

## US payroll figures intensify bond yield downward trend to fresh lows

- Rising expectations of a Fed rate cut in coming months** (70% probability of a cut in July and 80% probability of two cuts in 2019) **pushed bond yields to fresh lows**, as trade tensions increased concerns over a possible global recession, after the threat of US tariffs extended from China to Mexico. Moreover, **weaker than expected payroll figures could fuel markets' Fed interest rate cut expectations further** (see), amid the Fed's more dovish rhetoric. Powell pledged to take action, if needed, to stop the negative effects of trade frictions, while **Clarida said that insurance cuts have been a part of the Fed's toolkit in the past**.
- The US treasury yields declined sharply across the board, especially the short-end. Elsewhere, the 10-Y German Bund yield hit fresh record lows. That said, the ECB's reinforced dovish guidance in its policy yesterday has a muted incremental impact on yields (40% probability of a depo cut in Dec '19 and 55% probability of a cut in 1H19) (see).
- The search for yield strategies kept peripheral bonds in demand** while risk premia narrowed sharply across peripherals (Spain's and Portugal's risk premium fell below 90 bps) **as well as in Italy**, despite the latter seeing rising frictions with the European Commission after the opening of the Excessive Deficit Procedure (EDP) amid high debt concerns. Moreover, the spread between Spain and Italy's risk premium declined.
- The USD dollar depreciated across the G10 currencies**, dragged down by rising expectations of Fed rate cuts, while the **euro appreciated despite the ECB extending its forward guidance, amid less generous TLTRO-III conditions**. In Asia, the PBoC continued making efforts to prevent the RMB to slide further, although China's monetary authorities stated that China has 'tremendous room' to adjust its monetary policy if the trade war with the US worsens.
- EM assets found support in easing funding conditions, alongside a weaker US dollar** and declining sovereign yields. EM FX appreciated across the board, including in Latin America, despite a sharp decline in oil prices. However, the MXN depreciated on the back of trade tensions after Fitch downgraded both Mexico's sovereign rating (from BBB+ to BBB) and PEMEX (from BBB- to BB+), along with an increasing risk of higher US tariffs. The EM corporate spread grew slightly as US treasury yield declined sharply.
- Equity markets increased** as a result of expectations of Fed cuts.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Weekly	Month	YTD
US (2-yr)	1.80	-7.6	-25.8	-49	-68
<b>US</b>	2.06	-5.7	-15.3	-42	-62
GER (2-yr)	-0.67	-1.6	-3.0	-6	-6
<b>Germany</b>	-0.26	-2.0	-8.4	-22	-50
France	0.08	-3.7	-15.8	-25	-63
Spain	0.55	-6.5	-21.9	-42	-98
Italy	2.36	-13.0	-29.9	-26	-53
Portugal	0.62	-5.8	-24.8	-47	-125
Greece	2.82	-9.4	-23.2	-62	-158
Japan (2-yr)	-0.20	0.5	-3.4	-5	-6
<b>Japan</b>	-0.12	0.0	-4.1	-7	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	8.13	-8.9	-29.6	-69	-110
Chile	3.43	-0.6	-4.8	-48	-82
Colombia	6.49	-2.1	-18.0	-35	-27
Mexico	7.93	-1.8	-0.6	-21	-71
Peru	4.51	-3.3	-10.0	-33	-85
Poland	2.47	-1.8	-24.2	-48	-35
Russia	7.79	-3.3	-20.3	-44	-99
Turkey	18.12	0.0	-14.0	-187	232
India	6.97	4.1	-16.1	-40	-40
Indonesia	7.96	0.0	-8.7	-6	-6
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	34	-1.7	-7.4	-4	-7
Italy	262	-11.0	-21.5	-4	-3
Portugal	88	-3.8	-16.4	-26	-69
Spain	80	-4.5	-13.5	-20	-42
<b>2-yr sovereign spread vs Germany</b>					
France	6	-1.1	0.1	0	-10
Italy	103	-13.1	-26.3	-11	-6
Portugal	29	0.9	5.4	1	3
Spain	27	-1.4	-1.0	1	-10
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	172	-2.1	-7	-4	-36
Chile	47	-0.6	-3	4	-16
Colombia	112	-1.4	-2	5	-47
Argentina	1181	-14.9	10	15	375
Mexico	125	1.8	2	8	-30
Peru	66	-1.2	-4	4	-29
Poland	66	-0.3	0	0	-1
Russia	127	0.2	-2	-4	-27
Turkey	471	6.3	-48	8	112
China	55	-2.1	-2	10	-12
India	83	-0.7	-1	4	-31
Indonesia	106	-2.7	-8	5	-31
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	16	-0.1	-1	-4	-10
VSTOXX	15	-1.0	-2	-3	-9
EMEFTT volatility Index	19	-0.9	-2	-4	-6
Dollar/euro volatility	6	0.0	1	0	-2
EM FX volatility index	9	0.0	0	0	-1
Credit spread (BAA) (change in bps)	251	5.7	17	33	5
US bonds volatility index	73	-4.2	12	22	7
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.06	-	-5	-14	-7
EZ Inflation expectations (5Y5Y)	1.22	-	-9	-16	-38
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	60	-1.2	-6	0	-23
EZ	80	-0.2	-7	0	-39
UK	64	-0.3	-12	6	-30
Large Spanish	54	0.0	-7	0	-33
Medium Spanish	89	0.4	1	3	-24
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	173	-1.2	-6	0	-23
EZ Non-financial	84	-0.2	-7	0	-39
UK Non-financial	107	-0.3	-2	3	-11
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	1	-1	-6	-6
Eonia Swap 3m	-0.37	0	0	0	-1
<b>Eonia Swap 12m</b>	-0.41	-1	-2	-4	-6
Libor 3m	2.47	0	-5	-9	-33
Libor 12m	2.38	0	-19	-34	-63
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,877	1.2	3.1	-0.1	15
Dow Jones	26,028	1.2	3.4	0.2	12
Nikkei	20,885	0.5	-0.3	-3.3	4
FTSE 100	7,343	1.1	1.7	1.0	9
<b>EuroStoxx 50</b>	3,388	1.5	2.1	-0.9	13
IBEX	9,247	0.8	1.0	0.2	8
DAX	12,082	1.1	1.5	-0.8	14
CAC	5,382	2.0	2.5	-0.7	14
MIB	20,397	1.1	2.3	-3.8	11
ASE Athens	816	-0.1	-0.3	9.8	33
<b>MSCI Latam *</b>	91,381	0.7	1.0	1.0	6
Ibovespa (Brazil)	97,907	0.7	0.5	2.4	11
Mexbol (Mexico)	43,317	0.4	-0.1	-0.2	4
Merval (Argentina)	36,079	1.0	5.4	6.8	19
<b>MSCI EM Europe *</b>	5,868	0.8	3.2	4.4	11
Poland	2,283	1.0	2.8	2.8	0
Micex 10 (Russia)	4,805	0.5	3.7	5.4	15
Ise 100 (Turkey)	93,371	3.3	3.7	3.4	2
<b>MSCI EM Asia *</b>	818	-0.3	0.7	-6.6	5
Shanghai Com (China)	2,828	0.0	-2.7	-2.3	13
Jakarta (Indonesia)	6,209	0.0	1.7	-1.4	0
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	121.3	-8.5	-5.9	-12.9	5
JPM	109.6	-0.7	2.4	-2.7	12
Citi	66.4	-0.2	4.3	-2.7	27
BoA	27.6	-1.0	1.6	-7.4	12
MS	42.9	0.1	2.5	-7.9	8
GS	189.9	0.0	1.3	-5.5	14
<b>EZ banks</b>	67.6	0.2	-0.9	-13.9	-2
BNP	40.8	-0.5	-1.3	-12.8	3
Crédit Agricole	10.3	0.9	0.1	-14.7	10
Deutsche Bank	6.0	0.3	-3.5	-15.1	-14
ING	9.9	0.6	1.0	-8.3	5
Intesa	1.8	0.1	-2.0	-17.5	-6
SG	22.2	-0.6	-1.8	-17.6	-20
Unicredit	10.0	0.7	-1.3	-12.3	1
<b>UK banks</b>	74.8	0.6	-0.4	-5.0	3
HSBC	650.5	1.0	-0.5	-1.3	1
RBS	213.5	0.0	-1.7	-9.2	-1
Barclays	151.5	0.1	0.4	-5.1	1
Lloyds	57.7	0.9	0.2	-6.6	11
<b>Large Spanish banks</b>	60.1	-0.5	-2.7	-6.2	3
Santander	4.0	-0.2	-2.2	-6.8	0
<b>BBVA</b>	4.9	-0.7	-3.3	-5.6	6
<b>Medium Spanish banks</b>	50.8	-0.4	-5.8	-8.3	-12
Caixabank	2.6	-1.7	-7.6	-7.6	-17
Sabadell	0.9	-0.7	-7.9	-10.9	-6
Bankinter	6.3	0.4	-4.1	-8.2	-10
Bankia	2.2	0.1	-5.7	-8.1	-15
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.135	0.6	2.0	1.4	-1
GBPUSD	1.28	0.5	1.2	-1.9	0
USDJPY	107.98	0.4	1.5	2.0	2
DXY	96.53	-0.5	-1.6	-1.1	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	44.86	0.1	-0.6	0.5	-16
USDBRL (Brazil)	3.86	0.6	3.2	1.9	1
USDCLP (Chile)	691.43	0.1	2.6	-1.0	0
USDCOP (Colombia)	3274	0.5	2.7	0.6	-1
USDMXN (Mexico)	19.64	0.3	-2.5	-2.8	0
USDPEN (Peru)	3.33	0.0	0.9	-0.6	1
LACI	53.50	0.4	0.6	-0.5	-1
USDPLN (Poland)	3.76	0.9	2.7	2.1	0
USDTRY (Russia)	64.84	0.4	0.4	0.3	7
USDTRY (Turkey)	5.79	-0.2	1.4	6.7	-9
USDCNY (China)	6.91	0.0	-0.1	-1.8	0
USDINR (India)	69.47	-0.3	0.6	0.4	0
USDIDR (Indonesia)	14269	0.0	1.0	0.2	1
ADXY	104.58	0.0	0.5	-0.6	-1
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	62.2	0.9	-6.9	-12	16
WTX	53	1.1	-6.1	-14	17
Copper	266	0.2	-0.1	-5	1
Gold	1347	0.9	4.5	5	5
S&P Spot commodity *	403	1.1	-4.5	-8	8
S&P Metals Spot *	525	1.7	-5.6	-12	15
S&P Metals Spot *	312	0.3	-0.8	-3	-2
S&P Agricultural *	292	1.7	-1.7	10	3

Source: Bloomberg, Datastream and Haver / \* With one day delay