

China's new stimulus drives equity markets higher

■ **Amid escalating trade tensions, China eased funding restrictions on major infrastructure projects to support slowing growth (see).** Furthermore, the PBOC set its Yuan reference rate 0.2% stronger than what traders and analysts had expected (6.8930 per dollar), showing that the PBoC is strongly committed to preserve the yuan psychological threshold (USDCNY 7).

■ **In the US, May core producer prices picked up 2.3% yoy**, in turn underpinning the Fed's view that weak inflation readings are probably transitory. Investors will keep an eye on tomorrow's CPI release for more policy cues ahead of FOMC meeting next week, particularly after Fed Chairman Powell stated last week that the Fed will act as appropriate to support the economy. Moreover, the market implied probability of a Fed rate cut in July remains around 75%.

■ **Safe-haven bonds were mixed** with the German bund yield falling, while the UST 10Y yield remained flat. In Europe, bond yields declined across the board with the peripheral bonds yields leading the path, encouraged by searching for yield strategies. Italy's risk premium continued narrowing as the Italian Prime Minister, Conte, said that the European disciplinary procedure must be avoided as it would damage Italy and Italians, while its government is determined to cut this year's deficit to 2.1% of output. Nonetheless, tomorrow's Eurogroup meeting will discuss Italy's finances.

■ **In FX markets, the US dollar depreciated across emerging markets**, while it appreciated against the JPY and CHF on the back of easing risk-off. Moreover, the CNY recovered from closing yesterday at its weakest level of the year, after the PBoC fixed the yuan at stronger-than-expected level. Meanwhile, economic data reflecting resilient labour market in the UK pushed the sterling higher (see). Gold prices declined amid increased risk appetite amongst investors.

■ **Global equity markets continued yesterday's rally** driven by the relief in trade tension with Mexico and further boosted by China's stimulus measures announced today.

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	1.93	2.8	10.0	-33	-56	
US	2.15	0.3	8.1	-32	-53	
GER (2-yr)	-0.67	0.0	-2.3	-6	-6	
Germany	-0.23	-1.4	-3.2	-19	-48	
France	0.12	-1.8	-8.3	-23	-59	
Spain	0.58	-2.6	-11.4	-40	-94	
Italy	2.39	3.1	-17.1	-29	-50	
Portugal	0.64	-4.0	-11.5	-47	-122	
Greece	2.78	-4.6	-9.4	-73	-162	
Japan (2-yr)	-0.19	0.7	-0.9	-3	-5	
Japan	-0.11	1.0	-1.6	-6	-11	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	7.99	-17.2	-21.6	-79	-125	
Chile	3.14	-0.9	-29.4	-74	-111	
Colombia	6.36	-2.4	-28.4	-31	-39	
Mexico	7.71	1.3	-30.4	-40	-94	
Peru	4.43	-6.3	-18.9	-39	-93	
Poland	2.54	3.2	-9.0	-37	-29	
Russia	7.73	-2.3	-27.7	-55	-105	
Turkey	17.39	-73.0	-73.0	-276	159	
India	7.04	-4.0	5.5	-38	-33	
Indonesia	7.72	-1.4	-24.2	-28	-31	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	35	-0.4	-5.1	-4	-6	
Italy	262	4.5	-13.9	-11	-2	
Portugal	88	-2.6	-8.3	-29	-68	
Spain	81	-1.2	-8.2	-21	-41	
2-yr sovereign spread vs Germany						
France	7	0.5	1.6	1	-8	
Italy	110	4.3	-18.4	-11	2	
Portugal	35	3.2	8.7	7	9	
Spain	30	0.1	2.9	2	-7	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	167	-1.1	-12	-5	-40	
Chile	44	-1.5	-7	0	-19	
Colombia	107	-3.3	-10	0	-52	
Argentina	1115	-33.7	-105	-39	309	
Mexico	121	-7.4	-9	2	-34	
Peru	63	-1.5	-8	-2	-32	
Poland	66	0.0	0	0	-1	
Russia	124	-2.5	-6	-7	-30	
Turkey	461	-8.8	-23	-31	102	
China	51	-3.1	-9	3	-17	
India	82	-0.1	-3	1	-31	
Indonesia	101	-5.4	-15	-6	-37	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	16	0.4	-2	0	-9	
VSTOXX	15	-0.1	-2	-4	-9	
EMEFT volatility Index	19	-0.3	-3	-2	-6	
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)	239	-0.3	-3	19	-7	
US bonds volatility index	66	-3.1	-8	12	-1	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.08	-	-3	-14	-6	
EZ Inflation expectations (5Y5Y)	1.22	-	-7	-15	-39	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	58	-1.2	-11	-2	-25	
EZ	76	-1.9	-11	-11	-44	
UK	61	-0.9	-11	-2	-34	
Large Spanish	51	-1.4	-10	-7	-36	
Medium Spanish	83	-1.9	1	-2	-30	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	168	-1.2	-11	-2	-25	
EZ Non-financial	82	-1.9	-11	-11	-44	
UK Non-financial	105	-2.4	-6	-3	-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	0	0	-6	-6	
Eonia Swap 3m	-0.37	0	0	0	-1	
Eonia Swap 12m	-0.41	0	-1	-4	-6	
Libor 3m	2.44	-1	-7	-10	-36	
Libor 12m	2.34	-1	-17	-36	-68	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,887	0.0	5.2	0.2	15	
Dow Jones	26,088	0.1	5.1	0.6	12	
Nikkei	21,204	0.3	3.9	-0.7	6	
FTSE 100	7,398	0.3	3.0	2.7	10	
EuroStoxx 50	3,401	0.4	3.1	1.2	13	
IBEX	9,282	-0.1	2.9	1.8	9	
DAX	12,156	0.9	3.1	0.8	15	
CAC	5,408	0.5	3.2	1.5	14	
MIB	20,610	0.6	3.7	-1.3	12	
ASE Athens	846	0.4	1.1	14.9	38	
MSCI Latam *	91,938	0.0	1.1	1.8	7	
Ibovespa (Brazil)	98,186	0.7	1.2	4.2	12	
Mexbol (Mexico)	43,731	0.3	1.4	0.8	5	
Merval (Argentina)	37,287	2.3	10.4	11.7	23	
MSCI EM Europe *	5,933	0.6	2.5	7.4	12	
Poland	2,296	0.6	2.6	4.7	1	
Micex 10 (Russia)	4,790	-0.6	0.6	6.4	14	
Ise 100 (Turkey)	92,826	-1.4	2.7	4.8	2	
MSCI EM Asia *	834	1.8	2.0	-2.0	7	
Shanghai Com (China)	2,926	2.6	1.2	-0.5	17	
Jakarta (Indonesia)	6,306	1.6	1.6	1.7	2	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	134.7	0.7	6.1	-3.0	16	
JPM	110.8	0.4	4.1	-1.5	14	
Citi	67.7	0.8	8.0	-0.4	30	
BoA	28.3	0.8	6.1	-4.3	15	
MS	43.8	1.1	7.4	-5.6	10	
GS	194.6	0.2	6.2	-3.7	16	
EZ banks	68.8	0.4	2.4	-9.6	0	
BNP	41.6	0.2	1.8	-8.7	5	
Crédit Agricole	10.5	0.0	3.2	-9.1	1	
Deutsche Bank	6.2	3.8	3.6	-10.8	-11	
ING	10.1	0.6	5.5	-3.0	8	
Intesa	1.8	0.1	1.2	-14.5	-5	
SG	22.3	0.1	-0.4	-14.5	-20	
Unicredit	10.3	0.2	1.3	-8.4	4	
UK banks	75.4	-0.4	1.7	-3.1	4	
HSBC	655.9	-0.4	1.4	0.6	1	
RBS	216.2	0.0	1.9	-7.2	0	
Barclays	152.2	-0.6	1.8	-3.4	1	
Lloyds	58.1	-0.6	1.8	-4.9	12	
Large Spanish banks	61.0	-1.1	2.3	-2.1	4	
Santander	4.0	-0.7	1.7	-2.8	1	
BBVA	5.0	-1.3	2.8	-1.5	8	
Medium Spanish banks	51.4	-0.8	-1.2	-5.4	-11	
Caixabank	2.6	-1.8	-2.9	-4.3	-17	
Sabadell	0.9	-0.9	-4.4	-8.8	-5	
Bankinter	6.4	-0.2	0.8	-5.2	-8	
Bankia	2.2	-0.8	0.3	-4.8	-13	
Currencies (% , red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.132	0.0	0.7	0.7	-1	
GBPUSD	1.27	0.3	0.5	-2.1	0	
USDJPY	108.52	-0.1	-0.4	1.3	1	
DXY	96.79	0.0	-0.4	-0.6	1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	44.72	0.4	0.3	0.2	-16	
USDBRL (Brazil)	3.86	0.8	0.7	2.5	1	
USDCPL (Chile)	693.68	0.6	1.2	-1.0	0	
USDCOP (Colombia)	3247	0.4	3.3	0.8	0	
USDMXN (Mexico)	19.13	0.4	3.4	-0.2	3	
USDPEN (Peru)	3.33	0.1	0.9	-0.5	1	
LACI	53.99	0.4	1.7	0.7	-1	
USDPLN (Poland)	3.77	0.0	1.0	1.5	-1	
USDTRY (Turkey)	64.51	0.3	1.2	1.1	8	
USDTRY (Russia)	5.82	-0.7	0.3	2.9	-9	
USDCNY (China)	6.91	0.3	-0.1	-1.2	0	
USDINR (India)	69.45	0.3	-0.3	0.7	0	
USDIDR (Indonesia)	14239	0.1	0.2	0.6	1	
ADXY	104.54	0.2	0.0	-0.5	-1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	62.3	0.1	1.7	-12	16	
WTX	53	0.1	0.1	-14	17	
Copper	267	0.2	0.5	-4	2	
Gold	1326	-0.2	0.0	3	3	
S&P Spot commodity *	406	-0.4	0.1	-7	8	
S&P Metals Spot *	527	-1.8	1.0	-11	15	
S&P Metals Spot *	313	1.0	0.3	-3	-2	
S&P Agricultural *	290	0.5	-1.6	13	2	

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