

Markets stabilise post turbulence as Trump keeps deal hopes alive

- Risk-off mood abated somewhat today, suggesting markets remain hopeful that US and China would eventually resolve their trade difference. Safe-haven bond yields were steady, while the JPY slightly depreciated and equity indices inched up.
- **President Trump's tweets, earlier today, noting "We can make a deal with China tomorrow..."**, and that "we will make a deal with China" when "the time is right" signalled hopes that a US-China deal could reach a truce in the near future despite escalation in trade tensions earlier this week. Also, China's relatively modest retaliation to US tariffs yesterday - China hiked tariffs up to 25% on \$60 bn of US imports, effective only after June 1st - in part reflects an eagerness from the Chinese side to avoid a complete breakdown of trade talks while giving both sides a bit more room to reach a deal. That said, it would be premature to place too much faith on today's improved market mood. In this context, the state of US-China trade dialogue in the run up to the highly consequential Trump-Xi meeting at the sidelines of the upcoming G-20 summit on June28th-29th will be closely watched.
- **However, Implied probability of Fed's interest rate cut in 2019 rose above 70%**, amid escalating trade tensions. Nonetheless, Fed's officials see it as premature to provide an impact assessment of trade tariffs on growth and inflation.
- **European data was mixed.** German inflation rose in line with expectations in April (2.0%YoY, consensus 2%2o, previous month 1.3%YoY), while the Eurozone industrial production declined again in March due to the fall in energy and non-durable consumer goods.
- **Concerns about fiscal consolidation in Italy mounted.** According to Bloomberg Mr. Salvini said Italy would be ready to break fiscal rules to boost employment ([see](#)). Investors remain jittery, after the European Commission recently increased Italy's public deficit forecast in 2019 and 2020 to 2.5% and 3.5% of GDP, respectively, driven by higher expenditure linked to citizens' income and pensions along with a stagnating economy and high interest payments.
- **Sovereign bond yields were broadly steady today**, with German yield inching down on the back of mixed economic data and concerns about Italy. Risk premium widened further in Italy, after Mr. Salvini comments, but without spillover to Spain or Portugal. EM bond yields eased as well.
- **In FX markets, the Euro and the US dollar were steady**, while JPY rallied on the back of calmer financial markets. EM FX slightly appreciated across the board, helped by some stability in the RMB, amid reports that the PBoC wont foresee a continuous weakening of its currency.
- **Equity markets showed a tepid recovery** across the board, after yesterday's falls but volatility is still at high levels compared with recent months.
- **Oil prices increased** as Saudi Arabian oil tanks were attacked by drones, leading to an increase in geopolitical tension between Iran and the US, as the latter accused Iran of the strike.

Update 18:10 CET 14 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.20	1.4	-8.2	-19	-29
US	2.42	1.6	-3.9	-15	-27
GER (2-yr)	-0.63	-0.6	-2.8	-7	-2
Germany	-0.07	0.0	-3.2	-13	-31
France	0.33	-0.5	0.0	-7	-38
Spain	0.97	-2.0	0.7	-8	-55
Italy	2.73	2.9	11.0	19	-16
Portugal	1.14	-1.7	4.6	-3	-72
Greece	3.56	-0.2	21.2	27	-84
Japan (2-yr)	-0.16	0.0	-0.4	1	-2
Japan	-0.05	-0.2	0.2	1	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.79	-8.1	-7.1	-18	-44
Chile	3.84	-0.4	-8.3	-5	-42
Colombia	6.73	-1.1	-10.7	16	-2
Mexico	8.08	-2.4	-5.8	19	-56
Peru	4.82	-0.9	-5.6	-4	-55
Poland	2.87	1.7	-11.2	-5	4
Russia	8.28	0.1	1.7	3	-51
Turkey	18.61	-106.0	-106.0	181	281
India	7.38	-1.2	-0.3	-3	1
Indonesia	8.05	1.0	7.6	37	3
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	-0.5	3.2	5	-1
Italy	280	2.9	14.2	31	15
Portugal	121	-1.7	7.8	9	-35
Spain	104	-2.0	3.9	5	-18
2-yr sovereign spread vs Germany					
France	7	0.5	0.9	1	-9
Italy	132	6.7	20.0	31	23
Portugal	31	0.8	1.6	9	5
Spain	30	1.1	3.9	7	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	171	0.0	0	0	-36
Chile	44	0.0	3	4	-19
Colombia	107	0.0	5	6	-52
Argentina	1162	0.0	-1	257	356
Mexico	119	0.0	6	3	-36
Peru	65	0.0	6	8	-30
Poland	66	0.0	0	-2	-2
Russia	128	0.0	0	-6	-26
Turkey	485	0.0	49	57	126
China	47	0.0	2	3	-21
India	79	0.0	0	-3	-34
Indonesia	102	0.0	3	4	-35
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	18	-2.7	-1	6	-8
VSTOXX	18	-1.9	0	6	-6
EM EFT volatility Index	25	-3.2	2	9	0
Dollar/euro volatility	5	-0.1	0	1	-2
EM FX volatility index	9	0.3	0	1	-1
Credit spread (BAA) (change in bps)	223	-1.6	7	9	-22
US bonds volatility index	58	4.4	6	9	-9
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.21	-	0	-9	7
EZ Inflation expectations (5Y5Y)	1.35	-	-4	-2	-26
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	62	2.5	4	4	-21
EZ	76	-9.0	-3	-2	-43
UK	63	1.7	6	5	-31
Large Spanish	59	2.7	6	1	-28
Medium Spanish	88	4.6	-2	-14	-24
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	168	2.5	4	4	-21
EZ Non-financial	84	-9.0	-3	-2	-43
UK Non-financial	107	0.0	3	3	-12
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	-1	0	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.12	0	-1	-1	0
Libor 3m	2.52	-1	-4	-8	-28
Libor 12m	2.67	-2	-7	-6	-34
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,848	1.3	-1.3	-2.1	14
Dow Jones	25,608	1.1	-1.4	-3.0	10
Nikkei	21,067	-0.6	-3.9	-3.7	5
FTSE 100	7,242	1.1	-0.3	-2.6	8
EuroStoxx 50	3,364	1.3	-1.1	-2.4	12
IBEX	9,128	0.9	-1.2	-3.6	7
DAX	11,992	1.0	-0.8	-0.1	14
CAC	5,341	1.5	-1.0	-2.9	13
MIB	20,893	1.5	-1.5	-4.4	14
ASE Athens	732	1.0	-3.5	-4.4	19
MSCI Latam *	88,164	-2.2	-3.5	-4.6	2
Ibovespa (Brazil)	92,164	0.5	-2.4	-0.8	5
Mexbol (Mexico)	43,441	0.7	-0.3	-2.8	4
Merval (Argentina)	32,902	1.9	0.5	4.9	9
MSCI EM Europe *	5,461	-0.6	-3.9	-4.9	3
Poland	2,164	-0.4	-3.1	-8.6	-5
Micex 10 (Russia)	4,551	1.7	-0.5	-0.6	9
Ise 100 (Turkey)	88,023	2.0	-3.8	-8.3	-4
MSCI EM Asia *	844	-1.2	-3.9	-5.4	8
Shanghai Com (China)	2,884	-0.7	-1.5	-9.6	16
Jakarta (Indonesia)	6,071	-2.2	-3.0	-5.3	-2
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	135.6	1.7	-3.0	-3.0	17
JPM	111.5	1.9	-1.5	0.3	14
Citi	65.7	2.1	-3.6	-2.5	26
BoA	28.9	2.3	-3.4	-4.2	17
MS	44.5	0.6	-4.8	-4.8	12
GS	197.9	1.5	-2.3	-4.8	18
EZ banks	75.2	0.9	-4.5	-7.5	9
BNP	45.5	1.6	-3.0	-1.8	15
Crédit Agricole	11.4	0.9	-6.0	-4.8	21
Deutsche Bank	6.9	1.2	-1.8	-9.5	-1
ING	10.3	0.8	-4.6	-13.1	10
Intesa	2.2	1.5	-4.1	-5.8	11
SG	25.8	1.1	-4.8	-7.9	-7
Unicredit	10.7	-1.7	-6.4	-13.6	8
UK banks	77.6	1.2	-1.6	-5.3	7
HSBC	653.6	0.6	-1.3	-0.8	1
RBS	229.9	1.6	-2.2	-11.8	6
Barclays	157.6	1.6	-1.1	-5.0	17
Lloyds	60.6	1.4	-1.9	-6.4	10
Large Spanish banks	62.2	1.5	-2.3	-8.9	7
Santander	4.1	1.0	-3.4	-10.0	3
BBVA	5.1	2.0	-1.2	-7.8	10
Medium Spanish banks	53.8	-0.1	-1.6	-3.8	-6
Caixabank	2.7	-0.5	-2.7	-6.0	-14
Sabadell	1.0	1.0	0.9	4.9	4
Bankinter	6.7	-0.7	-2.3	-7.9	-5
Bankia	2.3	0.3	-1.8	-1.3	-10
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.121	-0.1	0.2	-0.8	-2
GBPUSD	1.29	-0.3	-1.2	-1.2	1
USDJPY	109.67	-0.3	0.5	2.1	0
DXY	97.50	0.2	-0.1	0.5	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.98	0.3	0.7	-6.2	-16
USDBRL (Brazil)	3.98	0.5	-0.1	-2.3	-2
USDCLP (Chile)	692.23	0.2	-1.1	-4.5	0
USDCOP (Colombia)	3288	0.5	0.4	-5.5	-1
USDMXN (Mexico)	19.15	0.4	-0.6	-2.1	3
USDPEN (Peru)	3.32	0.2	-0.2	-0.7	1
LACI	53.39	0.3	-0.2	-3.3	-2
USDPLN (Poland)	3.84	-0.2	-0.3	-1.5	-3
USDRUB (Russia)	64.98	0.7	0.6	-1.1	7
USDTRY (Turkey)	6.02	0.6	2.1	-4.0	-12
USDCNY (China)	6.88	0.0	-1.4	-2.5	0
USDINR (India)	70.44	0.1	-1.4	-1.8	-1
USDIDR (Indonesia)	14434	-0.1	-1.1	-2.2	0
ADXY	104.47	0.1	-0.8	-1.9	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	71.3	1.5	2.0	0	33
WTX	62	1.3	0.7	-3	36
Copper	273	0.0	-2.3	-7	4
Gold	1295	-0.3	0.9	0	1
S&P Spot commodity *	431	-0.7	-0.8	-5	15
S&P Brent Spot *	590	-0.8	-0.6	-2	29
S&P Metals Spot *	319	-1.2	-2.2	-7	0
S&P Agricultural *	258	0.6	-2.7	-8	-9

Source: Bloomberg, Datastream and Haver

* With one day delay