

## Risk assets slide as trade war worries aggravate global growth fears

■ Risk-off mood intensified as trade tensions dampen chance of a trade truce, mounting concerns about its impact on global growth outlook, amid broad based weakness in manufacturing.

■ **Safe-haven yields tumbled** (US 10Y yield -14 bps to 2.16%, hitting a 20-month low, German 10Y yield -8bps, hitting a record low of -0.2%), in the wake of mounting concerns about the negative impact of escalating US-China trade tensions (see), Trump's latest tariff action against Mexico (see), and broad based weakness in manufacturing PMIs (China). Adding to the market uncertainty, the recently concluded European parliamentary elections triggered angst about domestic politics in some relevant EU member states, namely [Germany](#), [Italy](#) and the [UK](#), with the latter now seeing an increased probability of a no-deal Brexit. Markets' implied probability of a rate cut in 2019 remained high at 80% in 2019, with a 70% probability of an additional cut in 2020, while Fed Vice Chair Clarida affirmed current policy stance, but said the Fed is willing to adjust policy if growth outlook darkens (see).

■ **The US 10-2Y yield slope continued to flatten**, while the 10Y-3M slope inverted further (-15bps). The 10Y term premium hitting a record low in US and Germany dropping 6bps). Inflation expectations declined in US (5Y5Y inflation swap -5bps) and in Germany (5Y5Y inflation swap -2bps).

■ Equity volatility surged (VIX 19) while banks stocks fell abruptly as yields plunged. However, declines in some equity market are relatively contained.

■ **FX markets were range-bound, although the US dollar and the JPY remained strong on safe haven bid.** EM FXs have been relatively resilient this week, although Trump's latest tariff action against Mexico has weighed heavily on the MXN (-3.1%), which had found support this week from a hawkish central bank minutes. A sharp fall in oil prices since yesterday also dragged on most latam currencies. CNY were broadly stable although weaker manufacturing PMI may push further for new stimulus to support growth, and increasing angst about RMB slippage. Nonetheless, the PBoC continued supporting a stable yuan.

■ **Corporate and EM bond spreads widened further.** HY spread widened by (+ 9bps).

■ **Italy's risk premium widened further**, the success of the League may lead to early elections in coming quarters and gave strength to Salvini to push through his flat tax reform, increasing frictions with the EC, with Italy facing a penalty for failing to curb its rising debt-to-GDP ratio (see). However, Spain and Portugal risk premia benefited from the strong safe-haven demand, especially Portugal after Fitch upgraded Portugal's outlook to positive from stable.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.99	-6.7	-17.0	-31	-49
<b>US</b>	2.17	-4.0	-14.7	-33	-51
GER (2-yr)	-0.67	-2.8	-3.7	-8	-6
<b>Germany</b>	-0.20	-2.5	-8.3	-21	-44
France	0.21	-2.4	-7.0	-16	-50
Spain	0.71	-5.0	-11.2	-29	-81
Italy	2.65	-0.5	9.8	10	-24
Portugal	0.81	-5.3	-16.5	-30	-105
Greece	2.91	-14.1	-44.9	-46	-149
Japan (2-yr)	-0.17	-0.7	-1.9	-2	-3
<b>Japan</b>	-0.09	-1.5	-2.4	-5	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.46	2.9	-39.4	-52	-78
Chile	3.45	-2.7	-24.9	-48	-80
Colombia	6.66	-0.8	-10.8	-19	-9
Mexico	8.01	7.7	2.1	-8	-63
Peru	4.61	-0.1	-7.3	-20	-75
Poland	2.64	-7.1	-18.7	-37	-18
Russia	7.99	-0.8	-5.6	-25	-79
Turkey	18.04	-22.0	-74.0	-100	224
India	7.03	-10.3	-19.3	-38	-34
Indonesia	7.96	-8.7	4.1	13	-6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	41	0.1	1.3	6	0
Italy	285	2.0	18.1	31	21
Portugal	101	-2.8	-8.2	-9	-55
Spain	91	-2.5	-2.9	-7	-31
<b>2-yr sovereign spread vs Germany</b>					
France	5	-0.3	-1.0	2	-10
Italy	135	6.4	24.4	29	27
Portugal	27	3.5	3.6	4	1
Spain	30	1.4	0.8	5	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	178	-0.5	-3	6	-29
Chile	50	-0.2	1	11	-13
Colombia	113	-1.0	-1	15	-45
Argentina	1178	7.1	30	-8	372
Mexico	123	-1.1	2	10	-32
Peru	69	-1.0	-1	13	-25
Poland	66	-0.3	-1	0	-2
Russia	128	-0.5	-1	3	-26
Turkey	492	-27.1	-28	42	132
China	57	-0.3	3	15	-11
India	82	-1.0	1	4	-31
Indonesia	111	-2.5	2	16	-26
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	19	1.2	3	4	-7
VSTOXX	18	1.1	1	5	-6
EMEFT volatility Index	22	0.7	1	5	-3
Dollar/euro volatility	5	0.1	0	0	-2
EM FX volatility index	8	-0.1	0	0	-1
Credit spread (BAA) (change in bps)	238	4.0	7	25	-8
US bonds volatility index	62	-1.4	1	15	-5
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.11	-	-4	-13	-2
EZ Inflation expectations (5Y5Y)	1.29	-	-2	-11	-31
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	65	-1.2	5	9	-17
EZ	85	-2.6	-3	8	-35
UK	74	-3.0	-3	16	-21
Large Spanish	59	-1.9	-2	5	-28
Medium Spanish	85	-2.2	3	-13	-27
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	176	-1.2	5	9	-17
EZ Non-financial	86	-2.6	-3	8	-35
UK Non-financial	110	0.8	2	7	-9
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	-1	-1	-2
Euribor 3m	-0.32	0	-1	-1	-1
<b>Euribor 12m</b>	-0.17	-1	-2	-5	-5
Libor 3m	2.52	0	0	-6	-28
Libor 12m	2.58	1	-7	-14	-44
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,760	-1.0	-2.3	-5.6	10
Dow Jones	24,927	-1.0	-2.6	-5.7	7
Nikkei	20,601	-1.6	-2.4	-7.4	3
FTSE 100	7,158	-0.8	-1.6	-3.1	6
<b>EuroStoxx 50</b>	3,274	-1.3	-2.3	-6.8	9
IBEX	8,997	-1.8	-1.9	-6.0	5
DAX	11,716	-1.6	-2.5	-5.1	11
CAC	5,190	-1.1	-2.4	-7.1	10
MIIB	19,776	-0.9	-2.9	-9.6	8
ASE Athens	830	1.5	13.4	7.4	35
<b>MSCI Latam *</b>	91,405	1.0	2.7	-1.4	6
Ibovespa (Brazil)	97,862	0.4	4.5	1.6	11
Mexbol (Mexico)	42,725	-1.4	0.3	-4.2	3
Merval (Argentina)	34,169	-0.2	-2.6	15.5	13
<b>MSCI EM Europe *</b>	5,758	1.2	2.6	0.8	9
Poland	2,239	0.8	2.3	-4.1	-2
Micex 10 (Russia)	4,629	-0.1	0.8	1.9	11
Ise 100 (Turkey)	90,440	0.5	5.1	-5.2	-1
<b>MSCI EM Asia *</b>	816	0.5	0.2	-8.6	4
Shanghai Com (China)	2,899	-0.2	1.6	-5.8	16
Jakarta (Indonesia)	6,209	1.7	2.9	-3.8	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	126.9	-1.6	-4.2	-10.7	10
JPM	105.8	-1.2	-3.6	-8.1	8
Citi	62.4	-1.8	-3.0	-10.7	20
BoA	26.7	-1.8	-5.3	-11.8	8
MS	41.0	-1.9	-4.5	-13.8	3
GS	184.2	-1.7	-4.5	-10.0	10
<b>EZ banks</b>	67.4	-1.1	-3.8	-17.4	-2
BNP	40.7	-1.5	-7.2	-14.2	3
Crédit Agricole	10.2	-1.0	0.3	-16.4	8
Deutsche Bank	6.1	-2.0	-4.7	-17.6	-13
ING	9.7	-1.0	-1.0	-14.9	3
Intesa	1.8	-1.7	-4.5	-21.5	-5
SG	22.4	-0.8	-9.2	-20.7	-20
Unicredit	10.2	0.4	-1.4	-17.2	3
<b>UK banks</b>	74.3	-1.1	-1.5	-7.4	2
HSBC	645.2	-1.3	-2.2	-3.0	0
RBS	213.6	-1.7	-1.4	-10.7	-1
Barclays	149.4	-1.0	0.1	-8.7	-1
Lloyds	57.3	-0.5	-2.0	-9.9	11
<b>Large Spanish banks</b>	59.9	-3.0	-2.1	-11.0	3
Santander	4.0	-2.2	-1.4	-12.2	0
<b>BBVA</b>	4.9	-3.8	-2.8	-9.8	5
<b>Medium Spanish banks</b>	52.7	-2.2	-0.9	-6.3	-8
Caixabank	2.8	-2.4	-0.1	-2.7	-13
Sabadell	1.0	-2.6	-2.3	-4.1	-1
Bankinter	6.5	-2.3	-1.4	-9.2	-8
Bankia	2.3	-1.6	0.7	-8.2	-12
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.114	0.1	-0.5	-0.5	-3
GBPUSD	1.26	0.0	-0.8	-3.4	-1
USDJPY	108.65	0.9	0.6	2.5	1
DXY	97.99	-0.2	0.4	0.3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.90	-0.7	-0.1	-1.5	-16
USDBRL (Brazil)	3.93	1.4	2.4	-0.2	-1
USDCLP (Chile)	707.91	0.2	-1.9	-4.2	-2
USDCOP (Colombia)	3374	-0.3	-0.5	-4.4	-4
USDMXN (Mexico)	19.64	-2.5	-3.0	-3.3	0
USDPEN (Peru)	3.37	-0.1	-0.8	-1.9	0
LACI	52.89	-0.5	-0.5	-2.2	-3
USDPLN (Poland)	3.84	0.3	-0.4	-0.5	-3
USD RUB (Russia)	65.19	-0.1	-1.1	-0.5	6
USDTRY (Turkey)	5.85	0.5	4.0	2.1	-10
USDCNY (China)	6.91	-0.1	-0.1	-2.5	0
USDINR (India)	69.70	0.3	-0.2	-0.2	0
USDIDR (Indonesia)	14269	1.0	0.9	-0.1	1
ADXY	104.10	0.1	0.0	-1.5	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	64.8	-3.1	-5.7	-10	20
WTx	55	-2.6	-6.0	-13	21
Copper	265	-0.3	-2.0	-5	1
Gold	1301	0.9	1.2	2	1
S&P Spot commodity *	422	-1.8	-1.2	-5	13
S&P Brent Spot *	556	-3.7	-3.2	-9	21
S&P Metals Spot *	315	-0.4	-1.3	-4	-1
S&P Agricultural *	296	3.1	5.9	10	4