

## Bonds remain in favour amid muted inflation

■ Demand for safe-haven bonds increased after inflation pressures moderated in the US during Q1 2019 amid lack of compelling growth signals, and rising vulnerability concerns for EM economies in the wake of USD strength.

■ **The risk-on mood seen early this week**, underpinned by better-than-expected China's 1Q19 GDP growth, **abated overnight** due to waning confidence in Germany's cyclical recovery and the slowdown in US inflation. The upbeat US Q1 GDP return, led by trade and inventory, did little to revive investor sentiment. That said, the global backdrop remains constructive amid progress on US-China trade talks, and supportive central banks (BOJ, BoC and Riksbank were dovish).

■ **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 that the German economy continued to lose steam. **The US 1Q19 GDP growth surprised positively** (to 3.2%QoQ saar, consensus 2.3%, previous 2.2%) **but lacked robustness**, as the increase was led by strong contribution of the external sector (net trade +1.35%) and inventories (0.65%), while personal consumption and fixed investment came weaker than expected. Moreover, Core PCE inflation moderated (1.3%, consensus 1.4%, previous 1.8%), in turn, increasing markets expectations of a Fed interest cut this year (Fed fund future implied probability of a rate cut at 67%).

■ **Dovish comments from Central banks continued**. ECB officials sounded dovish reaffirming that the ECB was ready to act if the slowdown persists. Bank of Japan said it would maintain its rates unchanged until the spring of 2020 given stagnant inflation. **The PBoC adopted a more "wait-and-see" approach after seeing good growth figures**, denying rumors of targeted reserve cut for rural financial institutions.

■ **Safe-haven yields slid back**: The **German 10Y yield returned slightly into negative levels**; the US 10Y dropped (-6bps). **Italy's risk premium widened** (to 265bps, + 7bps), **with some spillover effect in Spain and Portugal** (+2bps). The increase underscores concerns ahead of **today's S&P decision on Italy's rating**, as the deterioration of growth, deficit and debt outlook increased the odds for a one notch downgrade to (BBB-, one notch above junk bond).

■ **The US dollar stepped up its appreciation trend, weighing on more vulnerable EM FX** (DXY +0.7%). The **EUR broke below the 1.12 level against USD**, while **EM FX depreciated across the board**, with the increase in oil prices failing to support oil-producer currencies and bond spreads widening.

■ **The US decision to withdraw the waivers on oil imports from Iran boosted oil prices** (Brent touched \$75 per bl) but then slid back to around \$73 on higher US inventories). Finally, **equity indices reached a new high in the US**, and advanced in Europe. **Company earnings were mixed, but enough to support new gains**.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.28	-5.0	-9.8	8	-21
<b>US</b>	2.50	-3.1	-5.8	14	-18
GER (2-yr)	-0.60	-0.4	-2.1	1	2
<b>Germany</b>	-0.02	-1.0	-4.4	6	-26
France	0.36	-1.1	-1.0	6	-35
Spain	1.05	-4.0	-2.0	-1	-47
Italy	2.63	-5.6	3.1	3	-26
Portugal	1.15	-4.0	-2.7	-11	-72
Greece	3.31	0.6	-0.8	-48	-109
Japan (2-yr)	-0.15	-0.4	0.1	2	-1
<b>Japan</b>	-0.04	-0.9	-1.0	3	-4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.96	1.0	-0.3	-38	-27
Chile	3.93	0.1	2.7	-1	-32
Colombia	6.74	2.2	8.3	12	-1
Mexico	8.06	-4.0	3.2	12	-58
Peru	4.87	-0.2	1.6	-1	-50
Poland	2.90	-2.7	1.9	9	8
Russia	8.33	-4.8	-0.6	3	-45
Turkey	18.27	31.0	121.0	82	247
India	7.41	-3.5	-0.8	8	4
Indonesia	7.78	0.4	19.4	15	-25
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	38	-0.2	3.3	0	-3
Italy	265	-4.6	7.5	-3	1
Portugal	117	-3.0	1.7	-17	-39
Spain	107	-3.0	2.4	-7	-15
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0.7	-1.2	-2	-11
Italy	117	-3.2	8.4	36	8
Portugal	25	0.3	3.1	-5	-1
Spain	27	-0.1	1.3	4	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	175	-2.0	4	3	-32
Chile	39	-0.8	3	-7	-24
Colombia	98	-0.8	3	-13	-60
Argentina	1253	-3.4	286	480	447
Mexico	115	-1.3	6	-8	-40
Peru	57	-0.4	4	-10	-38
Poland	66	-0.5	-3	-3	-2
Russia	129	2.1	-1	-1	-25
Turkey	457	21.4	25	43	98
China	43	2.0	3	-3	-25
India	80	3.2	-2	-4	-34
Indonesia	98	4.4	5	-3	-40
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	13	-0.2	1	-2	-12
VSTOXX	13	-0.4	2	-4	-11
EMEFT volatility Index	17	0.0	1	-3	-8
Dollar/euro volatility	5	-0.3	1	-1	-2
EMFX volatility index	8	0.2	0	-1	-1
Credit spread (BAA) (change in bps)	217	3.1	4	-14	-29
US bonds volatility index	50	-0.7	1	-11	-17
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.31	-	2	10	17
EZ Inflation expectations (5Y5Y)	1.38	-	-8	5	-23
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	57	2.2	3	-6	-25
EZ	83	4.1	5	-7	-37
UK	60	1.4	3	-12	-35
Large Spanish	59	3.2	4	-7	-28
Medium Spanish	100	3.0	2	-8	-12
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	165	2.2	3	-6	-25
EZ Non-financial	80	4.1	5	-7	-37
UK Non-financial	103	0.7	1	-3	-15
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	0
Libor 3m	2.59	0	1	-1	-21
Libor 12m	2.73	0	-2	0	-29
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,926	0.0	0.7	4.3	17
Dow Jones	26,426	-0.1	-0.5	3.1	13
Nikkei	22,259	-0.2	0.3	4.1	11
FTSE 100	7,427	-0.1	-0.4	3.2	10
<b>EuroStoxx 50</b>	3,500	0.2	0.0	5.4	17
IBEX	9,508	0.1	-0.8	3.0	11
DAX	12,313	0.2	0.7	7.8	17
CAC	5,569	0.2	-0.2	5.1	18
MIIB	21,710	0.0	-1.1	2.4	18
ASE Athens	773	0.0	-0.7	8.3	26
<b>MSCI Latam *</b>	93,100	0.8	0.8	1.4	8
Ibovespa (Brazil)	95,992	-0.6	1.5	4.4	9
Mexbol (Mexico)	45,027	0.0	-1.1	4.8	8
Merval (Argentina)	29,557	0.0	-7.7	-8.1	-2
<b>MSCI EM Europe *</b>	5,737	-0.8	-0.4	1.4	8
Poland	2,354	-0.2	-0.5	1.7	3
Micex 10 (Russia)	4,522	-0.7	-1.2	1.9	8
Ise 100 (Turkey)	95,114	0.7	-1.8	3.5	4
<b>MSCI EM Asia *</b>	889	-0.7	-1.0	3.3	14
Shanghai Com (China)	3,086	-1.2	-5.6	2.1	24
Jakarta (Indonesia)	6,401	-0.7	-1.6	-1.1	3
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	140.5	0.0	-0.6	12.0	21
JPM	113.6	0.0	0.1	14.1	16
Citi	68.7	0.0	-1.3	13.2	32
BoA	30.1	0.0	0.2	11.3	22
MS	47.3	0.0	-0.5	14.3	19
GS	201.4	0.0	-2.2	6.0	21
<b>EZ banks</b>	80.7	0.4	-4.0	7.3	17
BNP	47.1	0.7	-3.9	11.2	19
Crédit Agricole	12.2	1.2	-2.4	12.0	29
Deutsche Bank	7.3	-2.5	-6.3	-3.0	5
ING	11.3	0.1	-5.8	5.6	21
Intesa	2.3	0.1	-2.3	5.5	18
SG	27.8	0.9	-4.2	7.0	0
Unicredito	12.0	-0.2	-5.7	4.2	22
<b>UK banks</b>	79.8	-0.8	-4.0	2.8	10
HSBC	666.9	0.8	0.1	8.8	3
RBS	240.0	-4.0	-8.5	-4.5	11
Barclays	160.6	0.1	-5.2	3.3	7
Lloyds	62.9	-1.1	-4.6	0.8	21
<b>Large Spanish banks</b>	66.8	0.2	-3.3	6.5	14
Santander	4.5	0.4	-2.4	8.4	13
<b>BBVA</b>	5.4	-0.1	-4.2	4.8	16
<b>Medium Spanish banks</b>	55.1	0.8	-3.6	3.4	-4
Caixabank	2.8	0.8	-4.0	1.5	-10
Sabadell	1.0	1.7	-3.2	11.8	-1
Bankinter	7.0	0.3	-4.4	2.6	0
Bankia	2.4	1.0	-2.4	0.4	-8
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.115	0.1	-0.9	-0.9	-3
GBPUSD	1.29	0.1	-0.6	-2.1	1
USDJPY	111.65	0.0	0.2	-1.0	-2
DXY	98.03	-0.2	0.7	1.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.25	1.8	-5.4	-0.8	-15
USDBRL (Brazil)	3.94	0.2	-0.4	1.3	-2
USDCLP (Chile)	674.82	0.1	-1.9	1.3	3
USDCOP (Colombia)	3225	0.3	-2.1	-1.5	1
USDMXN (Mexico)	18.96	0.3	-0.9	2.1	4
USDPEN (Peru)	3.33	0.0	-1.0	-0.3	1
LACI	54.03	-0.1	-1.3	1.0	-1
USDPLN (Poland)	3.85	0.2	-1.1	-0.8	-3
USDRUB (Russia)	64.77	-0.2	-1.2	0.1	7
USDTRY (Turkey)	5.95	-0.3	-2.3	-10.4	-11
USDCNY (China)	6.73	0.1	-0.4	-0.1	2
USDINR (India)	70.02	0.3	-0.9	-1.6	0
USDIDR (Indonesia)	14199	-0.1	-1.1	0.1	1
ADXY	105.72	0.1	-0.6	-0.4	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	73.3	-1.4	1.9	8	36
WTx	64	-1.5	0.4	8	41
Copper	288	0.0	-1.7	1	9
Gold	1284	0.5	0.7	-2	0
S&P Spot commodity *	453	-0.5	0.4	4	21
S&P Brent Spot *	627	-0.3	3.1	10	37
S&P Metals Spot *	335	-0.8	-1.2	-2	5
S&P Agricultural *	271	0.4	-2.1	-3	-5

Source: Bloomberg, Datastream and Haver

\* With one day delay