

Markets remain fragile as US-China tech war worsens trade deal prospects

- US 'blacklisting' of China's technology major Huawei further undermined the frayed US-China relationship while dimming prospects of a trade deal. Markets got skittish as Google interrupted the delivery of critical software and technical services to Huawei, enabling only the use of the public version of Android. Moreover, all US chip makers have suspended the supply of key software and components until further notice. Analysts assert that this action could paralyse Huawei's smartphone and equipment business ([see](#)).
- Meanwhile, economic activity disappointed in the US. Chicago Fed national activity index declined more than expected in April (-0.45%, consensus -0.2%, previous+0.05%).
- **Risk indicators implied by financial markets bounced back.** Equity volatility picked up while implied volatility in bond markets remained elevated. Equity prices declined across the board, led by the technology sectors.
- **Nonetheless, China's RMB remained stable** but close to the psychological level of USDCNY 7. Interestingly, the onshore yuan strengthened slightly against the dollar, after the PBOC set a stronger-than-expected fixing, confirming that the **PBoC** would not allow the currency to breach USDCNY 7 level. Stability on RMB help anchor other FX markets in the region. The US dollar inched down, probably while the rest of main G-10 appreciated slightly. EM currency were mixed but without significant movement, except the COP which depreciated 1% after the consumer sentiment declined, falling into negative territory.
- **Bond markets remained steady,** However, caution mood in financial markets has kept safe-have yield contained at current low levels. Peripheral risk premia have remained contained, although Italy's risk premium slightly widened on ongoing concerns about the fiscal consolidation slippage.
- Commodity prices were mixed. Oil prices rebounded (Brent \$73 per barrel; +1%) on the back of geopolitical concerns and the OPEC+ decision to maintain production cuts. Meanwhile growth concerns, due to trade frictions, weighed on metal commodity prices.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.21	1.6	2.6	-17	-27
US	2.40	1.1	0.0	-16	-28
GER (2-yr)	-0.64	0.3	-1.6	-7	-3
Germany	-0.09	1.8	-1.6	-11	-33
France	0.31	2.6	-2.0	-6	-40
Spain	0.88	0.9	-10.7	-19	-64
Italy	2.69	3.4	-0.6	9	-20
Portugal	1.06	0.9	-9.8	-12	-80
Greece	3.42	-0.7	-13.8	11	-97
Japan (2-yr)	-0.15	0.2	0.2	0	-1
Japan	-0.04	0.9	0.5	-2	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.02	-7.9	14.5	5	-22
Chile	3.83	-0.1	-1.0	-8	-42
Colombia	6.77	-1.5	2.4	11	2
Mexico	8.05	0.0	-6.0	2	-59
Peru	4.76	-0.4	-6.2	-9	-60
Poland	2.89	0.6	4.4	1	7
Russia	8.13	-3.9	-14.6	-20	-65
Turkey	18.18	-14.0	-149.0	120	238
India	7.27	-9.0	-11.7	-15	-9
Indonesia	8.09	3.6	4.9	51	6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	40	0.8	-0.4	5	-1
Italy	278	1.6	1.0	20	13
Portugal	114	-0.9	-8.2	-1	-42
Spain	97	-0.9	-9.1	-8	-25
2-yr sovereign spread vs Germany					
France	8	0.0	2.3	2	-7
Italy	130	5.5	4.8	21	21
Portugal	28	-0.5	-1.7	6	2
Spain	30	0.7	1.2	5	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	185	5.0	14	14	-23
Chile	47	0.6	2	11	-17
Colombia	108	1.1	2	14	-50
Argentina	1283	52.2	121	366	476
Mexico	117	0.6	-2	7	-38
Peru	67	0.5	2	14	-27
Poland	65	0.0	-1	-3	-2
Russia	129	1.0	1	0	-25
Turkey	489	0.2	3	70	129
China	50	2.3	3	11	-18
India	81	-0.5	2	-1	-33
Indonesia	105	2.0	3	15	-33
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	0.5	-4	4	-9
VSTOXX	17	2.4	-2	6	-6
EM EFT volatility Index	22	0.4	-6	7	-3
Dollar/euro volatility	5	0.2	0	1	-2
EM FX volatility index	9	0.4	0	1	-1
Credit spread (BAA) (change in bps)	223	-1.1	-2	10	-23
US bonds volatility index	57	0.0	-1	8	-10
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.16	-	-4	-10	2
EZ Inflation expectations (5Y5Y)	1.33	-	-3	-7	-28
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	56	0.1	-4	1	-27
EZ	79	0.3	-6	2	-41
UK	67	2.6	5	11	-27
Large Spanish	57	0.5	1	2	-30
Medium Spanish	84	3.0	1	-18	-28
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	170	0.1	-4	1	-27
EZ Non-financial	82	0.3	-6	2	-41
UK Non-financial	106	-0.1	-1	3	-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	-1
Euribor 12m	-0.14	0	-2	-2	-2
Libor 3m	2.52	0	-1	-7	-28
Libor 12m	2.64	2	-6	-13	-38
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,847	-0.4	1.3	-2.0	14
Dow Jones	25,706	-0.2	1.5	-3.2	10
Nikkei	21,302	0.2	0.5	-3.6	6
FTSE 100	7,303	-0.6	2.0	-2.1	9
EuroStoxx 50	3,367	-1.7	1.4	-3.8	12
IBEX	9,192	-1.0	1.6	-4.1	8
DAX	12,037	-1.6	1.4	-1.5	14
CAC	5,353	-1.6	1.7	-4.1	13
MBI	20,527	-2.7	-0.3	-6.5	12
ASE Athens	717	-1.7	-1.0	-7.9	17
MSCI Latam *	87,173	-0.1	-3.3	-4.9	1
Ibovespa (Brazil)	91,098	1.2	-0.7	-3.7	4
Mexbol (Mexico)	43,719	0.6	1.3	-4.0	5
Merval (Argentina)	32,956	-1.1	2.0	2.9	9
MSCI EM Europe *	5,547	-0.2	0.9	-4.0	5
Poland	2,176	-0.4	0.1	-8.0	-4
Micex 10 (Russia)	4,514	-0.4	0.9	-1.4	8
Ise 100 (Turkey)	86,771	0.0	0.6	-10.4	-5
MSCI EM Asia *	827	-1.3	-3.2	-8.4	6
Shanghai Com (China)	2,871	-0.4	-1.1	-11.7	15
Jakarta (Indonesia)	5,907	0.2	-4.9	-8.9	-5
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	134.4	0.2	0.9	-4.9	16
JPM	111.4	0.6	1.8	-1.8	14
Citi	65.0	-0.1	1.0	-6.7	25
BoA	28.4	0.0	0.5	-5.5	15
MS	44.0	0.2	-0.5	-7.5	11
GS	197.3	0.0	1.2	-4.2	18
EZ banks	72.4	-3.1	-2.8	-13.8	5
BNP	44.5	-2.0	-0.6	-9.2	13
Crédit Agricole	11.1	-1.2	-1.7	-11.2	17
Deutsche Bank	6.6	-3.2	-2.6	-14.9	-5
ING	10.0	-1.6	-2.7	-17.3	6
Intesa	2.0	-8.7	-6.4	-15.1	2
SG	25.1	-2.6	-1.8	-13.6	-10
Unicredit	10.4	-2.4	-5.0	-18.9	5
UK banks	76.5	-1.3	-0.3	-8.0	5
HSBC	650.1	-0.7	0.0	-2.5	0
RBS	222.4	-2.3	-1.7	-15.2	3
Barclays	156.4	-1.5	0.8	-7.7	4
Lloyds	59.5	-1.4	-0.5	-9.7	15
Large Spanish banks	62.1	-1.5	1.3	-10.2	6
Santander	4.1	-1.5	0.8	-11.1	3
BBVA	5.1	-1.6	1.8	-9.3	9
Medium Spanish banks	54.1	-1.0	0.5	-5.3	6
Caixabank	2.8	-0.9	1.2	-6.5	-13
Sabadell	1.1	-1.5	2.2	2.8	5
Bankinter	6.7	-0.8	-0.4	-8.8	-5
Bankia	2.3	-1.2	-0.1	-4.9	-10
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.117	0.1	-0.4	-0.5	-3
GBPUSD	1.27	0.0	-1.8	-2.0	0
USDJPY	109.97	0.1	-0.6	1.8	0
DXY	97.88	-0.1	0.6	0.4	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	45.39	-0.8	-0.5	-7.8	-17
USDBRL (Brazil)	4.11	-0.3	-2.9	-4.5	-6
USDCLP (Chile)	698.14	-0.3	-0.7	-5.1	-1
USDCOP (Colombia)	3354	-1.0	-1.5	-6.2	-3
USDMXN (Mexico)	19.11	0.3	0.6	-1.6	3
USDPEN (Peru)	13.34	-0.2	-0.3	-1.3	1
LACI	52.64	-0.3	-1.1	-3.9	-3
USDPLN (Poland)	3.85	0.3	-0.3	-1.0	-3
USDRUB (Russia)	64.49	0.3	1.4	-1.0	8
USDTRY (Turkey)	6.01	0.7	0.8	-3.5	2
USDCNY (China)	6.91	0.1	-0.5	-2.9	0
USDINR (India)	69.74	0.7	1.1	-0.6	0
USDIDR (Indonesia)	14455	0.0	-0.2	-2.8	0
ADXY	104.00	0.2	-0.3	-2.2	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	72.5	0.4	3.2	1	35
WTX	63	0.5	3.4	-1	39
Copper	274	-0.4	0.3	-6	4
Gold	1277	0.0	-1.7	0	0
S&P Spot commodity *	443	-0.5	2.7	-2	18
S&P Metals Spot *	606	-0.6	2.8	0	32
S&P Metals Spot *	323	-1.0	1.3	-5	1
S&P Agricultural *	269	-0.5	4.2	-3	-5

Source: Bloomberg, Datastream and Haver

* With one day delay