

## Investors stick to bonds amid Fed's caution and limited respite from Brexit uncertainty

Market sentiment was slightly positive today with early indications that investors may have resumed their 'search for yield' in the wake of reinforced dovishness by major central banks, some bright spots in economic data ([see](#)), alongside news that the Brexit deadline was extended.

**Central banks' dovish stance kept safe haven bond yields contained.** After yesterday's dovish ECB stance ([see](#)), today, the French central bank governor Francoise Villeroy reaffirmed that monetary policy will remain accommodative for as long as necessary to bring inflation toward its target and confirmed that the ECB would study the introduction of the tiered deposit system, which aims at to reduce the side effects of negative rates on banking sector profitability. Moreover, **FOMC minutes highlighted** concerns expressed by some members over achieving the Fed's 2% inflation target on a sustained basis ([see](#)).

**The EU has extended the deadline for the UK leaving the European Union to the end of October 2019, in turn, avoiding an imminent no-deal Brexit** this Friday ([see](#)), that would have had serious negative consequences. But under the new EU rules, the UK will have to hold European Parliament elections in May, or face leaving on 1st June without a deal. **Given the still high Brexit uncertainty, the extension today had a muted impact on financial markets.**

**Against this background, safe haven core yields inched up, partially recovering yesterday's declines, whereas peripheral yields declined,** with risk premium narrowing in Spain, underpinned by the strong demand attracted by Spanish 5Y bond auction today, as well as in Italy. Equity markets traded sideways, ahead of the start of the company earnings results season, with European banking sector outperforming, led by the comments about the possibility of the ECB adopting a tiered deposit system.

**FX markets was broadly steady.** However, Latam currencies depreciated slightly as oil prices retreated, driven by increased oil inventories. Finally, the depreciation trend in the TRY continued today.

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.35	2.5	0.9	-10	-14	
<b>US</b>	2.49	2.8	-2.2	-11	-19	
GER (2-yr)	-0.58	0.9	0.1	-3	3	
<b>Germany</b>	-0.01	1.8	-0.2	-6	-25	
France	0.33	1.0	-3.3	-14	-38	
Spain	1.00	-4.0	-10.6	-27	-52	
Italy	2.37	-4.0	-14.8	-17	-37	
Portugal	1.13	-3.5	-13.0	-34	-73	
Greece	3.35	-6.9	-26.0	-53	-105	
Japan (2-yr)	-0.16	0.2	-0.6	-1	-2	
<b>Japan</b>	-0.06	-0.2	-1.1	-3	-6	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	8.92	0.9	4.0	12	-31	
Chile	3.84	-0.2	-12.1	-26	-41	
Colombia	6.56	0.8	-9.5	-24	-20	
Mexico	7.93	-2.2	-7.6	-9	-71	
Peru	4.82	-0.6	-2.8	-22	-54	
Poland	2.91	0.4	-0.7	2	8	
Russia	8.24	-3.0	-17.6	-21	-54	
Turkey	16.68	-17.0	2.0	160	88	
India	7.37	0.4	2.3	2	0	
Indonesia	7.68	0.3	8.9	-19	-35	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
<b>10-yr sovereign spread vs Germany</b>						
France	34	-0.8	-3.1	-8	-7	
Italy	238	-5.8	-14.6	-11	-12	
Portugal	114	-5.3	-12.8	-14	-42	
Spain	101	-5.8	-10.4	-21	-21	
<b>2-yr sovereign spread vs Germany</b>						
France	7	-0.3	-0.8	-1	-9	
Italy	77	-3.4	-9.1	0	-31	
Portugal	22	-3.4	-5.0	-8	-4	
Spain	24	-0.7	1.1	-2	-13	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
<b>5-yr sovereign CDS *</b>						
Brazil	167	-1.8	-2	13	-40	
Chile	40	0.3	-1	-5	-23	
Colombia	101	-1.7	-5	-6	-57	
Argentina	912	3.9	127	177	106	
Mexico	115	-1.0	-4	-7	-40	
Peru	58	0.3	-2	-8	-37	
Poland	69	0.5	0	4	1	
Russia	132	0.4	0	6	-22	
Turkey	412	4.4	19	85	52	
China	43	-0.1	2	-5	-24	
India	84	0.8	0	-1	-30	
Indonesia	99	0.0	3	-1	-39	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	13	-0.3	-1	-1	-12	
VSTOXX	13	-1.7	-2	-1	-11	
EMEFT volatility Index	17	0.2	-1	-1	-8	
Dollar/euro volatility	4	-0.5	-1	-1	-3	
EM FX volatility index	8	-0.1	0	0	-2	
Credit spread (BAA) (change in bps)	220	-2.8	-2	-6	-26	
US bonds volatility index	49	-0.2	-3	4	-18	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.28	-	3	4	15	
EZ Inflation expectations (5Y5Y)	1.35	-	-1	-12	-26	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	58	-0.7	-1	-5	-24	
EZ	79	-1.0	-5	-4	-41	
UK	60	-0.8	-3	-5	-35	
Large Spanish	59	-1.0	-4	-1	-28	
Medium Spanish	104	-0.7	-1	0	-9	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	164	-0.7	-1	-5	-24	
EZ Non-financial	79	-1.0	-5	-4	-41	
UK Non-financial	104	-0.5	1	3	-14	
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	
<b>Euribor 12m</b>	-0.11	0	0	0	1	
Libor 3m	2.60	2	1	0	-19	
Libor 12m	2.74	-1	-1	-13	-27	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
<b>S&amp;P500</b>	2,890	0.1	0.4	3.5	15	
Dow Jones	26,096	-0.2	-1.1	2.1	12	
Nikkei	21,711	0.1	-0.1	1.0	8	
FTSE 100	7,418	-0.1	0.2	3.7	10	
<b>EuroStoxx 50</b>	3,436	0.3	-0.2	4.0	14	
IBEX	9,457	0.5	-0.8	3.2	11	
DAX	11,935	0.2	-0.4	3.6	13	
CAC	5,486	0.7	0.4	4.1	16	
MIB	21,685	0.1	-0.1	5.1	18	
ASE Athens	764	1.1	2.6	8.6	25	
<b>MSCI Latam *</b>	93,416	-0.4	2.0	0.4	8	
Ibovespa (Brazil)	94,353	-1.7	-2.0	-3.6	7	
Mexbol (Mexico)	44,510	-0.9	1.3	6.6	7	
Merval (Argentina)	31,646	-1.6	-1.5	-5.9	4	
<b>MSCI EM Europe *</b>	5,800	0.4	1.6	4.3	10	
Poland	2,375	-0.7	-0.6	2.8	4	
Micex 10 (Russia)	4,569	-1.1	0.7	3.6	9	
Ise 100 (Turkey)	96,073	-1.0	-2.3	-5.6	5	
<b>MSCI EM Asia *</b>	898	-0.1	1.2	5.4	15	
Shanghai Com (China)	3,190	-1.6	-1.7	4.2	28	
Jakarta (Indonesia)	6,410	-1.1	-1.0	0.7	3	
Banking sector	level	Daily	Weekly	Monthly	YTD	
<b>US banks</b>	134.6	0.3	-0.1	2.9	16	
JPM	106.0	0.6	0.4	1.9	9	
Citi	65.6	0.1	-0.3	4.5	26	
BoA	29.1	0.1	-0.2	0.6	18	
MS	44.7	0.5	-0.6	6.3	13	
GS	202.5	-0.2	0.1	3.0	21	
<b>EZ banks</b>	78.8	1.6	-0.1	4.4	14	
BNP	44.8	1.4	-0.2	4.1	14	
Crédit Agricole	11.6	1.8	1.0	6.5	23	
Deutsche Bank	7.5	2.9	-1.7	-5.2	7	
ING	11.5	1.8	0.3	7.3	22	
Intesa	2.2	0.6	0.0	4.6	15	
SG	26.9	2.6	-0.2	2.4	-3	
Unicredito	11.9	0.5	-1.7	4.2	10	
<b>UK banks</b>	81.1	1.2	0.9	2.1	21	
HSBC	651.4	-0.2	0.4	4.0	1	
RBS	257.9	1.9	1.5	-0.3	19	
Barclays	163.7	1.6	-0.6	0.5	9	
Lloyds	64.1	2.1	2.4	2.9	24	
<b>Large Spanish banks</b>	66.7	1.9	-0.5	5.8	14	
Santander	4.5	2.4	1.6	8.1	13	
<b>BBVA</b>	5.4	1.4	-2.3	3.6	16	
<b>Medium Spanish banks</b>	54.7	1.0	-2.6	0.2	-5	
Caixabank	2.8	-1.1	-4.3	-3.0	-10	
Sabadell	1.0	3.5	-0.4	2.9	-4	
Bankinter	7.1	1.5	-1.0	3.4	1	
Bankia	2.3	0.5	-6.5	-4.8	-11	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
<b>EURUSD</b>	1.127	-0.1	0.4	-0.2	-2	
GBPUSD	1.131	-0.2	0.0	0.0	-2	
USDJPY	111.50	-0.4	0.1	-0.1	2	
DXY	97.09	0.1	-0.2	0.2	1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	42.97	0.1	1.0	-3.4	-12	
USDBRL (Brazil)	3.85	-0.8	0.1	-1.1	1	
USDCLP (Chile)	664.65	-0.4	0.1	0.3	4	
USDCOP (Colombia)	3115	-0.6	0.5	1.1	4	
USDMXN (Mexico)	18.86	-0.2	1.5	2.6	4	
USDPEN (Peru)	3.30	-0.2	-0.1	-0.1	2	
LACI	54.95	-0.3	0.6	0.2	1	
USDPLN (Poland)	3.80	-0.1	0.5	0.2	-2	
USDRUB (Russia)	64.56	-0.4	1.3	1.6	7	
USDTRY (Turkey)	5.74	-1.1	-2.6	-5.0	-8	
USDCNY (China)	6.72	-0.1	0.0	-0.2	2	
USDINR (India)	68.93	0.3	0.3	1.1	1	
USDIDR (Indonesia)	14140	0.1	0.3	0.9	2	
ADXY	106.19	-0.2	-0.2	-0.2	1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>	71.0	-1.1	2.2	6	32	
WTx	63	-1.7	2.2	12	40	
Copper	290	-0.6	-0.2	-1	11	
Gold	1295	-1.0	0.2	-1	1	
S&P Spot commodity *	454	0.9	2.2	7	21	
S&P Brent Spot *	608	1.5	2.9	7	33	
S&P Metals Spot *	341	-0.4	-0.6	0	7	
S&P Agricultural *	280	0.5	0.3	2	-1	

Source: Bloomberg, Datastream and Haver

\* With one day delay