

Market Comment

Markets wait for FOMC meeting. FOMC Preview

- Markets were broadly steady, waiting for Wednesday's FOMC meeting. We expect the Fed will leave the target range of the Fed Funds rate unchanged. The more likely scenario is that the Fed will use the meeting to set the stage for the 2H19 and the increased likelihood of rate cuts (see FOMC preview below).
- Market-implied probability of a Fed interest rate cut in July 2019 remains above 80%**, while the odds of two interest rate cuts in 2019 remains high (89%). Moreover, expectations of ECB's monetary policy easing continued to grow. Today, Benoît Cœuré said that the sovereign yields across the board are painting a bleak picture for the global economy, which should not be ignored. He also warned that the risk for their baseline scenario has increased around the projections. He listed the ECB's tool kit: cut interest rates, resume bond-buying or reinforce the forward guidance, while any cut in interest rates should be accompanied by the implementation of a deposit tier system (see).
- On the economic front, US data showed a mixed performance. After the upbeat consumption indicators (retail sales and confidence) released at the end of last week, jointly with industrial production, the Empire manufacturing index slumped in June, revealing a dim outlook for the PMI data to be released this week and boosting Fed monetary easing expectations.
- Meanwhile, there are low prospects of meaningful progress at the G-20 summit. The US Commerce Secretary Ross on Trump-Xi meeting at G-20 on June 28-29 said I think the most that will come out of the G-20 might be an agreement to actively resume talks', although he said it was not possible to judge when the negotiations would end.
- Sovereign bond yield showed minor changes.** The 10Y yield hovered around (2% in the US and -0.23% in Germany). Peripheral risk premia are broadly steady at low levels except the Italian risk premium, which narrowed, as political friction between the government coalition seems to be easing, although tensions remain between the EC and the Italian.
- In FX markets the US dollar slightly depreciated** due to the increasing expectations of Fed's monetary policy easing, while the GBP extended depreciation ahead of tomorrow's second ballot on May's successor. EM currency were also broadly steady (see). TRY slightly appreciated, after the CBRT said it would ease funding conditions for bond market primary dealers.

Central Bank Annex

UPDATE 18:00 CET 17 JUNE 2019

DEBT MARKETS (10Y, %, CHANGES IN BP)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.86	1.6	-4.7	-34	-63
US	2.08	0.2	-6.6	-31	-60
GER (2-yr)	-0.69	0.2	-2.1	-5	-8
Germany	-0.24	1.2	-2.4	-15	-49
France	0.11	1.6	-2.7	-19	-60
Spain	0.53	2.7	-7.7	-38	-99
Italy	2.30	-4.9	-5.9	-39	-59
Portugal	0.64	3.1	-4.3	-44	-122
Greece	2.72	0.8	-11.0	-75	-168
Japan (2-yr)	-0.19	1.0	0.2	-4	-5
Japan	-0.12	0.6	-0.4	-6	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.92	2.1	-23.9	-107	-132
Chile	3.18	-1.4	2.6	-66	-107
Colombia	6.22	1.4	-15.8	-56	-53
Mexico	7.68	2.5	-1.0	-37	-96
Peru	4.20	-1.7	-29.1	-56	-116
Poland	2.42	2.8	-8.1	-46	-40
Russia	7.69	-3.3	-6.3	-52	-109
Turkey	17.64	35.0	-48.0	-104	184
India	6.93	1.2	-14.6	-45	-44
Indonesia	7.68	-0.2	-5.5	-32	-35

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	35	0.4	-0.3	-4	-6
Italy	254	-6.1	-3.5	-24	-10
Portugal	88	1.9	-1.9	-29	-68
Spain	77	1.5	-5.3	-23	-45
2-yr sovereign spread vs Germany					
France	8	0.9	1.5	0	-7
Italy	106	-2.7	0.0	-26	-3
Portugal	36	-1.2	4.5	7	10
Spain	31	0.7	1.1	0	-6
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	166	3.3	-3	-10	-42
Chile	42	0.4	-4	-4	-21
Colombia	109	2.0	-1	1	-50
Argentina	1008	-3.0	-141	-219	202
Mexico	125	3.7	-4	8	-30
Peru	60	-0.9	-4	-7	-35
Poland	65	-1.3	-2	-1	-3
Russia	123	-0.4	-3	-5	-31
Turkey	480	11.4	10	-13	120
China	51	0.4	-3	2	-16
India	83	0.1	1	1	-30
Indonesia	103	1.0	-3	-2	-34

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0.2	-1	0	-10
VSTOXX	14	-0.3	-1	-1	-10
EM EFT volatility Index	20	-0.6	0	-2	-5
Dollar/euro volatility	5	0.1	0	0	-2
EM FX volatility index	9	0.2	0	0	-1
Credit spread (BAA) (change in bps)	243	-0.2	4	18	-3
US bonds volatility index	81	5.1	15	24	14
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1.97	-	-9	-19	-17
EZ Inflation expectations (5Y5Y)	1.14	-	-10	-19	-46
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	0.6	0	-1	-24
EZ	75	0.2	-2	-4	-29
UK	62	0.4	1	-3	-32
Large Spanish	52	0.1	0	-6	-35
Medium Spanish	79	0.4	-5	-5	-33
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	172	0.6	0	-1	-24
EZ Non-financial	81	0.2	-2	-4	-29
UK Non-financial	105	0.4	-2	-2	-14

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
Euribor 12m	-0.18	-1	0	-5	-6
Eonia Swap 3m	-0.37	0	-1	0	-1
Eonia Swap 12m	-0.43	0	-2	-4	-7
Libor 3m	2.40	-1	-5	-12	-40
Libor 12m	2.25	-6	-10	-39	-77

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,894	0.2	0.2	0.6	15
Dow Jones	26,144	0.2	0.3	1.1	12
Nikkei	21,124	0.0	0.0	0.3	6
FTSE 100	7,363	0.2	-0.2	0.1	9
EuroStoxx 50	3,388	0.3	0.1	-1.5	13
IBEX	9,151	-0.5	-1.5	-1.6	7
DAX	12,099	0.0	0.4	-1.7	15
CAC	5,400	0.6	0.3	-0.9	14
MB	20,673	0.3	0.9	-2.3	13
ASE Athens	847	0.0	0.5	16.6	38
MSCI Latam *	92,240	-0.7	0.3	4.6	7
Ibovespa (Brazil)	98,193	0.2	0.7	9.1	12
Mexbol (Mexico)	43,440	0.7	-0.4	0.0	4
Merval (Argentina)	40,488	0.0	11.1	19.5	34
MSCI EM Europe *	5,898	-0.4	0.0	7.0	12
Poland	2,277	-0.4	-0.3	4.0	0
Micex 10 (Russia)	4,763	0.4	-1.1	4.7	14
Ise 100 (Turkey)	92,250	1.6	-2.0	5.8	1
MSCI EM Asia *	827	-0.6	0.9	-1.9	6
Shanghai Com (China)	2,888	0.2	1.2	-2.3	16
Jakarta (Indonesia)	6,191	-1.3	-0.2	3.5	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	133.5	0.2	-0.2	-1.3	15
Citi	110.1	0.3	-0.2	-1.1	13
Citi	67.2	-0.4	0.1	1.9	29
BoA	28.2	0.4	0.3	-1.5	14
MS	43.0	0.3	-0.8	-3.0	8
GS	192.4	0.4	-0.9	-3.4	15
EZ banks					
BNP	67.5	0.4	-1.5	-10.7	-2
BNP	40.8	0.0	-1.5	-11.1	3
Crédit Agricole	10.4	1.0	-0.9	-8.1	10
Deutsche Bank	6.1	1.5	2.5	-11.5	-12
ING	9.9	0.8	-1.7	-3.4	5
Intesa	1.8	0.1	-0.4	-15.8	-5
SG	21.1	-0.5	-5.1	-18.7	-24
Unicredito	10.1	0.0	-1.1	-6.4	2
UK banks					
HSBC	75.0	0.9	-0.9	-4.6	3
HSBC	651.0	0.8	-1.1	-1.5	1
RBS	215.4	1.4	-0.3	-7.1	-1
Barclays	151.0	1.4	-1.3	-6.0	0
Lloyds	57.9	0.4	-0.8	-5.8	12
Large Spanish banks					
Santander	59.9	0.2	-2.7	-5.7	3
Santander	4.0	0.5	-1.6	-5.2	0
BBVA	4.9	0.0	-3.8	-6.1	5
Medium Spanish banks					
Caixabank	49.8	0.2	-3.8	-9.2	-13
Sabadell	2.6	0.0	-3.8	-8.2	-19
Sabadell	0.9	0.6	-3.5	-13.0	-8
Bankinter	6.2	0.2	-4.3	-8.9	-12
Bankia	2.2	0.2	-3.8	-8.5	-16

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.123	0.2	-0.7	0.5	-2
GBPUSD	1.26	0.0	-1.0	-1.8	-2
USDJPY	108.61	0.0	-0.1	1.1	1
DXY	97.44	-0.1	0.7	-0.4	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43.99	0.0	2.0	1.8	-14
USDBRL (Brazil)	3.89	0.1	-0.1	4.0	0
USDCLP (Chile)	700.11	0.0	-0.3	-0.9	-1
USDCOP (Colombia)	3291	-0.5	-0.9	0.3	-1
USDMXN (Mexico)	19.19	-0.2	0.1	-0.3	2
USDPEN (Peru)	3.35	-0.1	-0.5	-1.0	1
LACI	53.74	-0.1	-0.1	1.4	-1
USDPLN (Poland)	3.79	0.1	-0.7	1.5	-1
USDRLB (Russia)	64.24	0.3	0.7	0.6	8
USDTRY (Turkey)	5.87	0.4	-1.6	3.0	-10
USDCNY (China)	6.93	0.0	0.1	-0.6	-1
USDINR (India)	69.90	-0.1	-0.4	0.2	0
USDIDR (Indonesia)	14337	-0.1	-0.6	0.8	0
ADXY	104.24	-0.1	-0.1	0.1	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	61.7	-0.5	-0.9	-15	15
WTx	52	-0.5	-1.9	-17	15
Copper	265	0.7	-0.4	-4	1
Gold	1341	-0.1	0.9	4	5
S&P Spot commodity *	407	0.5	0.3	-9	9
S&P Brent Spot *	519	0.9	-1.5	-15	13
S&P Metals Spot *	312	-0.9	-0.6	-5	-2
S&P Agricultural *	308	1.0	6.1	14	9

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

FOMC preview

- At next Wednesday's FOMC meeting, we expect the Fed will leave the target range of the Fed Funds rate unchanged, despite market's pricing in a one-in-five chance of a rate cut in June. The more likely scenario is that the Fed will use the meeting to set the stage for the 2H19 and the increased likelihood of rate cuts. At face value, the underlying detail of May's CPI report was not overly concerning nor was the labor market report. However, the trend in consumer prices and inflation expectations, weakness in a handful of manufacturing indicators, growing late-cycle fears from the business sector and elevated geopolitical and trade negotiation uncertainty raise the stakes for the Fed, particularly when considering most members remained concerned that the capacity of monetary policy respond to the next downturn is diminished.
- As such, we also expect the midpoint of committee's forecasts for the expected path of Fed Funds rate to shift downwards, eliminating the implied rate hike in 2020 and possibly signaling a cut as early as 3Q19. Even still, the downward, eliminating the post-implied press conference will likely open the door to rates cuts in July given the rise in idiosyncratic risks to their outlook and desire to sustain the current expansion. At this point, the conditions needed to continue with a patient stance are receding: solving committee's inability to meet their 2% inflation target will likely require structural changes to the Fed's inflation guidance and resolving the current administrations ambitions on trade are out of the committee's control, implying the official end of this policy normalization cycle.