

Markets deepen losses amid trade impasse

■ **Financial markets rattled for the third straight day** as US-China trade tensions festered ahead of crucial negotiations between high-level officials in Washington, starting today. Trump's rebuke that 'China broke the deal', accelerated the sell-off in equities. The implied volatility in equity markets (VIX 21) jumped leading investors to seek shelter in government bonds.

■ **As per media reports**, US officials, led by Trump, were upset with China backtracking on its promises made earlier in the trade negotiations and were reluctant to detail the laws it would change to implement the trade deal. These included adding IP protection and barring forced tech transfer. Moreover, China decided to take a more aggressive stance in negotiation as they perceived that the US was willing to compromise, especially after the US government seemed worried about its economic prospects. Such mixed signals and misreading only increases the chances that the US would follow through on its threat this Friday and trade tensions escalate to new highs as China retaliates ([see](#)).

■ **Meanwhile, economic data on inflation showed price pressures remained benign** in the US as well as in China. The US produces prices increased in April but less than expected (0.2%, consensus 0.3%, previous 0.6%).

■ **Intensifying trade tensions buoyed safe haven bonds, leading to a sharp decline in the US and the German 10Y yields.** An inversion in the US yield curve between 3-month and the -10-year tenure further exacerbated investor concerns. German yields declined, falling further into the negative territory. The risk-off mood weighed on HY yield bonds, where spreads widened. **Italy's risk premium widened sharply** (with limited spillovers on Spain and Portugal), amid rising prospects of early elections, jointly with concerns about its public finances and US Fund manager BlackRock's decision to withdraw the rescue offer for Banca Carige ([see](#)). European Commission projects that Italy's public deficit will hit 3.5% of the GDP by 2020.

■ **Equity markets fell sharply across the board, while volatility (VIX) surged close to October 2018 highs**, led by cyclical sectors.

■ **In FX markets, safe-haven flows sought shelter in the Japanese yen**, while the USD remained steady. EM currencies took a heavy toll, especially liquid currencies, such as the MXN, BRL and TRY. China's renminbi depreciated as weaker April credit outturns coupled with rising external headwinds fueled market expectations of further policy easing by the PBoC. The TRY remained under pressure despite Turkey's Central Bank tightening its monetary policy, suspending funding at its benchmark one-week repo and forcing banks to borrow at higher overnight rate ([see](#)). Meanwhile, the concerns about the impact of potential trade war on global demand dragged weighed on oil prices.

Update 18:40 CET 09 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.25	-4.5	-9.3	-10	-24
US	2.45	-2.9	-8.7	-5	-23
GER (2-yr)	-0.63	-1.2	-4.0	-5	-2
Germany	-0.05	-0.3	-7.7	-4	-29
France	0.35	1.3	-3.0	0	-37
Spain	0.99	2.9	-0.8	-9	-53
Italy	2.68	6.9	13.1	11	-21
Portugal	1.12	3.2	0.5	-8	-74
Greece	3.54	9.3	19.3	7	-86
Japan (2-yr)	-0.16	-0.2	-0.6	1	-1
Japan	-0.05	0.1	-0.8	0	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.82	0.8	-13.7	-14	-41
Chile	3.90	-0.7	-3.5	0	-35
Colombia	6.74	-9.2	-10.6	17	-1
Mexico	8.13	-0.3	1.6	17	-51
Peru	4.84	-0.1	5.0	2	-52
Poland	2.93	-2.5	-11.0	1	10
Russia	8.23	0.0	-2.2	-11	-55
Turkey	20.48	49.0	151.0	375	468
India	7.39	1.8	0.6	2	2
Indonesia	8.06	3.3	19.0	41	4
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	39	1.6	4.7	4	-2
Italy	273	7.2	20.8	15	8
Portugal	117	3.5	8.2	-4	-40
Spain	104	3.2	6.9	-5	-18
2-yr sovereign spread vs Germany					
France	6	0.3	1.3	-1	-9
Italy	123	8.9	16.9	43	14
Portugal	29	1.2	4.6	5	3
Spain	28	2.3	3.9	4	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	171	-4.8	0	1	-36
Chile	42	-0.6	3	1	-21
Colombia	106	-0.9	7	1	-53
Argentina	1131	-34.7	-92	255	324
Mexico	116	-1.3	4	-2	-39
Peru	62	-0.5	5	4	-33
Poland	66	0.0	0	-2	-2
Russia	129	-1.0	5	-3	-25
Turkey	474	9.9	34	69	114
China	46	1.2	5	3	-21
India	80	1.9	2	-3	-33
Indonesia	103	1.7	8	4	-34
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	21	1.3	6	6	-5
VSTOXX	20	2.4	6	6	-4
EM EFT volatility Index	27	3.9	11	10	2
Dollar/euro volatility	5	0.1	1	0	-2
EM FX volatility index	10	0.8	2	1	0
Credit spread (BAA) (change in bps)	221	2.9	8	1	-25
US bonds volatility index	51	-1.1	5	2	-15
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.20	-	-3	-7	7
EZ Inflation expectations (5Y5Y)	1.37	-	-4	2	-24
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	59	-0.9	3	1	-24
EZ	83	1.7	6	2	-37
UK	60	1.3	3	-2	-34
Large Spanish	54	-0.2	0	-6	-33
Medium Spanish	86	0.1	-15	-15	-27
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	168	-0.9	3	1	-24
EZ Non-financial	83	1.7	6	2	-37
UK Non-financial	106	1.3	3	1	-13
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	-0.12	0	0	-1	0
Libor 3m	2.55	-2	-3	-4	-25
Libor 12m	2.71	-1	0	-4	-30
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,850	-1.0	-2.3	-1.0	14
Dow Jones	25,768	-0.8	-2.1	-1.5	10
Nikkei	21,402	-0.9	-3.8	-1.8	7
FTSE 100	7,207	-0.9	-2.0	-2.9	7
EuroStoxx 50	3,351	-1.9	-4.0	-1.9	12
IBEX	9,095	-1.4	-3.4	-3.3	7
DAX	11,974	-1.7	-3.0	1.0	13
CAC	5,313	-1.9	-4.1	-2.3	12
MIB	20,817	-1.8	-4.1	-3.9	14
ASE Athens	729	-1.9	-6.0	-3.3	19
MSCI Latam *	90,999	0.5	-1.8	-3.7	5
Ibovespa (Brazil)	94,061	-1.6	-1.5	-2.3	7
Mexbol (Mexico)	42,888	-1.2	-3.2	-5.0	3
Merval (Argentina)	34,301	1.6	11.3	8.1	13
MSCI EM Europe *	5,564	-1.0	-2.6	-3.2	5
Poland	2,179	-1.9	-6.0	-8.0	-4
Micex 10 (Russia)	4,560	0.0	0.0	-0.5	9
Ise 100 (Turkey)	88,686	-1.8	-5.8	-9.6	-3
MSCI EM Asia *	868	-0.9	-2.8	-3.1	11
Shanghai Com (China)	2,851	-1.5	-7.4	-12.0	14
Jakarta (Indonesia)	6,199	-1.6	-4.0	-3.5	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	137.7	-1.1	-3.6	3.2	19
JPM	111.7	-0.9	-3.3	6.5	14
Citi	67.0	-1.8	-4.8	2.7	29
BoA	29.5	-0.9	-3.2	2.2	20
MS	45.9	-1.3	-3.9	3.8	16
GS	199.4	-0.8	-2.7	-0.6	19
EZ banks	76.1	-3.0	-7.0	-2.4	10
BNP	45.4	-3.0	-5.4	1.9	15
Crédit Agricole	11.6	-4.5	-6.3	1.8	23
Deutsche Bank	6.9	-2.6	-7.2	-6.0	-2
ING	10.4	-3.0	-7.7	-7.8	11
Intesa	2.2	-2.3	-7.0	-3.2	12
SG	26.3	-2.3	-7.4	-1.2	-6
Unicredit	11.1	-2.7	-10.1	-6.9	12
UK banks	77.7	-1.4	-2.9	-3.3	7
HSBC	651.9	-1.1	-2.4	-0.5	1
RBS	232.2	-1.3	-1.7	-8.7	7
Barclays	156.9	-1.7	-4.7	-2.8	7
Lloyds	60.9	-1.5	-3.0	-3.2	17
Large Spanish banks	62.6	-2.2	-5.6	-5.0	7
Santander	4.1	-2.4	-6.5	-5.3	4
BBVA	5.1	-2.0	-4.8	-4.7	10
Medium Spanish banks	54.2	-2.0	-4.2	-1.2	-6
Caixabank	2.8	-2.3	-3.6	-6.2	-13
Sabadell	1.0	-2.2	-3.3	10.0	3
Bankinter	6.8	-2.0	-4.6	-3.8	-4
Bankia	2.3	-1.8	-6.0	0.1	-9
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.122	0.2	0.4	-0.4	-2
GBPUSD	1.30	0.1	-0.1	-0.3	2
USDJPY	109.76	0.3	1.6	1.3	0
DXY	97.43	-0.2	-0.4	0.4	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45.61	-1.2	-1.8	-4.9	-17
USDBRL (Brazil)	3.95	-0.6	0.4	-2.5	-2
USDCLP (Chile)	685.18	-0.1	-0.5	-3.1	1
USDCOP (Colombia)	3280	0.4	-0.7	-5.7	-1
USDMXN (Mexico)	19.20	-0.6	-0.4	-1.4	2
USDPEN (Peru)	3.32	-0.1	-0.3	-0.8	1
LACI	53.46	-0.6	-0.4	-2.6	-2
USDPLN (Poland)	3.83	0.1	0.1	-0.7	-2
USDRUB (Russia)	65.28	-0.3	0.2	-0.5	6
USDTRY (Turkey)	6.22	-0.6	-4.1	-8.4	-15
USDCNY (China)	6.83	-0.7	-1.4	-1.7	1
USDINR (India)	69.95	-0.3	-0.8	-0.9	0
USDIDR (Indonesia)	14360	-0.5	-0.8	-1.6	0
ADXY	104.84	-0.4	-0.7	-1.4	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	70.0	-0.5	-1.0	-1	30
WTX	62	-1.0	-0.5	-4	35
Copper	276	-0.8	-0.8	-6	5
Gold	1285	0.3	1.1	-1	0
S&P Spot commodity *	437	0.4	-0.8	-3	17
S&P Brent Spot *	596	0.5	-1.0	0	30
S&P Metals Spot *	324	-0.7	-1.0	-5	1
S&P Agricultural *	264	-0.6	-2.2	-5	-7

Source: Bloomberg, Datastream and Haver

* With one day delay