

## 10-year U.S. treasury yield hits 19-month low

- The US equity markets extended the tepid rebound while safe-haven yields inch down further today, as traders returned from holiday break in the US and UK. Such unusual negative correlation between equity prices and bond yields suggests that markets are still trading with caution amid a challenging backdrop.
- US-China trade deadlock persists with Trump stating that he is 'not ready' to make a deal with China, thereby further dampening hopes that Trump and Xi could rekindle trade talks when they meet on the sidelines of the G20 summit on June 28th.
- Meanwhile, fragmented results of the recently concluded European parliamentary elections, and its domestic political implications (in Germany, Italy and Greece) has added to the risk-off mood. In the UK, the election results have returned a 'no-deal' Brexit to forefront of debate.
- **On data front, the better than expected Eurozone sentiment** driven mainly by the services sector (105.1, consensus 104, previous month 103.9) [\(see\)](#) **was offset by a worse-than-expected GfK consumer sentiment indicator in Germany**, which hit its lowest level in more than two years (10.1, consensus 10.4, previous month 10.2). In the US, consumer confidence rose, beating consensus expectations in May (134, consensus 130, previous month 129.2).
- In Asia, **the liquidation of a Chinese small bank raised concerns** about the capacity of Chinas' small banks to borrow in the wholesale markets, pushing the PBoC to inject more funds through Open Market Operations. Past two days has already seen largest liquidity infusion since Jan 2019.
- **The US 10Y Treasury yields hit a 19-month low today to 2.273% before recovering slightly, following yesterday's decline in German yields, led by some safe-haven demand.** Meanwhile the US 10-2Y yield slope continued to flatten. Italy's risk premium widened further, as the country faces a EUR.5bn penalty for failing to curb its rising debt-to-GDP ratio. However spillovers to other European peripherals seems to be contained. However, Italy's banking sector were under pressure. Also, Italy's debt trimmed losses after the European Union Commissioner for Economic and Financial Affairs said he doesn't favour sanctions, and suggested that the first step is to exchange views with Italy about the need for potential new actions that Italy may need.
- **FX markets were range-bound, although the US dollar and the JPY slightly appreciated, given the cautious mood.** Whereas, the Euro, the GBP and the CNY slightly depreciated. The spread between the on-shore and off-shore yuan has been narrowing since the PBoC signaled that the RMB is not expected to breach the USDCNY 7 level. Most EM FX extended depreciations, while TRY slightly appreciated.

Update 18:35 CET 28 May 2019

Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.13	-3.5	-12.5	-15	-36
<b>US</b>	2.27	-5.1	-15.7	-23	-41
GER (2-yr)	-0.64	0.5	-1.6	-5	-3
<b>Germany</b>	-0.16	-1.7	-9.8	-14	-40
France	0.25	-1.2	-7.8	-10	-46
Spain	0.79	-2.7	-8.7	-24	-73
Italy	2.68	0.6	3.9	10	-21
Portugal	0.92	-4.2	-11.3	-21	-94
Greece	3.19	3.0	-19.9	-11	-121
Japan (2-yr)	-0.16	-0.4	-0.7	-1	-2
<b>Japan</b>	-0.07	-0.3	-2.7	-3	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.71	-8.4	-8.0	-25	-52
Chile	3.55	-15.9	-27.3	-38	-70
Colombia	6.73	-2.9	-5.9	-3	-2
Mexico	7.95	-3.9	-10.2	-11	-69
Peru	4.64	-5.6	-10.3	-23	-72
Poland	2.78	-3.3	-13.8	-14	-5
Russia	8.03	0.2	-1.9	-29	-75
Turkey	18.78	0.0	37.0	48	298
India	7.15	-1.6	-15.3	-26	-22
Indonesia	7.97	4.9	-10.2	19	-5
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	41	0.5	2.0	4	0
Italy	284	2.3	13.7	24	20
Portugal	108	-2.5	-1.5	-7	-48
Spain	95	-1.0	1.1	-10	-27
<b>2-yr sovereign spread vs Germany</b>					
France	6	-0.7	-1.2	1	-9
Italy	130	3.7	8.7	16	21
Portugal	24	-1.0	-0.5	0	-2
Spain	29	-1.9	0.8	3	-8
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	179	0.0	-3	4	-28
Chile	49	0.0	3	10	-14
Colombia	113	-0.4	3	14	-46
Argentina	1133	0.3	-93	-121	327
Mexico	120	-0.5	4	5	-34
Peru	70	-0.3	2	12	-25
Poland	66	-0.3	1	1	-1
Russia	127	0.0	-1	-2	-27
Turkey	510	-5.2	25	52	150
China	53	0.5	2	10	-15
India	82	-0.3	2	3	-31
Indonesia	108	0.1	1	10	-30
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	0.4	1	4	-9
VSTOXX	16	-0.1	0	4	-8
EM EFT volatility Index	21	0.0	1	5	-4
Dollar/euro volatility	5	-0.1	0	0	-2
EM FX volatility index	8	-0.1	-1	0	-1
Credit spread (BAA) (change in bps)	236	5.1	13	22	-10
US bonds volatility index	61	0.0	5	11	-6
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.12	-	-7	-20	-2
EZ Inflation expectations (5Y5Y)	1.31	-	-2	-7	-30
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	59	0.0	3	2	-23
EZ	85	0.0	3	2	-35
UK	76	0.0	7	16	-18
Large Spanish	60	0.0	3	1	-27
Medium Spanish	84	1.2	-3	-16	-28
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	172	0.0	3	2	-23
EZ Non-financial	84	0.0	3	2	-35
UK Non-financial	109	0.9	3	5	-10
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	0	-1
Euribor 3m	-0.32	0	0	-1	-1
<b>Euribor 12m</b>	-0.15	-1	-1	-4	-4
Libor 3m	2.52	0	0	-6	-27
Libor 12m	2.62	0	-3	-10	-39
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,830	0.1	-1.2	-3.7	13
Dow Jones	25,624	0.2	-1.0	-3.5	10
Nikkei	21,260	0.4	-0.1	-4.5	6
FTSE 100	7,269	-0.1	-0.8	-2.1	8
<b>EuroStoxx 50</b>	3,349	-0.5	-1.1	-4.3	12
IBEX	9,192	-0.3	-0.5	-3.3	8
DAX	12,027	-0.4	-1.0	-2.3	14
CAC	5,313	-0.4	-1.4	-4.6	12
MIB	20,261	-0.5	-2.1	-6.8	11
ASE Athens	795	2.3	8.4	2.8	30
<b>MSCI Latam *</b>	89,183	0.6	1.1	-4.2	3
Ibovespa (Brazil)	96,228	1.4	1.8	0.0	9
Mexbol (Mexico)	42,588	0.2	-1.4	-5.3	2
Merval (Argentina)	35,140	-0.9	1.9	17.1	16
<b>MSCI EM Europe *</b>	5,642	0.4	1.9	-1.7	7
Poland	2,193	0.1	0.1	-7.6	-4
Micex 10 (Russia)	4,582	-0.9	0.4	1.1	9
Ise 100 (Turkey)	86,778	1.4	1.7	-8.4	-5
<b>MSCI EM Asia *</b>	815	0.0	-1.1	-8.4	4
Shanghai Com (China)	2,910	0.6	0.1	-5.7	17
Jakarta (Indonesia)	6,033	-0.4	2.1	-5.3	-3
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	131.9	-0.4	-2.7	-7.0	14
JPM	109.4	-0.3	-2.1	-4.5	12
Citi	64.2	-0.2	-2.8	-7.6	23
BoA	28.2	0.0	-1.8	-7.1	14
MS	42.8	-0.5	-3.7	-10.7	8
GS	190.9	-1.1	-4.1	-6.0	14
<b>EZ banks</b>	69.2	-0.6	-5.2	-14.1	0
BNP	44.3	0.2	-1.6	-5.6	12
Crédit Agricole	10.3	-0.4	-8.0	-15.0	9
Deutsche Bank	6.3	-2.2	-6.0	-14.1	-10
ING	9.8	0.5	-2.3	-13.2	4
Intesa	1.9	-1.1	-4.6	-17.4	-3
SG	22.6	-2.0	-10.5	-18.4	-19
Unicredit	10.0	-1.4	-3.5	-17.3	1
<b>UK banks</b>	75.2	-0.3	-2.5	-5.8	3
HSBC	658.5	-0.1	0.9	-1.0	2
RBS	216.6	0.0	-3.9	-9.8	0
Barclays	150.7	0.9	-4.0	-6.4	0
Lloyds	57.6	-1.5	-4.8	-8.5	11
<b>Large Spanish banks</b>	61.3	-0.1	-1.7	-8.3	5
Santander	4.0	-0.5	-2.0	-10.5	1
<b>BBVA</b>	5.0	0.2	-1.4	-6.1	9
<b>Medium Spanish banks</b>	53.8	0.7	-1.3	-3.0	-6
Saibabank	2.8	1.5	0.7	-0.5	-11
Sabadell	1.0	-0.4	-3.6	0.0	1
Bankinter	6.6	0.5	-1.5	-6.1	-6
Bankia	2.3	1.0	-1.4	-3.5	-11
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.117	-0.2	0.1	0.2	-3
GBPUSD	1.27	-0.1	-0.3	-1.9	-1
USDJPY	109.53	0.0	0.9	1.9	0
DXY	97.90	0.3	-0.2	-0.1	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.71	0.2	0.2	2.7	-16
USDBRL (Brazil)	4.02	0.5	0.4	-2.2	-4
USDCLP (Chile)	705.67	-1.0	-1.5	-4.4	-2
USDCOP (Colombia)	3370	-0.2	-0.8	-4.4	-3
USDMXN (Mexico)	19.17	-0.6	-0.8	-1.2	2
USDPEN (Peru)	3.35	0.0	-0.3	-1.1	0
LACI	52.95	-0.2	-0.4	-1.8	-3
USDPLN (Poland)	3.85	-0.4	0.3	0.2	-3
USD RUB (Russia)	64.65	-0.5	-0.3	0.2	7
USDTRY (Turkey)	6.03	0.5	0.4	-1.5	-12
USDCNY (China)	6.91	-0.2	-0.1	-2.6	0
USDINR (India)	69.68	-0.3	0.1	0.5	0
USDIDR (Indonesia)	14375	0.0	0.7	-1.2	0
ADXY	104.11	0.0	0.2	-1.6	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	70.0	-0.2	-3.0	-3	30
WTx	59	0.8	-6.2	-7	30
Copper	270	-0.1	-0.8	-9	3
Gold	1278	-0.8	0.3	-1	0
S&P Spot commodity *	427	0.0	-3.6	-4	14
S&P Brent Spot *	574	0.0	-5.4	-6	25
S&P Metals Spot *	319	0.0	0.0	-5	0
S&P Agricultural *	280	0.0	1.5	3	-1

Source: Bloomberg, Datastream and Haver

\* With one day delay