

## Huawei respite lifts market mood

Financial market mood improved slightly today, after the US granted Chinese tech major Huawei a 90-day conditional waiver to continue doing business with US companies. The move provides a temporary respite for investors, unnerved by the ongoing escalation of US-China trade tensions, exacerbated by a parallel technology war, triggered by US officials 'blacklisting' Huawei's earlier this week.

Meanwhile Powell's speech supported bond markets, as he suggested that the US economy continues on a healthy path, led by strong job creation in a context of mute inflation pressure. He added that the Fed was aware of the change in inflation dynamics. On a cautious note, the Fed chair warned about the high level of corporate debt, but downplayed its risks to financial system, saying it is better positioned to absorb losses (see). Regarding the impact of trade frictions, Mr. Powell said that it is premature to judge, given the unknown outlook of trade talks. Market's implied probability of a Fed rate cut in 2019 hovered around 70%, while markets priced in a 65% probability of an additional rate cut in 2020.

OECD downgraded growth forecasts across the board, except in the US in 2019 (World: 3.2% -0.3pp, US: 2.8% +0.1pp, Euro Area: 1.2% -0.6pp, China 6.2% -0.1pp). The OECD urged for coordinated policy actions to contain downside risks to global growth. In the US, GDP growth is expected to moderate as support from fiscal easing fades, although, solid labor market, and supportive financial conditions to underpin domestic demand, even as higher tariffs weigh on investment and exports. In EM, the OECD sees growth steady but with some divergences among countries. Fears of higher inflation seems to have subsided, providing room for emerging markets cushion external headwinds. Also, relatively favorable financial conditions and commodity prices are cushioning the extent of ongoing slowdown.

Equity markets bounced back slightly, led by the technology sector. Implied volatility in equity markets inched down but kept its upward trend intact.

Safe-have bonds yields inched up, with investors shifting to peripheral bond market for getting an extra-yield. Peripheral risk premia compressed across the board, especially in Italy.

In FX markets, the US dollar appreciated slightly, while the JPY lost some ground as risk-off mood abated. The GBP have been steady waiting for Theresa May speech unveiling new Brexit plan, trying to end the deadlock. Meanwhile EM FX were mixed, although broadly unchanged, with the exception of TRY, which depreciated (0.8%) after the central bank eased liquidity, restarting the one-week repo rate, and setting it below the overnight rates.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.25	2.7	5.1	-13	-24
<b>US</b>	2.43	1.4	1.9	-13	-25
GER (2-yr)	-0.62	1.9	0.9	-5	-1
<b>Germany</b>	-0.07	2.2	0.5	-9	-31
France	0.33	1.7	0.1	-4	-38
Spain	0.88	-0.9	-9.6	-20	-65
Italy	2.64	-5.9	-8.8	4	-25
Portugal	1.03	-2.5	-10.6	-14	-83
Greece	3.39	-2.9	-17.0	8	-101
Japan (2-yr)	-0.15	0.2	0.4	0	-1
<b>Japan</b>	-0.05	-0.2	0.5	-2	-5
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.93	-4.9	14.2	-3	-30
Chile	3.82	0.0	-3.1	-9	-43
Colombia	6.79	1.4	5.8	14	4
Mexico	8.06	1.5	-2.5	3	-58
Peru	4.76	0.0	-4.0	-9	-60
Poland	2.91	2.2	4.9	3	9
Russia	8.05	-7.6	-22.3	-28	-73
Turkey	18.41	23.0	-20.0	135	261
India	7.30	1.7	-7.4	-11	-6
Indonesia	8.07	-1.6	2.3	49	5
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	39	-0.5	-0.4	5	-1
Italy	271	-8.1	-9.3	13	6
Portugal	110	-4.7	-11.1	-5	-46
Spain	94	-3.1	-10.1	-11	-28
<b>2-yr sovereign spread vs Germany</b>					
France	7	-1.4	0.6	1	-8
Italy	121	-8.5	-10.2	13	13
Portugal	24	-3.6	-6.1	2	-2
Spain	28	-1.9	-1.9	3	-9
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	182	-2.4	6	11	-25
Chile	46	-0.1	-1	10	-17
Colombia	110	1.3	-2	15	-49
Argentina	1226	-57.3	-24	258	419
Mexico	117	-0.3	-8	7	-38
Peru	67	-0.1	-1	14	-27
Poland	66	0.3	0	-3	-2
Russia	128	-1.3	-3	-3	-26
Turkey	485	-3.5	-10	53	125
China	50	0.6	-1	10	-17
India	81	-0.4	2	-1	-33
Indonesia	106	1.3	-3	14	-31
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	15	-1.2	-3	3	-10
VSTOXX	16	-1.5	-2	5	-8
EM EFT volatility Index	20	-1.5	-4	5	-5
Dollar/euro volatility	5	-0.2	0	1	-2
EM FX volatility index	9	-0.1	0	1	-1
Credit spread (BAA) (change in bps)	222	-1.4	-3	9	-24
US bonds volatility index	57	-0.4	1	7	-10
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.18	-	-2	-10	5
EZ Inflation expectations (5Y5Y)	1.33	-	-2	-13	-28
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	56	0.7	-5	2	-26
EZ	81	2.6	5	4	-38
UK	69	1.8	5	13	-25
Large Spanish	58	0.5	-2	2	-30
Medium Spanish	87	3.0	-1	-11	-25
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	171	0.7	-5	2	-26
EZ Non-financial	82	2.6	5	4	-38
UK Non-financial	106	-0.2	-2	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	0
<b>Euribor 12m</b>	-0.15	-1	-2	-3	-3
Libor 3m	2.52	0	1	-6	-27
Libor 12m	2.65	1	-3	-10	-37
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,865	0.9	1.1	-1.4	14
Dow Jones	25,817	0.5	1.1	-2.8	11
Nikkei	21,272	-0.1	1.0	-4.2	6
FTSE 100	7,324	0.2	1.1	-1.8	9
<b>EuroStoxx 50</b>	3,384	0.4	0.6	-3.3	13
IBEX	9,244	0.5	1.3	-3.5	8
DAX	12,145	0.9	1.3	-0.6	15
CAC	5,376	0.3	0.7	-3.7	14
MIB	20,672	0.6	-1.1	-5.9	13
ASE Athens	733	2.2	0.2	-5.8	20
<b>MSCI Latam *</b>	88,256	1.2	0.1	-4.4	2
Ibovespa (Brazil)	93,566	1.8	1.6	-1.1	6
Mexbol (Mexico)	43,181	-0.8	-0.6	-0.6	4
Merval (Argentina)	34,410	2.7	5.8	7.4	14
<b>MSCI EM Europe *</b>	5,535	-0.2	1.3	-3.9	5
Poland	2,191	0.7	1.2	-7.4	-4
Micex 10 (Russia)	4,556	1.1	0.1	-0.5	9
Ise 100 (Turkey)	85,310	-1.7	-3.1	-11.9	-7
<b>MSCI EM Asia *</b>	824	-0.4	-2.4	-8.3	5
Shanghai Com (China)	2,906	1.2	0.8	-11.2	17
Jakarta (Indonesia)	5,951	2.1	-3.0	-8.5	-4
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	135.4	0.8	0.8	-4.2	17
JPM	111.6	0.2	1.1	-1.7	14
Citi	65.9	1.4	0.9	-5.5	27
BoA	28.6	0.7	-0.1	-4.8	16
MS	44.5	1.3	1.0	-6.5	12
GS	199.1	0.9	1.4	-3.3	19
<b>EZ banks</b>	72.8	0.5	-3.2	-13.4	6
BNP	45.0	0.8	-1.1	-8.1	14
Crédit Agricole	11.2	0.9	-1.7	-10.4	18
Deutsche Bank	6.7	1.0	-2.6	-13.8	-4
ING	10.0	0.9	-2.6	-16.6	7
Intesa	2.0	-0.5	-8.5	-15.6	1
SG	25.2	0.3	-2.4	-13.3	-10
Unicredit	10.3	-0.7	-3.8	-19.3	4
<b>UK banks</b>	77.1	0.8	-0.6	-7.2	6
HSBC	653.7	0.6	0.0	-1.9	1
RBS	224.3	0.9	-2.4	-14.5	4
Barclays	156.9	0.3	-0.5	-7.4	4
Lloyds	60.5	1.6	-0.3	-8.3	17
<b>Large Spanish banks</b>	62.4	0.6	0.4	-9.7	7
Santander	4.1	0.2	0.0	-11.0	3
<b>BBVA</b>	5.1	0.9	0.8	-8.4	10
<b>Medium Spanish banks</b>	54.5	0.5	1.3	-4.6	-5
Caixabank	2.8	1.3	3.2	-5.1	-11
Sabadell	1.0	-0.3	0.8	2.4	5
Bankinter	6.7	0.3	0.8	-8.3	-4
Bankia	2.3	0.8	0.7	-3.8	-9
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.117	0.0	-0.3	-0.7	-3
GBPUSD	1.28	0.3	-1.1	-1.7	0
USDJPY	110.63	-0.5	-0.9	1.2	-1
DXY	97.88	-0.1	0.4	0.5	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.80	0.9	0.3	-6.6	-16
USDBRL (Brazil)	4.07	0.7	-2.2	-3.4	-5
USDCLP (Chile)	694.81	0.2	-0.5	-4.7	0
USDCOP (Colombia)	3343	0.3	-1.6	-5.9	-3
USDMXN (Mexico)	19.01	0.3	0.7	-1.2	3
USDPEN (Peru)	3.34	0.1	-0.6	-1.5	1
LACI	53.03	0.6	-0.6	-3.2	-2
USDPLN (Poland)	3.86	-0.2	-0.3	-1.2	-3
USDRUB (Russia)	64.39	0.3	0.8	-0.6	8
USDTRY (Turkey)	6.05	-0.4	-0.3	-4.0	-13
USDCNY (China)	6.90	0.1	-0.4	-2.9	0
USDINR (India)	69.72	0.0	1.0	-0.5	0
USDIDR (Indonesia)	14480	-0.2	-0.3	-3.0	-1
ADXY	103.98	0.0	-0.4	-2.2	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	72.0	0.0	1.0	0	34
WTX	63	-0.1	2.0	-2	39
Copper	272	-0.6	-0.6	-7	3
Gold	1274	-0.3	-1.7	0	-1
S&P Spot commodity *	443	0.1	1.5	-2	18
S&P Metals Spot *	606	-0.1	1.2	0	32
S&P Metals Spot *	319	-1.2	-0.9	-6	0
S&P Agricultural *	274	1.8	3.3	-1	-3

Source: Bloomberg, Datastream and Haver

\* With one day delay