

Escalating trade tensions weigh on markets

Caution prevailed across financial markets, as US-China trade tensions ratcheted up further today. The slight downward revision in Eurozone growth forecast by European commission did not help either. Safe-haven bonds continued to attract fresh demand, while equity markets declined.

Top US officials, led by US Trade Representative, Lighthizer, affirmed Trump's tariff threat against China, in turn confirming that US would raise tariffs to 25% from 10% on \$200 bn in Chinese goods this Friday at 12.01 am. They accused China of retreating from commitments made earlier in the trade negotiations. Reassuringly, despite rising tensions, both sides have agreed to continue talks this week in Washington, starting Thursday. However, the renewed brinkmanship and distrust has left global investors unnerved over the prospects of a trade deal, and its implications for global growth.

A lack of traction in the German economic activity alongside downward revision in European growth projections, especially for Germany, dragged further on risk assets. European Commission expects a slightly lower growth for the Eurozone in 2019 (1.2%, -0.1pp) and a more moderate recovery in 2020 (1.5% -0.1pp). Importantly, Germany accounts for the lion's share of growth downgrade, with the European commission projecting 0.5% growth in 2019 (-0.6pp) and 1.5% in 2020 (-0.2pp) (see) In addition, Germany March's Germany factory orders, released today, reflected a softer than expected recovery in German industrial activity.

Safe-haven bonds continued attract demand, in the wake of rising risk aversion. Consequently, 10Y German Bund yields re-entered negative territory. Meanwhile, peripheral risk premium increased, especially in Italy (+8bps to 266bps) as European Commission projects Italy's budget deficit to increase to 3.5% in 2020.

Equity markets, which initially showed signs of stabilization in Asia, eventually saw a broad-based decline, while the VIX - equity markets's risk measure (implied volatility in the S&P 500) - jumped, reflecting investors' jitters over escalating US-China trade tensions. Recall that the S&P 500 hit a new record high last March, led, in part, by improving prospects of a near term US-China trade deal. The latest volatile reaction to renewed trade tensions suggests that markets clearly underestimated the trade risk. That said, as talks continue, hopes of an eventual, albeit delayed, trade deal is expected to underpin cautiously optimistic market sentiment.

Movement in currency markets were moderate, although the USD and the JPY attracted safe-haven flows, while cyclical and EM currencies depreciated slightly. Lower oil prices led to an underperformance of the Latam currencies, with the exception of the TRY, which depreciated sharply.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.28	-1.4	1.0	-6	-21
US	2.46	-1.3	-4.5	-4	-23
GER (2-yr)	-0.61	-1.1	-2.1	-4	1
Germany	-0.04	-4.4	-5.1	-5	-28
France	0.33	-3.1	-4.1	-4	-38
Spain	0.96	-2.0	-3.7	-14	-56
Italy	2.62	4.0	6.4	-1	-27
Portugal	1.09	-3.1	-2.2	-16	-77
Greece	3.35	0.4	-2.1	-18	-105
Japan (2-yr)	-0.15	-0.3	-0.3	0	-1
Japan	-0.05	-1.2	-1.2	-2	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.86	-1.4	-11.4	-5	-37
Chile	3.92	-0.9	-1.1	-4	-33
Colombia	6.84	0.5	-0.4	19	9
Mexico	8.15	3.0	5.7	19	-50
Peru	4.86	6.4	5.0	3	-51
Poland	2.98	-4.4	-3.4	5	15
Russia	8.26	-0.6	2.4	-12	-52
Turkey	19.67	77.0	63.0	308	387
India	7.38	-1.1	-2.8	3	1
Indonesia	7.98	2.3	14.7	40	-5
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	37	1.3	1.0	1	-4
Italy	266	8.4	11.5	4	1
Portugal	113	1.3	2.9	-12	-43
Spain	100	2.4	1.4	-10	-22
2-yr sovereign spread vs Germany					
France	6	0.5	2.3	-1	-10
Italy	112	6.2	5.0	29	3
Portugal	29	2.9	5.4	4	3
Spain	26	0.4	1.5	4	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	171	1.5	-1	-1	-37
Chile	41	1.7	3	0	-22
Colombia	102	2.8	5	-4	-56
Argentina	1163	-12.4	-27	353	356
Mexico	112	1.8	0	-7	-42
Peru	59	0.9	3	0	-36
Poland	66	0.0	0	-2	-2
Russia	128	0.0	3	-4	-26
Turkey	436	-0.8	-17	56	77
China	45	3.5	4	2	-23
India	79	0.2	2	-4	-34
Indonesia	99	3.4	6	2	-38
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	20	4.5	7	7	-6
VSTOXX	18	2.3	5	4	-6
EMEFT volatility Index	22	3.1	6	6	-3
Dollar/euro volatility	5	-0.1	0	0	-2
EM FX volatility index	8	0.6	0	0	-1
Credit spread (BAA) (change in bps)	219	1.3	5	-3	-26
US bonds volatility index	48	2.0	-2	-1	-19
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.22	-	-6	-4	9
EZ Inflation expectations (5Y5Y)	1.38	-	-4	2	-22
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	58	1.9	2	-1	-25
EZ	79	1.2	0	-5	-40
UK	57	0.6	-1	-6	-37
Large Spanish	53	0.9	-3	-10	-34
Medium Spanish	90	-3.2	-7	-14	-22
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	169	1.9	2	-1	-25
EZ Non-financial	79	1.2	0	-5	-40
UK Non-financial	104	-0.6	0	0	-15
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	0	1	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.12	0	0	0	0
Libor 3m	2.56	0	-2	-3	-24
Libor 12m	2.75	0	3	1	-27
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,885	-1.6	-2.1	-0.3	15
Dow Jones	26,025	-1.6	-2.1	-1.5	12
Nikkei	21,924	-1.5	-1.5	0.5	10
FTSE 100	7,260	-1.6	-2.1	-2.5	8
EuroStoxx 50	3,401	-1.8	-3.2	-1.3	13
IBEX	9,235	-1.0	-3.5	-2.9	8
DAX	12,093	-1.6	-2.0	0.7	15
CAC	5,396	-1.6	-3.4	-1.5	14
MIB	21,219	-0.9	-3.0	-2.5	16
ASE Athens	759	0.6	-1.8	0.6	24
MSCI Latam *	91,339	-0.8	-1.7	-1.8	6
Ibovespa (Brazil)	93,936	-1.1	-2.5	-3.3	7
Mexbol (Mexico)	43,581	-1.2	-2.3	-3.1	5
Merval (Argentina)	32,414	-1.7	9.6	-0.8	7
MSCI EM Europe *	5,685	-0.4	-0.9	-0.6	8
Poland	2,234	-2.5	-4.3	-5.0	-2
Micex 10 (Russia)	4,574	-0.4	0.7	0.6	9
Ise 100 (Turkey)	91,482	-1.6	-4.1	-7.4	0
MSCI EM Asia *	878	-2.0	-1.8	-1.1	12
Shanghai Com (China)	2,926	0.7	-4.9	-9.9	17
Jakarta (Indonesia)	6,297	-0.4	-2.0	-3.0	2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	140.0	-1.9	-2.5	4.1	21
JPM	113.6	-1.3	-2.1	7.9	16
Citi	68.5	-2.8	-3.2	4.5	32
BoA	29.9	-1.8	-2.2	2.9	21
MS	46.7	-2.1	-3.2	4.1	18
GS	202.0	-2.2	-1.9	-0.2	21
EZ banks	78.8	-2.3	-3.4	0.8	14
BNP	46.9	-2.1	-1.2	5.3	19
Crédit Agricole	12.1	-1.4	-1.2	6.6	28
Deutsche Bank	7.0	-2.5	-4.8	-6.3	1
ING	10.8	-2.1	-4.8	-4.4	15
Intesa	2.2	-2.1	-4.1	0.4	16
SG	27.1	-3.9	-4.0	1.6	-3
Unicredit	11.4	-3.2	-7.2	-4.8	16
UK banks	78.8	-2.0	-1.6	-1.4	8
HSBC	662.2	-2.7	-0.7	1.4	2
RBS	235.0	-1.1	-1.9	-6.6	8
Barclays	159.4	-2.6	-3.0	-2.1	6
Lloyds	61.8	-1.3	-1.2	-0.6	19
Large Spanish banks	63.6	-2.4	-5.4	-5.0	9
Santander	4.2	-2.2	-5.8	-3.5	7
BBVA	5.1	-2.6	-5.1	-6.4	11
Medium Spanish banks	54.7	-1.3	-2.8	-2.5	-5
Caixabank	2.8	-1.8	-1.7	-6.1	-12
Sabadell	1.0	0.9	-0.6	7.4	3
Bankinter	6.8	-1.7	-3.9	-4.3	-3
Bankia	2.3	-2.2	-4.8	-3.3	-8
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.117	-0.3	-0.4	-0.4	-3
GBPUSD	1.30	-0.4	0.1	0.1	2
USDJPY	110.35	0.4	1.0	1.3	-1
DXY	97.67	0.2	0.2	0.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.85	-0.4	-1.4	-2.0	-16
USDBRL (Brazil)	3.99	-0.5	-1.7	-2.9	-3
USDCLP (Chile)	684.95	-1.0	-1.2	-3.0	1
USDCOP (Colombia)	3296	-1.3	-1.9	-5.5	-1
USDMXN (Mexico)	19.06	-0.3	-0.6	0.1	3
USDPEN (Peru)	3.31	-0.2	-0.2	-0.6	2
LACI	53.50	-0.8	-1.1	-1.8	-1
USDPLN (Poland)	3.84	-0.5	-0.5	-0.4	-3
USDRUB (Russia)	65.39	-0.2	-1.2	-0.1	6
USDTRY (Turkey)	6.16	-1.3	-3.2	-8.7	14
USDCNY (China)	6.78	-0.2	-0.6	-1.0	2
USDINR (India)	69.43	0.0	0.2	-0.3	0
USDIDR (Indonesia)	14280	0.1	-0.2	-1.0	1
ADXY	105.22	-0.2	-0.5	-1.0	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	70.1	-1.6	-3.7	0	30
WTX	61	-1.5	-4.1	-3	35
Copper	280	-1.3	-3.5	-3	7
Gold	1284	0.2	0.0	-1	0
S&P Spot commodity *	440	-0.3	-1.5	-2	17
S&P Brent Spot *	606	0.6	-1.1	1	32
S&P Metals Spot *	328	0.0	-1.6	-4	3
S&P Agricultural *	265	-1.2	-0.8	-5	-7

Source: Bloomberg, Datastream and Haver

* With one day delay