

## US-China Tech confrontation brings back a cautious tone

- Financial markets trade in a cautious fashion, as investors wait for new developments in the US-China trade dispute**, amid the US mulling over whether or not to add five new Chinese technology firms to a blacklist. The lack of support of May's new Brexit plan also increase the risk-off mood.
- Regarding monetary policy, the Fed's Bullard supports the monetary pause**, downplaying expectations for a Fed rate increase, due to the lack of inflation pressure, but at the same time arguing that it is premature to talk about a rate cut. He estimated neutral rates around 2%, suggesting that current monetary policy is somewhat tight, while cutting interest rate will send a signal that the Fed wants to allow inflation above the target, which he considers to be premature. He also sees a low risk of China's selling its Treasury bond reserves. On the impact of new tariffs on Fed actions, Bullard said that tariffs would have to stay on for at least six months to weigh on monetary policy.
- The Safe-haven yields inched down due to the cautious tone of the markets**, and ahead of the FOMC minutes set to be released later today, with both US 10Y and UK yields declining sharply, both dragged also by increasing concerns about Brexit. Market implied probability of a Fed rate cut in 2019 hovers around 70%, while the probability of an additional cut in 2020 is 62%. Peripheral risk premium slightly widened, partially reverting yesterday's decline.
- In FX markets, the G-10 traded range-bound, ahead of the FOMC minutes**. Nonetheless, JPY slightly appreciated on the back of the cautious tone in financial markets. Moreover, the GBP depreciated as May's new Brexit plan found a lack of support among all political parties, increasing chances of a disorderly Brexit. Elsewhere, **EM FX showed a mixed performance, with Asian currencies underperforming, while Latam currencies slightly appreciated**. China's RMB slightly depreciated, while CNY12M non-deliverable forward remains below USDCNY 7. Oil prices fall after US inventories increased more than expected.
- Oil prices Fall as Saudi Arabia Vows to Prevent Further Conflict in the Middle East.**
- Equity markets declined across the board, partially reverting yesterday's gains.**
- Market will be focus on FOMC minutes today and ECB minutes to be released tomorrow, and activity in the Eurozone (GDP) and Germany's IFO.**

Update 17:25 CET 21 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.22	-2.9	6.5	-16	-26
<b>US</b>	2.39	-3.7	1.6	-20	-30
GER (2-yr)	-0.63	0.0	2.5	-5	-2
<b>Germany</b>	-0.08	-2.1	1.4	-11	-33
France	0.31	-2.0	0.4	-6	-40
Spain	0.87	-0.5	-8.6	-20	-65
Italy	2.64	-0.7	-11.0	4	-25
Portugal	1.03	-0.5	-9.8	-15	-83
Greece	3.41	2.6	-14.2	10	-98
Japan (2-yr)	-0.15	0.0	0.3	0	-1
<b>Japan</b>	-0.06	-1.1	-0.5	-3	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.81	2.1	-5.3	-16	-42
Chile	3.81	-1.2	-4.3	-10	-44
Colombia	6.79	-0.6	1.5	17	3
Mexico	8.05	-0.9	0.0	1	-60
Peru	4.74	-0.5	-5.4	-13	-63
Poland	2.86	-5.1	1.6	-2	4
Russia	7.98	-6.9	-27.7	-35	-80
Turkey	18.86	45.0	18.0	161	306
India	7.26	-4.3	-11.9	-21	-11
Indonesia	8.09	1.9	6.2	47	7
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	39	0.1	-1.0	5	-2
Italy	272	1.4	-12.4	14	8
Portugal	111	1.6	-11.2	-4	-45
Spain	95	1.6	-10.0	-9	-27
<b>2-yr sovereign spread vs Germany</b>					
France	6	-1.3	-1.7	0	-9
Italy	120	-0.9	-19.1	12	12
Portugal	24	-0.3	-7.0	2	-2
Spain	29	0.6	-2.6	4	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	176	-5.8	3	6	-31
Chile	46	-0.7	0	10	-17
Colombia	108	-1.9	-1	13	-51
Argentina	1141	-84.1	-100	174	335
Mexico	114	-2.5	-6	5	-41
Peru	66	-1.3	-1	13	-29
Poland	66	0.7	1	-2	-1
Russia	128	0.4	-2	-2	-26
Turkey	488	2.4	2	54	128
China	49	-1.3	-1	9	-19
India	80	-0.6	-3	-2	-34
Indonesia	104	-2.2	-1	12	-33
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	15	-0.2	-2	2	-11
VSTOXX	15	-0.4	-1	4	-8
EM EFT volatility Index	20	-0.1	-2	3	-5
Dollar/euro volatility	5	-0.1	0	0	-2
EM FX volatility index	9	-0.1	0	1	-1
Credit spread (BAA) (change in bps)	227	3.7	1	13	-18
US bonds volatility index	55	-1.2	-2	7	-11
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.17	-	0	-14	4
EZ Inflation expectations (5Y5Y)	1.33	-	0	-12	-27
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	57	0.4	-2	2	-26
EZ	81	-0.1	6	4	-38
UK	69	-0.2	4	12	-26
Large Spanish	57	-0.4	0	2	-30
Medium Spanish	81	-6.6	-4	-16	-32
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	169	0.4	-2	2	-26
EZ Non-financial	82	-0.1	6	4	-38
UK Non-financial	105	-0.6	-2	3	-14
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	-1	-2
Euribor 3m	-0.31	0	0	0	0
<b>Euribor 12m</b>	-0.15	0	-2	-3	-3
Libor 3m	2.52	0	0	-6	-27
Libor 12m	2.65	1	1	-9	-36
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,857	-0.2	0.2	-1.7	14
Dow Jones	25,809	-0.3	0.6	-2.6	11
Nikkei	21,283	0.1	0.4	-4.2	6
FTSE 100	7,334	0.1	0.5	-1.7	9
<b>EuroStoxx 50</b>	3,387	0.0	0.0	-3.2	13
IBEX	9,232	-0.1	0.6	-3.6	8
DAX	12,169	0.2	0.6	-0.4	15
CAC	5,379	-0.1	0.1	-3.6	14
MIIB	20,573	-0.6	-1.4	-6.3	12
ASE Athens	731	-0.2	1.2	-6.0	19
<b>MSCI Latam *</b>	89,650	1.6	1.2	-2.9	4
Ibovespa (Brazil)	94,408	-0.1	3.0	-0.2	7
Mexbol (Mexico)	42,844	-0.8	-1.1	-5.6	3
Merval (Argentina)	34,580	0.3	4.1	12.3	14
<b>MSCI EM Europe *</b>	5,616	1.5	1.5	-2.5	6
Poland	2,214	1.1	2.1	-6.4	-3
Micex 10 (Russia)	4,585	0.4	1.1	-0.5	10
Ise 100 (Turkey)	83,675	-1.9	-4.2	-12.8	-8
<b>MSCI EM Asia *</b>	826	0.3	-1.6	-8.1	6
Shanghai Com (China)	2,892	-0.5	-1.6	-10.1	16
Jakarta (Indonesia)	5,940	0.6	-2.2	-8.7	-4
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	134.4	-0.9	0.6	-4.6	16
JPM	111.1	-0.6	1.1	-2.2	14
Citi	65.1	-1.5	0.3	-5.8	25
BoA	28.5	-0.7	0.7	-5.2	16
MS	44.1	-0.7	0.4	-6.8	11
GS	196.8	-1.2	0.2	-3.8	18
<b>EZ banks</b>	71.9	-1.5	-3.1	-14.4	4
BNP	44.5	-1.1	-1.6	-9.1	13
Crédit Agricole	11.0	-2.0	-0.8	-11.9	16
Deutsche Bank	6.6	-1.4	-3.3	-15.0	-5
ING	9.9	-1.6	-1.9	-17.8	5
Intesa	1.9	-1.8	-8.9	-16.8	0
SG	25.0	-0.9	-2.4	-13.8	-10
Unicredit	10.2	-1.0	-3.8	-19.8	3
<b>UK banks</b>	76.0	-1.5	-3.1	-8.6	4
HSBC	657.5	0.8	-0.9	-1.4	2
RBS	217.3	-3.6	-5.6	-17.2	0
Barclays	152.8	-2.7	-4.5	-9.8	2
Lloyds	59.2	-2.3	-3.0	-10.2	14
<b>Large Spanish banks</b>	61.4	-1.5	-1.3	-11.1	5
Santander	4.1	-1.1	-1.4	-12.1	2
<b>BBVA</b>	5.0	-1.8	-1.3	-10.2	8
<b>Medium Spanish banks</b>	53.4	-1.9	-0.8	-6.5	-7
Caixabank	2.8	-0.9	2.1	-6.0	-12
Sabadell	1.0	-2.7	-1.6	0.0	2
Bankinter	6.6	-2.3	-2.0	-10.5	-6
Bankia	2.3	-2.1	-1.5	-5.9	-11
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.116	0.0	-0.4	-0.9	-3
GBPUSD	1.27	-0.2	-1.3	-2.3	-1
USDJPY	110.29	0.2	-0.6	1.5	-1
DXY	98.04	0.0	0.5	0.8	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.77	0.1	0.5	-5.6	-16
USDBRL (Brazil)	4.03	0.3	-0.6	-2.3	-4
USDCLP (Chile)	697.58	-0.4	-1.0	-4.8	-1
USDCOP (Colombia)	3347	-0.1	-1.9	-6.1	-3
USDMXN (Mexico)	18.99	0.1	0.3	-0.9	3
USDPEN (Peru)	3.35	-0.2	-0.9	-1.3	1
LACI	53.20	0.1	-0.5	-2.7	-2
USDPLN (Poland)	3.86	0.0	-0.5	-1.4	-3
USDRUB (Russia)	64.35	0.1	0.5	-0.9	8
USDTRY (Turkey)	6.11	-1.0	-1.9	-4.7	-13
USDCNY (China)	6.91	-0.1	-0.4	-2.8	0
USDINR (India)	69.67	0.1	1.0	0.0	0
USDIDR (Indonesia)	14525	-0.3	-0.4	-3.1	-1
ADXY	103.96	0.0	-0.4	-2.1	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	70.8	-2.0	-1.4	-4	32
WTX	61	-2.5	-1.0	-7	35
Copper	268	-1.6	-2.7	-8	2
Gold	1276	0.1	-1.6	0	-1
S&P Spot commodity *	443	-0.1	0.8	-3	18
S&P Brent Spot *	607	0.2	0.6	-3	33
S&P Metals Spot *	319	-0.2	-2.0	-6	0
S&P Agricultural *	276	0.5	3.9	1	-3

Source: Bloomberg, Datastream and Haver

\* With one day delay