

Powell guides markets to neutral stance on interest rates

- **Safe-haven bond yields increased** and equity markets retreated from their recent highs, while bond investors searched for an extra-yield, in turn, narrowing peripheral and HY spreads, as Fed Chair Powell guided markets to a neutral stance on interest rates.
- **This week was loaded with important events and data.** Eurozone Q1 GDP growth surprised positively, while the pullback in China’s manufacturing PMI raised doubts over the sustainability of its ongoing economic recovery. On monetary policy, the Fed reaffirmed its ‘wait and see’ stance on rates, with slightly more dovish tone amid persistent inflation undershooting. The US April’s payrolls also suggested a tight labor market but without inflation pressure. However, Powell’s post policy comments, stating low inflation as ‘transient’, guided markets towards a neutral stance on interest rates.
- **The FOMC left its Fed Funds target range unchanged at 2.25%-2.50%**, as expected. Although the statement highlighted the slowdown in consumption and business fixed investment in 1Q19, the Fed struck a slightly more upbeat tone on the current state of the economy. However, the view on core inflation shifted from being near 2% to running below target. The statement reaffirmed that the Committee will remain patient, not seeing a strong case to move interest rates in either direction. The FOMC statement was slightly more dovish than past meetings; probably officials expect a more persistent inflation undershooting.
- Meanwhile, US April payrolls grew above expectations (263k, consensus 190k, previous 189k), and the unemployment rate declined to 3.6% from 3.8% but wage pressure was moderated (hourly earnings: 0.2% MoM, consensus 0.3%, previous month 0.2%). This suggests that US labor market conditions remain growth supportive, in turn reducing some of the concerns over the sustainability of economic expansion. In terms of monetary policy, further tightening in labor markets without meaningful increases in wages or price pressures, will allow the Fed to remain patient for the time being.
- **Eurozone 1Q19 GDP growth beat expectations** (0.4%, consensus 0.3%, previous 0.2%), led by domestic demand, while April’s flash headline (and core) inflation also came ahead of expectations, up 0.3pp to 1.7% YoY (and 1.3%), led mainly by Easter Week related seasonal effects, which drove services inflation (+0.8pp to 1.9% YoY).
- **China’s manufacturing recovery faltered** in April. China’s PMIs remained in expansion territory in April but activity grew at a slower pace than expected, which suggests that the rebound in March was driven partly by seasonal factors.
- **Safe-haven bond yields increased**, trimming early declines after Powell’s post policy conference, where he noted that recent tepid inflation readings could be the result of ‘transitory’ factors. Fed fund’s implied probability of a rate cut in 2019 declined to 50%, from 67% just a day before the Fed’s meeting. In the Eurozone, German yields managed to maintain positive levels after stronger 1Q19 GDP growth, and positive inflation figures. **Peripheral risk premium narrowed sharply led by ‘search for yield’ strategies**, jointly with political elections results in Spain and S&P’s decision to reaffirm Italy’s BBB credit rating. Spain’s risk premium decline below 100pbs threshold
- **G-10 currencies remained range-bound.** The USD depreciated led by improvement in economic figures in the Eurozone, but appreciated slightly after the FOMC meeting. The Euro appreciated (0.3%). **The EM FX slightly depreciated after the FOMC meeting** except the ARS that strengthened a notch.
- **Oil prices declined**, led by pressure on OPEC to increase output and increase in inventories (**Brent -5% to 71 USD/b**).
- **Equity markets inched down.** The movement suggests that both a potential Fed interest rate cut and US-China trade deal were embedded in current equity prices. Moreover, company earnings were good but failed to provide an additional boost to equity markets.

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Debt markets (10Y, %, changes in bp)					
Developed Markets					
	level	Daily	Week	Month	YTD
US (2-yr)	2.32	-2.4	3.9	-1	-17
US	2.52	-1.8	2.5	0	-16
GER (2-yr)	-0.59	-0.7	0.3	-1	2
Germany	0.02	-1.3	3.9	1	-23
France	0.36	-1.2	1.1	-4	-35
Spain	0.98	-2.2	-4.9	-17	-55
Italy	2.55	0.0	-3.2	-14	-34
Portugal	1.12	0.2	-1.5	-16	-75
Greece	3.34	0.2	4.4	-31	-105
Japan (2-yr)	-0.15	0.0	0.0	0	-1
Japan	-0.04	0.0	0.0	1	-4
Emerging Markets					
	level	Daily	Weekly	Monthly	YTD
Brazil	8.91	-4.9	-4.8	-8	-32
Chile	3.94	0.1	1.5	-2	-31
Colombia	6.85	0.3	8.9	20	9
Mexico	8.09	-2.7	3.1	7	-55
Peru	4.79	0.2	-7.2	-8	-57
Poland	3.04	0.0	12.5	14	21
Russia	8.25	-0.4	-7.0	-15	-53
Turkey	18.57	-40.0	27.0	184	277
India	7.39	0.6	-1.8	12	2
Indonesia	7.88	1.0	10.2	26	-15

Country risk (bp, changes in bp)					
Developed Markets					
	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	0.1	-2.8	-4	-6
Italy	254	1.3	-7.1	-14	-11
Portugal	110	1.5	-5.4	-17	-46
Spain	96	-0.9	-8.8	-18	-26
2-yr sovereign spread vs Germany					
France	5	0.4	-0.3	-3	-10
Italy	103	-2.8	-10.7	17	-5
Portugal	25	0.4	0.7	-2	-1
Spain	25	0.5	-1.0	3	-12
Emerging Markets					
	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	173	1.5	-2	3	-34
Chile	41	1.2	1	-2	-23
Colombia	102	4.1	4	-5	-56
Argentina	1242	19.1	-12	449	435
Mexico	115	2.7	0	-7	-40
Peru	59	2.1	2	-3	-36
Poland	66	0.0	1	-2	-2
Russia	130	5.4	1	-4	-24
Turkey	443	4.1	-14	36	84
China	42	0.5	-1	-1	-26
India	79	1.1	-1	-5	-34
Indonesia	96	1.3	-1	-3	-41

Risk indicators					
Volatility indicators					
	level	Daily	Weekly	Monthly	YTD
VIX	13	-1.3	0	-1	-12
VSTOXX	14	-0.7	1	-1	-10
EM EFT volatility Index	16	-0.4	0	-2	-9
Dollar/euro volatility	5	0.1	0	0	-2
EM FX volatility index	8	0.0	0	-1	-2
Credit spread (BAA) (change in bps)	211	1.8	-4	-12	-35
US bonds volatility index	47	0.0	-3	-7	-20
Inflation expectations					
	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.24	-	-8	-2	10
EZ Inflation expectations (5Y5Y)	1.41	-	4	4	-20
Banking 5y CDS					
	level	Daily	Weekly	Monthly	YTD
US	58	1.8	0	-2	-25
EZ	78	1.0	-5	-8	-42
UK	58	0.5	-2	-7	-36
Large Spanish	53	-1.4	-6	-13	-35
Medium Spanish	98	-3.0	-3	-7	-15
Corporate 5y CDS					
	level	Daily	Weekly	Monthly	YTD
US Non-financial	169	1.8	0	-2	-25
EZ Non-financial	78	1.0	-5	-8	-42
UK Non-financial	104	0.9	0	0	-15

Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	1	1	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.11	0	0	0	0
Libor 3m	2.58	0	-1	-3	-22
Libor 12m	2.71	0	-1	-2	-30

Stock markets (%)					
Main indices					
	level	Daily	Weekly	Monthly	YTD
S&P500	2,933	0.5	-0.2	2.1	17
Dow Jones	26,397	0.3	-0.5	0.7	13
Nikkei	22,259	0.0	0.0	2.5	11
FTSE 100	7,393	0.6	-0.5	-0.3	10
EUROStoxx 50	3,497	0.2	-0.1	1.8	17
IBEX	9,400	-0.2	-1.1	-0.9	10
DAX	12,379	0.3	0.5	3.5	17
CAC	5,548	0.2	-0.4	1.4	17
MIB	21,766	0.3	0.1	0.0	19
ASE Athens	774	-0.1	0.2	3.3	26
MSCI Latam *	91,886	-0.8	-1.3	-0.1	6
Ibovespa (Brazil)	96,068	0.6	-0.2	1.7	9
Mexbol (Mexico)	44,415	0.2	-1.2	2.5	7
Merval (Argentina)	31,491	2.2	5.0	-0.9	4
MSCI EM Europe *	5,708	-0.1	-0.5	0.5	8
Poland	2,319	0.0	-2.2	-3.7	2
Micex 10 (Russia)	4,586	0.5	1.2	1.5	10
Ise 100 (Turkey)	94,186	0.0	-0.6	-0.3	3
MSCI EM Asia *	894	0.1	0.6	1.5	14
Shanghai Com (China)	3,078	0.0	-0.3	-4.3	23
Jakarta (Indonesia)	6,319	-2.1	-0.8	-2.4	2

Banking sector					
	level	Daily	Weekly	Monthly	YTD
US banks					
US banks	143.1	0.3	0.9	7.2	24
JPM	115.9	0.4	1.2	10.0	19
Citi	70.2	-0.3	1.0	7.9	35
BoA	30.6	0.3	0.8	6.0	24
MS	47.9	0.2	0.1	8.0	21
GS	206.2	0.6	1.5	2.7	23
EZ banks					
EZ banks	81.7	-0.2	1.4	4.2	18
BNP	48.0	0.1	2.4	7.9	22
Crédit Agricole	12.3	-0.2	1.6	8.3	31
Deutsche Bank	7.3	-1.5	-0.9	-4.8	4
ING	11.2	-0.8	-1.0	-1.1	19
Intesa	2.3	-0.8	1.0	4.1	19
SGS	28.9	1.9	4.4	7.7	4
Unicredito	12.2	-1.4	1.1	0.2	23
UK banks					
UK banks	80.3	0.4	0.6	-0.8	10
HSBC	681.4	2.1	2.4	5.0	5
RBS	236.1	0.0	-1.6	-7.0	9
Barclays	163.3	-0.8	1.4	-0.4	8
Lloyds	62.4	-0.7	-1.0	-3.8	20
Large Spanish banks					
Large Spanish banks	65.6	-1.0	-1.9	-0.9	12
Santander	4.4	-1.1	-2.3	0.5	10
BBVA	5.3	-1.0	-1.5	-2.2	14
Medium Spanish banks					
Medium Spanish banks	55.9	-1.4	0.7	0.6	-3
Caixabank	2.9	-0.1	0.8	-2.6	-10
Sabadell	1.0	-2.7	2.3	9.2	4
Bankinter	7.0	-1.5	-0.9	-1.5	0
Bankia	2.4	-1.5	2.6	1.4	-5

Currencies (% red for currency depreciation)					
Developed					
	level	Daily	Weekly	Monthly	YTD
EURUSD	1.119	0.1	0.3	-0.4	-2
GBPUSD	1.31	0.4	1.3	-0.6	3
USDJPY	111.21	0.3	0.3	0.3	-1
DX	97.65	-0.2	-0.4	0.6	2
Emerging					
	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.56	0.5	3.0	-3.8	-15
USDBRL (Brazil)	3.94	0.7	-0.2	-1.7	-1
USDCLP (Chile)	677.93	0.5	-0.5	-1.7	2
USDCOP (Colombia)	3239	0.5	-0.3	-3.7	0
USDMXN (Mexico)	19.00	0.6	-0.3	1.1	3
USDPEN (Peru)	3.30	0.3	0.4	-0.2	2
LACI	53.96	0.5	0.1	-1.1	-1
USDPLN (Poland)	3.82	0.3	0.8	-0.2	-2
USDRUB (Russia)	65.07	0.5	-0.4	0.3	7
USDTRY (Turkey)	5.97	-0.1	-0.5	-5.8	-11
USDCNY (China)	6.74	0.0	-0.1	-0.4	2
USDINR (India)	69.22	0.2	1.2	-1.2	1
USDIDR (Indonesia)	14266	-0.1	-0.5	-0.3	1
ADXY	105.81	0.2	0.0	-0.6	0

Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	71.0	0.3	-1.6	2	32
WTx	62	0.4	-1.9	-1	37
Copper	283	1.7	-4.6	-4	8
Gold	1281	0.9	-0.4	-1	0
S&P Spot commodity *	440	-1.4	-1.1	-1	18
S&P Metals Spot *	602	-2.0	-1.2	2	32
S&P Metals Spot *	327	-0.6	-2.6	-5	2
S&P Agricultural *	270	0.3	-0.4	-3	-5

* Source: Bloomberg, Datastream and Haver

* With one day delay