stalled US-China trade talks and the increasing US-Iran geopolitical tension.
- The FOMC left interest rates unchanged but opened the door to a pre-emptive monetary easing, as expected ([see](#))
- The ECB further strengthened its dovish tone at Sintra forum. Draghi announced that the ECB will ease its monetary policy if inflation fails to accelerate. He listed ECB's instruments available for boosting inflation expectations, namely reinforcing interest rate forward guidance, cutting interest rates along with mitigating measures to contain the side effects (tiered deposit system), and resuming QE. Moreover, they stated willingness to adjust the ECB's bond purchase limit if QE were to be implemented again. After Sintra, market is pricing in a 74% probability of one or more ECB rate cut in 2019 and 90% chance in 2020.
- Elsewhere in Europe, EU leaders failed to agree on next EC president, while they convened another summit on June 30 to try to agree on EU top jobs. In UK Boris Johnson is the favorite to become the next UK PM on July 22, clearly ahead of the second candidate Jeremy Hunt in the final ballot. Both are committed to renegotiate the withdrawal agreement with the EU.
- On the economic front, US economic data disappointed especially the manufacturing sector in NY and Philadelphia. In China, May's activity indicators alongside trade and credit data underscored downside risks to growth. On the other hand, European economic data was mixed. The composite PMI improved in June driven by services, which offset weaker manufacturing output, while the Eurozone consumer confidence slipped.
- Sovereign bond yields fell further across the board and yield curves flattened further (inverting more noticeably in the US) as the Fed and ECB set the stage for a monetary easing cycle. In his Sintra speech, ECB chief Draghi's 'ready to ease monetary policy....' comment pushed EU yields lower from already depressed levels, and curbed the downward trend in the market's inflation expectations (EU 5Y5Y inflation swap +18bps). In the US, 10 Yr UST yield hit multi-year lows following Fed's rate cut hint. However, considering that markets were already penciling close to three interest rate cuts in 2019, the decline in US yields this week (2Y -4.4bps, 10Y -1.8bps since last week's) could be largely driven by the unexpected dovish ECB stance.
- Search for yield strategies compressed peripheral risk premia further (Spain -3.1bps to 72bps, Italy -16.2bps to 244 bps) and EM bond (EMBI -15bps, CEMBI -4.7bps). Equity markets rallied (S&P500 reached new heights), as lower yield improved valuations. Spain's medium and small banks declined sharply -4.6% on average this week.
- The US dollar depreciated (DXY -1.1%) as Fed easing was partially offset by an ultra-dovish ECB and renewed US-Iran military confrontations. Yet, the JPY was among the best performers post-Fed amid mounting global uncertainties. The Euro and the GBP fluctuated, while EM currencies appreciated across the board.
- Oil surged sharply (Brent +5% to \$64 per barrel) as geopolitical tensions intensified in the middle east while the OPEC+ agreed to hold a meeting to study production cuts on July 1-2. Meanwhile, gold surged (+3.7%) to its highest level since 2013.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,80	1,9	-4,4	-43	-69
US	2,06	3,4	-1,8	-32	-62
GER (2-yr)	-0,74	1,6	-4,6	-11	-13
Germany	0,28	3,6	-2,7	-20	-52
France	0,05	3,9	-4,1	-25	-66
Spain	0,44	5,0	-5,8	-43	-108
Italy	2,16	1,4	-18,9	-47	-73
Portugal	0,58	4,4	-2,9	-45	-128
Greece	2,55	-1,9	-16,1	-87	-185
Japan (2-yr)	-0,23	0,2	-2,8	-8	-9
Japan	-0,16	0,9	-2,7	-10	-16
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,68	-15,1	-22,3	-118	-156
Chile	3,06	-0,9	-12,7	-73	-119
Colombia	6,12	-3,6	-9,1	-67	-63
Mexico	7,64	5,9	-2,1	-41	-100
Peru	4,16	-4,2	-5,7	-57	-120
Poland	2,38	2,1	-1,1	-48	-44
Russia	7,52	7,6	-20,5	-46	-126
Turkey	15,81	4,0	-148,0	-305	1
India	6,86	7,0	-5,7	-40	-51
Indonesia	7,45	4,2	-22,9	-64	-57

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	34	0,3	-1,4	-6	-7
Italy	244	-2,2	-16,2	-28	-21
Portugal	86	0,8	-0,2	-25	-70
Spain	72	1,4	-3,1	-23	-50
2-yr sovereign spread vs Germany					
France	9	-0,5	1,3	2	-7
Italy	100	3,0	-8,3	-20	-8
Portugal	37	0,5	-0,6	12	11
Spain	33	-1,1	3,2	4	-4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	148	-7,2	-15	-29	-60
Chile	37	-1,8	-5	-9	-26
Colombia	90	-5,0	-17	-18	-68
Argentina	931	-24,9	-80	-210	125
Mexico	109	-5,4	-12	-5	-46
Peru	53	-2,2	-8	-13	-41
Poland	65	0,0	-1	-2	-3
Russia	108	-6,5	-16	-20	-46
Turkey	434	-20,6	-34	-54	74
China	41	-2,5	-10	-8	-26
India	82	0,0	-1	2	-32
Indonesia	89	-4,2	-13	-15	-48

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	-0,2	-1	0	-11
VSTOXX	13	0,0	-1	-2	-11
EMEFT volatility Index	18	-0,1	-2	-2	-7
Dollar/euro volatility	5	-0,1	0	0	-2
EMFX volatility index	8	0,0	0	0	-1
Credit spread (BAA) (change in bps)	238	-3,4	-5	11	-8
US bonds volatility index	72	1,0	-8	17	6
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,07	-	6	-9	-7
EZ Inflation expectations (5Y5Y)	1,31	-	18	-2	-29
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	50	-2,6	-9	-7	-33
EZ	65	-1,3	-11	-17	-40
UK	56	-1,4	-6	-12	-38
Large Spanish	46	-0,1	-6	-11	-41
Medium Spanish	83	-2,0	4	2	-29
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	159	-2,6	-9	-7	-33
EZ Non-financial	74	-1,3	-11	-17	-40
UK Non-financial	100	-1,9	-4	-5	-19

INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0,37	0	-1	0	-2
Euribor 3m	-0,34	-1	-3	-3	-4
Euribor 12m	-0,21	0	-4	-7	-10
Eonia Swap 3m	-0,40	1	-3	-3	-4
Eonia Swap 12m	-0,47	1	-4	-9	-12
Libor 3m	2,34	-4	-7	-18	-45
Libor 12m	2,16	-14	-14	-49	-85

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2.955	0,0	2,4	3,5	18
Dow Jones	26.840	0,3	2,9	4,1	15
Nikkei	21.259	-1,0	0,7	-0,1	6
FTSE 100	7.419	-0,1	1,0	1,2	10
EuroStoxx 50	3.467	0,0	2,6	2,4	16
IBEX	9.242	0,4	0,5	0,1	8
DAX	12.342	-0,1	2,0	1,4	17
CAC	5.531	-0,1	3,0	2,8	17
MIB	21.400	0,2	3,8	4,0	17
ASE Athens	839	0,2	-1,0	14,7	37
MSCI Latam *	94.074	0,3	1,2	4,9	9
Ibovespa (Brazil)	101.925	1,6	4,0	8,0	16
Mexbol (Mexico)	43.705	0,1	1,3	1,8	5
Merval (Argentina)	40.412	1,4	-0,2	16,9	33
MSCI EM Europe *	5.992	0,6	1,1	6,7	13
Poland	2.308	-0,5	1,0	4,2	1
Micex 10 (Russia)	4.767	-1,2	0,4	4,0	14
Ise 100 (Turkey)	94.002	-0,2	3,5	12,3	3
MSCI EM Asia *	854	1,0	2,6	3,4	9
Shanghai Com (China)	3.002	0,5	4,2	3,8	20
Jakarta (Indonesia)	6.315	-0,4	0,7	6,1	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	136,0	1,0	2,1	1,7	18
JPM	111,4	1,1	1,4	0,5	14
Citi	68,8	1,0	2,0	6,4	32
BoA	28,5	0,7	1,5	-0,1	16
MS	44,1	1,4	2,9	1,3	11
GS	197,8	1,1	3,2	1,2	18
EZ banks	68,7	0,0	2,2	-4,5	0
BNP	41,1	-0,7	0,6	-7,6	4
Crédit Agricole	10,4	-0,1	1,3	-5,1	11
Deutsche Bank	6,4	0,8	5,6	-3,8	-9
ING	9,9	-0,6	0,7	-0,1	5
Intesa	1,9	-0,4	2,5	-3,0	-3
SG	22,1	1,5	3,8	-11,9	-21
Unicredit	10,7	0,6	5,3	4,2	8
UK banks	75,0	-0,5	0,9	-1,2	3
HSBC	649,5	-0,7	0,6	-1,3	0
RBS	216,4	-0,6	1,9	-0,4	0
Barclays	149,9	-0,4	0,6	-1,9	0
Lloyds	58,1	-0,4	0,8	-1,7	12
Large Spanish banks	60,6	-0,1	1,3	-1,4	4
Santander	4,0	0,1	1,6	-0,9	1
BBVA	4,9	-0,2	1,0	-1,9	6
Medium Spanish banks	48,3	0,7	-2,8	-9,6	-16
Caixabank	2,5	0,1	-3,9	-10,9	-22
Sabadell	0,9	0,1	-1,3	-11,3	-9
Bankinter	6,0	1,5	-2,7	-8,9	-15
Bankia	2,1	0,9	-3,7	-9,0	-19

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,132	0,2	1,0	1,5	-1
GBPUSD	1,27	0,0	0,8	0,2	0
USDJPY	107,69	-0,4	0,2	2,5	2
DXY	96,55	-0,1	-1,1	-1,5	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	42,80	1,3	2,8	4,9	-12
USDBRL (Brazil)	3,82	0,5	2,0	5,8	2
USDCLP (Chile)	681,82	0,3	2,7	2,2	2
USDCOP (Colombia)	3183	0,4	2,8	4,6	2
USDMXN (Mexico)	19,07	-0,4	0,4	-0,5	3
USDPEN (Peru)	3,30	0,2	1,4	1,2	2
LACI	54,67	0,2	1,6	2,8	1
USDPLN (Poland)	3,76	0,2	1,1	2,8	-1
USDRUB (Russia)	63,22	-0,6	1,9	1,8	10
USDTRY (Turkey)	5,81	-0,8	1,4	4,9	-9
USDCNY (China)	6,87	-0,3	0,8	0,5	0
USDINR (India)	69,58	-0,2	0,3	0,1	0
USDIDR (Indonesia)	14155	0,2	1,2	2,6	2
ADXY	105,32	0,0	1,0	1,3	0

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	65,1	1,1	5,0	-8	21
WTx	57	1,4	9,4	-6	26
Copper	271	-0,3	2,8	1	3
Gold	1392	0,2	3,7	9	9
S&P Spot commodity *	420	2,9	3,2	-4	12
S&P Brent Spot *	543	4,5	4,5	-9	19
S&P Metals Spot *	318	0,5	2,0	1	-1
S&P Agricultural *	306	1,0	-0,6	12	8

Source: Bloomberg, Datastream and Haver

* With one day delay