

Bund yields re-enter negative territory as activity disappoints

- Weak economic activity in the Eurozone dragged on bond yields and the euro, while upbeat company earnings led the S&P to a new record high.
- More signs of weakness in Germany** ([see](#)): Ifo business climate in April fell for the seventh month (99.2, consensus 99.8, previous 99.7), suggesting the German economy continued to lose steam. In China, meanwhile, the PBOC injected 267.4 billion yuan through a targeted medium-term lending facility in order to foster credit expansion which, in turn, decreases the possibility of a reserve ratio requirement (RRR) cut in the short-term ([see](#)).
- The ECB assessed the impact of a trade war in the economy, suggesting that higher import tariffs and trade barriers would hurt US GDP more than that of China and the Eurozone, as other nations to switch from US goods to those of China or the Eurozone's. ECB's conclusions differ from those of the IMF, which expects the trade war to hurt China more than the US.
- China injected USD39.8bn of funds into the banking system via the targeted medium-term facility (TMLF) to encourage loans to small and private firms. The move reflects ongoing efforts to support credit expansion while trying to avoid a build up of further financial bubble. ([see](#)). That said, today's move has sparked speculation that PBOC may be moving away from aggressive accommodation, although many analysts still expect PBOC to cut RRR in 2H19. As per calculations, the net long term liquidity provided to the banking system through today's TMLF is at RMB 110 bn after accounting for past MLF funding that was not rolled over last week. The upshot is that compared to last year's 250 bps in RRR cuts, PBOC is expected to be less accommodative in 2019 as it remains vigilant of financial stability risks, particularly from the housing market.
- Meanwhile, bond prices rose with sovereign yields declining sharply across the board, led by the German bund, which returned to negative levels, after economic activity failed to gain any ground. In Spain, risk premium slightly widened, although the government reduced net issuances by 5bn to EUR 30bn in 2019.
- In FX markets, the euro slightly depreciated on the back of weak activity data, while dollar strength weighed on emerging market currencies, especially in those countries with higher vulnerability.
- European stocks declined, except the DAX index, which inching up slightly led by positive earnings result in the information and technology sector. Meanwhile, the European banking sector underperformed, dragged down by the lack of dynamism in economic activity, and low interest rates. In addition, comments from the ECB's Coeuré downplaying the need to offset the side-effects of negative interest on the banking sector may also have hindered the banking sector. In Asia, the Chinese market got little help from the liquidity injection in the Chinese banking system, amid concerns that PBOC may be moving away from aggressive accommodation. In the US, upbeat company earnings led the S&P to a new record high.

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2,32	-4,6	-8,2	8	-17	
US	2,52	-4,2	-7,1	13	-16	
GER (2-yr)	-0,59	-1,6	-1,9	-2	2	
Germany	-0,01	-5,3	-9,2	2	-25	
France	0,35	-4,8	-7,7	-1	-36	
Spain	1,07	-4,3	-3,3	-3	-45	
Italy	2,63	-4,1	2,1	-2	-26	
Portugal	1,17	-3,1	-4,1	-26	-69	
Greece	3,29	-2,4	-2,7	-48	-110	
Japan (2-yr)	-0,15	-0,1	-0,7	3	-1	
Japan	-0,04	-0,9	-3,1	5	-4	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	8,90	5,1	-10,1	-7	-33	
Chile	3,90	-1,7	-1,7	-8	-36	
Colombia	6,67	3,4	1,6	11	-8	
Mexico	8,09	3,3	6,2	25	-55	
Peru	4,86	-0,2	1,2	-3	-50	
Poland	2,89	-0,7	0,5	4	7	
Russia	8,34	-3,0	1,8	14	-44	
Turkey	17,53	28,0	109,0	87	173	
India	7,43	-4,8	3,6	10	6	
Indonesia	7,69	2,1	6,7	4	-34	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	36	0,5	1,5	-2	-5	
Italy	265	1,2	11,3	-3	0	
Portugal	118	2,2	5,1	-14	-38	
Spain	109	1,0	5,9	-4	-13	
2-yr sovereign spread vs Germany						
France	6	-0,6	-0,8	-1	-10	
Italy	115	0,8	8,4	33	7	
Portugal	25	1,5	3,0	-5	-1	
Spain	27	1,1	3,0	5	-10	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	167	-2,1	0	-11	-40	
Chile	37	1,4	0	-11	-26	
Colombia	95	0,6	0	-18	-64	
Argentina	999	23,5	110	222	192	
Mexico	111	1,5	0	-17	-44	
Peru	54	0,9	0	-15	-41	
Poland	68	0,0	-1	1	0	
Russia	127	-2,9	-5	-8	-27	
Turkey	432	-2,9	-5	41	72	
China	41	-0,4	-1	-9	-27	
India	82	0,1	0	-2	-32	
Indonesia	92	-0,3	-2	-12	-45	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	13	0,5	0	-4	-13	
VSTOXX	13	0,3	1	-5	-11	
EM EFT volatility Index	16	0,5	1	-3	-9	
Dollar/euro volatility	5	0,4	1	-1	-2	
EM FX volatility index	8	0,0	0	0	-2	
Credit spread (BAA) (change in bps)	219	4,2	6	-13	-27	
US bonds volatility index	50	1,0	1	-7	-17	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2,30	-	2	8	17	
EZ Inflation expectations (5Y5Y)	1,40	-	0	0	-21	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	55	0,2	1	-9	-27	
EZ	78	0,6	1	-13	-41	
UK	57	0,8	0	-17	-37	
Large Spanish	56	0,3	-1	-11	-31	
Medium Spanish	97	-0,1	-2	-12	-15	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	160	0,2	1	-9	-27	
EZ Non-financial	77	0,6	1	-13	-41	
UK Non-financial	102	-0,5	0	-5	-16	
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	
Euribor 12m	-0,11	0	0	0	1	
Libor 3m	2,58	0	-2	-3	-22	
Libor 12m	2,74	-1	-2	-5	-28	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2.932	-0,1	1,1	4,8	17	
Dow Jones	26.651	0,0	0,8	4,4	14	
Nikkei	22.200	-0,3	-0,3	5,8	11	
FTSE 100	7.472	-0,7	0,0	4,1	11	
EuroStoxx 50	3.503	0,0	0,7	6,1	17	
IBEX	9.456	-0,7	-1,0	3,0	11	
DAX	12.313	0,6	1,3	8,5	17	
CAC	5.576	-0,3	0,2	6,0	18	
MB	21.724	-0,8	-1,3	3,2	19	
ASE Athens	773	-0,5	-0,1	9,1	26	
MSCI Latam *	92.866	0,7	0,8	2,3	8	
Ibovespa (Brazil)	94.611	-1,4	1,4	1,0	8	
Mexbol (Mexico)	45.018	-0,3	-1,1	5,4	8	
Merval (Argentina)	30.368	-1,8	-5,2	-8,4	0	
MSCI EM Europe *	5.797	0,3	0,8	2,7	10	
Poland	2.372	0,1	-0,3	2,6	4	
Micex 10 (Russia)	4.606	-0,3	0,3	3,3	10	
Ise 100 (Turkey)	96.142	0,2	-2,1	-3,2	5	
MSCI EM Asia *	897	0,1	-0,4	2,8	15	
Shanghai Com (China)	3.202	0,1	-1,9	5,2	28	
Jakarta (Indonesia)	6.448	0,5	-0,5	-1,2	4	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	140,7	-0,2	-1,2	12,9	22	
JPM	113,6	-0,1	-0,6	14,9	16	
Citi	69,0	-0,2	-1,9	14,4	33	
BoA	30,1	0,1	0,2	12,1	22	
MS	47,4	0,0	-1,9	14,8	19	
GS	201,9	-1,1	-2,9	7,1	21	
EZ banks	81,1	-1,8	-3,2	10,3	18	
BNP	47,2	-2,0	-2,7	13,5	19	
Crédit Agricole	12,0	-1,0	-2,2	15,0	28	
Deutsche Bank	7,6	-0,9	-3,0	5,1	9	
ING	11,7	-1,8	-2,2	11,8	25	
Intesa	2,3	-2,0	-2,9	5,9	17	
SG	27,5	-2,7	-5,1	8,3	-1	
Unicredito	12,1	-1,9	-6,7	6,3	22	
UK banks	81,9	-0,8	-1,7	5,9	12	
HSBC	662,7	-0,7	-0,4	7,9	2	
RBS	256,7	-1,2	-2,5	3,5	18	
Barclays	166,4	-0,1	-1,5	7,0	11	
Lloyds	64,8	-1,2	-2,7	4,4	25	
Large Spanish banks	67,0	-1,4	-3,2	5,9	15	
Santander	4,5	-1,6	-3,1	7,9	13	
BBVA	5,4	-1,2	-3,4	4,0	17	
Medium Spanish banks	54,6	-1,9	-4,9	1,6	-5	
Caixabank	2,8	-1,7	-6,0	1,4	-11	
Sabadell	1,0	-2,6	-5,4	7,4	-3	
Bankinter	7,0	-2,0	-4,9	0,5	0	
Bankia	2,3	-1,7	-3,7	-1,2	-9	
Currencies (% , red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1,117	-0,5	-1,1	-1,3	-3	
GBPUSD	1,29	0,0	-0,8	-2,0	1	
USDJPY	111,88	0,0	0,2	-1,7	-2	
DXY	97,84	0,2	0,9	1,3	2	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	43,54	-2,6	-3,9	-3,4	-13	
USDBRL (Brazil)	3,98	-1,4	-0,9	-3,0	-2	
USDCLP (Chile)	674,05	-0,9	-1,9	0,9	3	
USDCOP (Colombia)	3221	-1,3	-2,0	-2,8	1	
USDMXN (Mexico)	19,04	-0,7	-1,1	-0,1	3	
USDPEN (Peru)	3,33	-0,5	-0,9	-0,7	1	
LACI	53,91	-1,2	-1,3	-1,4	-1	
USDPLN (Poland)	3,85	-0,8	-1,7	-1,4	-3	
USDRUB (Russia)	64,38	-1,0	-0,9	-0,6	8	
USDTRY (Turkey)	5,88	-0,9	-2,4	-5,6	-10	
USDCNY (China)	6,72	0,1	-0,5	-0,2	2	
USDINR (India)	69,87	-0,3	-0,4	-1,3	0	
USDIDR (Indonesia)	14105	-0,2	-0,1	0,6	2	
ADXY	105,78	-0,3	-0,8	-0,7	0	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	74,4	-0,1	3,9	11	38	
WTx	66	-0,8	3,2	12	45	
Copper	292	0,6	-2,0	2	11	
Gold	1276	0,3	0,2	-3	-1	
S&P Spot commodity *	457	0,2	1,6	5	22	
S&P Brent Spot *	629	0,7	3,9	11	37	
S&P Metals Spot *	336	-0,8	-1,3	-1	5	
S&P Agricultural *	273	-0,4	-1,0	-3	-4	

Source: Bloomberg, Datastream and Haver

* With one day delay