

## Rate cut predictions push yields to fresh record lows

- Fed's rhetoric turned slightly dovish.** Fed's officials pledge to take actions, if needed, to stop the negative effects of the escalation in trade tensions, specifically Fed vice chair said that insurance cut have been part of the Fed's toolkit in the past.
- Although the US-China trade tensions continued escalating, with China issuing a US travel advisory through Dec 31, it is expected the US Treasury secretary Mnuchin to meet PBOC Governor Yi Gang in Japan for G-20 from June 7-9. It could lay important groundwork for much awaited Trump-Xi meeting on the sidelines of G-20 summit on June 28th. On the other hand, Mexican officials expressed optimism about the possibility of avoiding a hike in tariffs head of today's meeting with the US authorities.
- Economic data in the US and the Eurozone was mixed while inflation pressures remained mute.** Confidence in the Eurozone rose above expectations in May led by the services sector: Service PMI (52.9, consensus 52.5, previous month 51.6). However, produce prices extended declines unexpectedly in April (-0.3%MoM, consensus 0.2%MoM, previous month -0.1%MoM), while retail sales were also weaker than expected. In the US, the better than expected ISM non-manufacturing PMI in May (56.9, consensus 55.5, previous month 55.5) offset, partially, the weak ADP payrolls data, which was much below expectations (27.000, consensus 180.000), indicating that the May private sector job gains were lowest since 2010 ([see](#)). However, China Caixin Services PMI slipped in May (52.7 vs. 54.5 April & Cons. 54.2).
- Bond yields inched down across the board, led by markets' increasing expectations of lower policy rates** across major economies to counteract the negative effect of the escalating trade tension. The 10Y bund hitting new record low, while the UK Gilt yield decreased significantly, following the weakest composite PMI. BoE's Ramsden attributed the downward shift in UK yield curve to global factors. Regarding peripheral risk premium, the Spanish and Portuguese country risk premium continued to decline, benefiting from searching for yield strategies. Moreover, Spain's bonds got an additional boost after the European Commission ended the excessive deficit procedure for the country. In contrast, Italy's risk premium swung underpinned by the decision of the European Commission to open a disciplinary procedure against Italy in the next two weeks. Nonetheless, Brussels stated that its actions against Italy still can be prevented if Italy makes new commitments ([see](#)).
- In FX markets, the US dollar depreciated against the G10 board, dragged by expectation of lower Fed's interest rates. Despite the lower US yields, EM currencies slightly depreciated today, especially in Latam, led by the sharp fall in oil and commodity prices on the back of the ongoing global growth concerns, while the former was also dragged by the strong increase in the US inventories. Moreover, the **PBOC cut yuan's fixing** by 81 pips to 6.8903 per USD vs. 6.8822 yesterday, also increasing some angst.
- Equity markets were mixed, but with minor changes, due to valuation effect. However, low yields weighed on the financial sector across the board.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.83	-4.9	-27.4	-46	-65
<b>US</b>	2.12	-0.9	-14.0	-35	-56
GER (2-yr)	-0.68	-3.2	-3.2	-8	-7
<b>Germany</b>	-0.23	-2.0	-4.7	-23	-47
France	0.15	-3.2	-7.3	-21	-56
Spain	0.63	-3.6	-10.4	-36	-89
Italy	2.47	-4.6	-17.2	-11	-42
Portugal	0.68	-4.4	-17.2	-45	-118
Greece	2.96	2.2	-18.1	-39	-144
Japan (2-yr)	-0.22	-3.2	-4.8	-7	-8
<b>Japan</b>	-0.12	-2.1	-3.3	-8	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.21	1.3	-31.0	-67	-103
Chile	3.42	-3.5	-6.5	-52	-84
Colombia	6.54	-4.2	-16.2	-30	-21
Mexico	7.90	-4.4	-1.9	-21	-74
Peru	4.59	-2.6	-2.6	-20	-77
Poland	2.54	-7.6	-19.5	-49	-29
Russia	7.90	-4.8	-17.7	-37	-89
Turkey	18.12	0.0	-66.0	-78	232
India	7.02	0.0	-10.6	-37	-35
Indonesia	7.96	0.0	-8.7	1	-6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	38	-1.2	-2.6	3	-3
Italy	270	-2.6	-12.5	12	5
Portugal	90	-2.4	-12.5	-21	-66
Spain	86	-1.6	-5.7	-12	-36
<b>2-yr sovereign spread vs Germany</b>					
France	7	1.8	1.3	2	-8
Italy	120	0.5	-6.7	15	12
Portugal	29	2.9	4.3	3	3
Spain	29	2.9	0.4	4	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	171	-5.0	-8	2	-36
Chile	48	-2.3	-2	9	-15
Colombia	112	-4.4	-1	13	-46
Argentina	1182	-71.7	32	7	375
Mexico	123	-6.3	1	12	-32
Peru	68	-2.2	-2	10	-27
Poland	67	0.0	0	1	-1
Russia	129	-3.3	2	1	-25
Turkey	474	-13.7	-43	37	115
China	58	-2.8	5	17	-9
India	85	-0.2	3	6	-29
Indonesia	111	-4.1	2	15	-27
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	17	0.0	-1	1	-9
VSTOXX	16	-0.3	-2	0	-8
EMOXX volatility Index	21	0.4	0	2	-4
Dollar/euro volatility	6	0.4	1	1	-1
EM FX volatility index	9	0.0	0	0	-1
Credit spread (BAA) (change in bps)	242	0.9	10	24	-4
US bonds volatility index	75	1.7	12	27	9
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.13	-	1	-12	-1
EZ Inflation expectations (5Y5Y)	1.28	-	-1	-12	-32
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	63	-4.3	0	7	-19
EZ	81	-4.3	-4	4	-38
UK	66	-3.7	-11	9	-28
Large Spanish	57	-3.5	-3	5	-31
Medium Spanish	85	-3.5	-2	-8	-27
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	177	-4.3	0	7	-19
EZ Non-financial	87	-4.3	-4	4	-38
UK Non-financial	110	-0.5	2	6	-9
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	1	0	-1
Euribor 3m	-0.32	0	0	-1	-1
<b>Euribor 12m</b>	-0.18	0	-2	-6	-6
Libor 3m	2.47	0	-5	-9	-32
Libor 12m	2.41	-1	-19	-34	-61
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,813	0.3	1.1	-4.1	12
Dow Jones	25,465	0.5	1.3	-3.7	9
Nikkei	20,776	1.8	-1.1	-6.7	4
FTSE 100	7,220	0.1	0.5	-2.2	7
<b>EuroStoxx 50</b>	3,340	0.2	1.3	-3.6	11
IBEX	9,151	0.4	0.8	-1.9	7
DAX	11,981	0.1	1.2	-2.5	13
CAC	5,292	0.5	1.3	-3.5	12
MIB	20,156	-0.4	0.8	-5.9	10
ASE Athens	821	1.0	3.6	8.9	34
<b>MSCI Latam *</b>	91,588	0.4	1.9	-0.5	6
Ibovespa (Brazil)	96,029	-1.4	-0.6	1.1	9
Mexbol (Mexico)	43,216	-0.1	0.8	-2.0	4
Merval (Argentina)	34,971	0.8	3.0	6.0	15
<b>MSCI EM Europe *</b>	5,828	-0.9	3.5	2.1	10
Poland	2,223	-0.5	1.6	-2.9	-2
Micex 10 (Russia)	4,743	0.1	2.7	3.3	13
Ise 100 (Turkey)	90,346	0.0	3.6	-2.8	-1
<b>MSCI EM Asia *</b>	820	-0.4	0.5	-8.5	5
Shanghai Com (China)	2,861	0.0	-1.8	-1.5	15
Jakarta (Indonesia)	6,209	0.0	2.9	-1.7	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	131.5	-0.4	0.9	-7.9	14
JPM	109.8	0.1	1.5	-4.6	12
Citi	65.4	-0.7	2.7	-7.1	26
BoA	27.8	-0.4	0.3	-8.7	13
MS	42.2	-0.6	0.1	-11.5	6
GS	188.0	-1.0	0.0	-8.9	13
<b>EZ banks</b>	68.4	-1.2	0.6	-15.3	-1
BNP	41.7	-0.6	1.0	-12.9	6
Crédit Agricole	10.4	-1.0	1.9	-15.0	10
Deutsche Bank	6.1	-1.7	-0.2	-14.8	-12
ING	9.9	-0.9	1.8	-10.4	5
Intesa	1.9	-0.9	-0.8	-19.2	-5
SG	22.4	-1.3	-0.6	-20.4	-19
Unicredito	10.1	-3.5	-1.3	-14.8	2
<b>UK banks</b>	74.9	-0.7	-0.2	-7.0	3
HSBC	646.3	-0.2	-1.4	-5.0	0
RBS	214.4	-1.8	-0.3	-9.8	-1
Barclays	152.5	-1.0	1.2	-6.8	1
Lloyds	57.8	-0.1	0.6	-7.7	11
<b>Large Spanish banks</b>	60.9	-0.7	0.0	-6.6	4
Santander	4.0	-0.7	0.3	-7.7	1
<b>BBVA</b>	5.0	-0.6	-0.3	-5.7	7
<b>Medium Spanish banks</b>	52.6	-0.9	-1.1	-5.0	-8
Caixabank	2.7	-3.5	-2.6	-4.5	-14
Sabadell	1.0	-1.5	-1.0	-2.4	0
Bankinter	6.5	0.4	-0.9	-6.6	-7
Bankia	2.3	0.5	0.5	-5.7	-12
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.124	-0.1	1.0	0.3	-2
GBPUSD	1.27	0.0	0.6	-3.0	0
USDJPY	108.24	-0.1	1.2	2.3	1
DXY	97.18	0.1	-1.0	-0.3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.85	-0.3	-0.9	-0.4	-16
USDBRL (Brazil)	3.87	-0.2	2.8	2.6	0
USDCPL (Chile)	691.75	0.3	2.0	-1.9	0
USDCOP (Colombia)	3300	-0.2	1.6	-1.4	-1
USDMXN (Mexico)	19.56	0.0	-2.2	-2.9	0
USDPEN (Peru)	3.35	-0.1	0.1	-1.3	0
LACI	53.49	-0.1	0.3	-0.8	-2
USDPLN (Poland)	38.80	0.0	1.4	0.5	-2
USD RUB (Russia)	65.31	-0.3	-0.6	-0.1	6
USDTRY (Turkey)	5.73	0.9	4.9	6.1	-8
USDCNY (China)	6.91	0.0	0.1	-2.1	0
USDINR (India)	69.26	0.0	0.8	0.2	1
USDIDR (Indonesia)	14269	0.0	1.0	0.2	1
ADXY	104.43	-0.2	0.5	-1.0	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	59.6	-3.8	-14.2	-16	11
WTx	51	-4.9	-13.6	-18	12
Copper	264	-1.4	-1.4	-7	0
Gold	1329	0.2	3.8	4	4
S&P Spot commodity *	407	0.4	-5.3	-7	9
S&P Brent Spot *	527	1.1	-8.7	-13	15
S&P Metals Spot *	314	0.5	-0.6	-4	-2
S&P Agricultural *	294	-0.4	2.2	11	4

Source: Bloomberg, Datastream and Haver

\* With one day delay