

Search for yield boosts peripheral bonds

- Investors are cautiously shifting into riskier assets. Equity markets regained some ground while bond investors shifted to peripherals for extra yield.
- The Eurozone's inflation rate was softer than expected** (1.2% YoY, consensus 1.3% YoY, previous month 1.7% YoY), with core inflation dropping to 0.8% YoY (see). Market measure of euro-area inflation expectations, the 5y5y inflation swap rate, has plunged to the weakest since 2016. The low-inflation environment, combined with higher trade uncertainties has increased market expectations of another rate cut by the ECB in April 2020. In its policy meeting, this Thursday, the ECB is expected to retain its dovish tone, assert readiness to act if needed, unveil final conditions of TLTRO III and indicate a downward bias on forecasts.
- In the US, Fed Chair Powell's** opening remarks at the policy strategy conference suggested that the Fed would respond by cutting interest rates if necessary due to trade tensions (see). This comment seems aligned with Fed voting member Bullard's opinion that interest rate cuts would happen soon if trade war intensified. Currently markets are pricing a 100% probability of a rate cut in 2019, while the probability of two rate cuts this year rose to 80%. Moreover, factory orders in the U.S. fell less than expected (-0.8% MoM, consensus -1% MoM, previous month 1.9% MoM).
- Mr.Powell's dovish view did not add downward pressure to the already low UST 10Y yield. On the contrary, the yield recovered yesterday's sharp decline.** However, the 10Y German yields continued to decline, led by lower inflation, while 'search for yield' strategies boosted peripheral bonds, sending yields to a record low in Spain and Portugal. Peripheral risk premium narrowed sharply. The Italian risk premium continued to decline significantly after Italy's Prime Minister, Conte, said that the government had to abide by EU budget rules and threatened to resign if the two coalition partners do not end their constant feud.
- In FX markets, the US dollar recovered some ground against G10 currencies while emerging markets currencies appreciated with the MXN increasing 1.2%.
- Powell's dovish tone underpinned the rebound of equity markets after yesterday's decline led mainly by regulatory concerns regarding big Technology companies.
- Despite the slight improvement of markets mood, investors will be focused on the Fed's policy strategy conference starting today, ECB meeting on Thursday and US payrolls data on Friday. Finally, G20 meeting between finance ministers will also be closely watched as the US and China's trade representative could meet at G-20 minister of finance meeting this weekend.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.91	8.2	-21.1	-42	-57
US	2.14	6.7	-12.8	-39	-55
GER (2-yr)	-0.65	0.0	-0.6	-6	-4
Germany	-0.21	-0.5	-4.5	-23	-45
France	0.19	-1.7	-6.5	-19	-53
Spain	0.67	-2.6	-12.1	-32	-86
Italy	2.52	-3.9	-16.2	-4	-37
Portugal	0.72	-3.6	-19.7	-40	-114
Greece	2.93	5.8	-25.6	-41	-147
Japan (2-yr)	-0.19	-0.9	-2.8	-4	-5
Japan	-0.10	-0.9	-3.0	-6	-11
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.21	0.6	-43.5	-67	-103
Chile	3.44	0.8	-13.3	-50	-81
Colombia	6.60	-4.4	-13.6	-22	-15
Mexico	7.96	-5.1	3.0	-13	-68
Peru	4.59	-2.8	-3.8	-21	-77
Poland	2.61	-1.5	-16.5	-43	-21
Russia	7.94	-6.6	-9.1	-30	-84
Turkey	18.12	0.0	-66.0	-45	232
India	7.02	4.0	-12.6	-37	-35
Indonesia	7.96	0.0	-1.0	8	-6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	39	-1.2	-2.0	4	-2
Italy	273	-3.4	-11.7	19	8
Portugal	93	-3.1	-15.2	-17	-63
Spain	87	-2.1	-7.6	-9	-35
2-yr sovereign spread vs Germany					
France	6	0.1	-0.8	0	-10
Italy	120	-8.2	-9.3	18	12
Portugal	26	0.0	2.0	1	0
Spain	27	0.1	-2.2	2	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	176	-2.7	-3	3	-31
Chile	50	-0.7	1	10	-13
Colombia	116	-0.3	4	14	-42
Argentina	1253	33.3	120	12	447
Mexico	129	0.0	9	14	-26
Peru	70	-0.6	1	11	-24
Poland	67	0.4	0	1	-1
Russia	132	2.3	5	2	-22
Turkey	488	3.3	-22	44	128
China	61	0.7	8	19	-7
India	85	0.3	3	6	-28
Indonesia	115	-0.3	7	18	-23
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	17	-1.6	0	4	-8
VSTOXX	16	-0.8	0	3	-7
EMOXX volatility Index	21	-0.4	0	5	-4
Dollar/euro volatility	6	0.0	1	1	-2
EM FX volatility index	9	0.1	0	1	-1
Credit spread (BAA) (change in bps)	235	-6.7	4	23	-10
US bonds volatility index	74	0.9	12	28	7
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.12	-	1	-13	-1
EZ Inflation expectations (5Y5Y)	1.29	-	-2	-11	-32
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	67	-1.1	8	10	-15
EZ	86	-0.8	1	8	-34
UK	70	-2.0	-6	12	-25
Large Spanish	60	-0.7	0	8	-27
Medium Spanish	89	7.0	4	-9	-23
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	181	-1.1	8	10	-15
EZ Non-financial	89	-0.8	1	8	-34
UK Non-financial	112	1.1	4	8	-7
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	1	-1	-1
Euribor 3m	-0.32	0	-1	-1	-1
Euribor 12m	-0.18	0	-2	-6	-6
Libor 3m	2.48	-2	-5	-9	-32
Libor 12m	2.41	-10	-21	-32	-60
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,788	1.6	-0.5	-5.4	11
Dow Jones	25,251	1.7	-0.4	-4.7	8
Nikkei	20,409	0.0	-4.0	-8.3	2
FTSE 100	7,220	0.5	-0.7	-2.2	7
EuroStoxx 50	3,335	1.1	-0.4	-4.8	11
IBEX	9,125	1.1	-0.7	-3.0	7
DAX	11,971	1.5	-0.5	-3.6	13
CAC	5,270	0.5	-0.8	-5.0	11
MIIB	20,211	1.7	-0.2	-7.1	10
ASE Athens	813	-2.8	2.4	5.0	33
MSCI Latam *	91,237	0.3	2.3	-0.7	6
Ibovespa (Brazil)	97,096	0.1	0.7	1.1	10
Mexbol (Mexico)	43,532	1.0	3.1	-1.7	5
Merval (Argentina)	33,953	0.6	-2.0	4.8	12
MSCI EM Europe *	5,880	1.6	4.2	3.0	11
Poland	2,234	-0.2	1.9	-3.7	-2
Micex 10 (Russia)	4,737	-0.5	3.4	3.3	13
Ise 100 (Turkey)	90,346	0.0	4.1	-3.8	-1
MSCI EM Asia *	824	0.7	1.1	-7.9	5
Shanghai Com (China)	2,862	-1.0	-1.6	-7.0	15
Jakarta (Indonesia)	6,209	0.0	1.8	-2.6	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	131.4	3.6	0.5	-8.6	14
JPM	109.1	2.5	0.5	-6.0	12
Citi	65.6	4.8	2.8	-7.2	26
BoA	27.8	4.0	-0.5	-9.6	13
MS	42.3	3.7	0.2	-12.1	7
GS	189.0	3.2	-0.2	-8.9	13
EZ banks	69.2	3.0	-0.1	-15.5	0
BNP	42.0	2.9	-5.2	-13.0	6
Crédit Agricole	10.5	3.4	2.0	-15.0	12
Deutsche Bank	6.2	4.5	-1.0	-15.0	-10
ING	10.0	4.0	1.6	-11.2	6
Intesa	1.9	2.4	-0.9	-19.5	-4
SG	22.7	1.5	0.6	-20.8	-18
Unicredit	10.4	2.7	4.3	-14.9	5
UK banks	75.5	1.8	0.3	-6.2	4
HSBC	648.6	0.3	-1.5	-4.7	0
RBS	219.2	3.3	1.2	-7.8	1
Barclays	154.1	3.1	2.3	-5.9	2
Lloyds	58.0	1.7	0.7	-7.3	12
Large Spanish banks	61.2	2.7	-0.2	-7.3	5
Santander	4.0	2.4	0.4	-8.5	2
BBVA	5.0	3.0	-0.8	-6.1	8
Medium Spanish banks	53.1	2.1	-1.3	-5.3	-8
Saibabank	2.8	3.6	-0.7	-2.5	-11
Sabadell	1.0	1.7	-0.4	-2.7	1
Bankinter	6.5	1.8	-2.0	-7.6	-8
Bankia	2.2	1.8	-1.6	-7.8	-12
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.124	0.0	0.7	0.3	-2
GBPUSD	1.27	0.1	0.2	-3.8	-1
USDJPY	108.30	-0.2	1.0	2.6	1
DXY	97.26	0.1	-0.7	-0.3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.69	0.4	0.0	-0.5	-16
USDBRL (Brazil)	3.86	0.7	4.3	2.1	1
USDCPL (Chile)	694.95	1.0	1.8	-2.4	0
USDCOP (Colombia)	3297	1.8	2.4	-1.8	-1
USDMXN (Mexico)	19.55	1.2	-1.8	-3.2	1
USDPEN (Peru)	3.35	0.3	0.1	-1.5	1
LACI	53.52	0.8	1.0	-0.9	-1
USDPLN (Poland)	3.81	0.0	1.1	0.3	-2
USD RUB (Russia)	65.21	0.1	-0.8	-0.2	6
USDTRY (Turkey)	5.76	1.2	4.6	3.5	-8
USDCNY (China)	6.91	-0.1	0.0	-2.5	0
USDINR (India)	69.26	0.0	0.6	-0.1	1
USDIDR (Indonesia)	14269	0.0	0.7	0.0	1
ADXY	104.48	-0.1	0.4	-1.3	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	61.9	1.0	-11.7	-13	15
WTX	54	0.6	-9.4	-13	18
Copper	266	0.0	-1.8	-6	1
Gold	1322	-0.3	3.3	3	3
S&P Spot commodity *	405	-0.6	-6.2	-8	8
S&P Brent Spot *	522	-1.1	-10.8	-14	14
S&P Metals Spot *	313	-0.6	-2.0	-5	-2
S&P Agricultural *	295	0.8	2.3	10	4