

Market Comment

Uncertainty overhang keeps markets on the sidelines

- Trump's threats extended to Germany, warning it against supporting Russia's gas pipeline while the **stalemate in US-China trade talks continued** the US Commerce Secretary played down expectations of any US-China deal on the sidelines of the G20 summit on June 28/29.
- Additionally, **US initial jobless claims rose unexpectedly last week** ended June 8 to 222k, while the consensus estimated a drop from previous week's level of 219k (see). The weak outturn support the markets implied probability of two Fed rate cuts of 82% in July. In this context, investors will keep an eye on next Wednesday's FOMC meeting for policy cues.
- In Europe, **industrial production for the Eurozone declined further**, by 0.5% m/m in April in line with expectations, led mainly by lower consumer durables production (-1.7% m/m), besides a drop in capital and intermediate goods. Within the bloc, the decline in IP was led by the UK (-2.7% m/m) and Germany (-2.3% m/m), which offset a pick up in Ireland (+3.6% m/m) and Portugal (+2.9% m/m).
- Safe-haven bond yields inched down, while **peripheral bonds benefitted from 'search for yield' strategies**. Italy's risk premium narrowed significantly ahead of today's Eurogroup meeting, where the EU reinforced the pressure over Italy to rein in debt at the arriving of the EU meeting. Meanwhile, yields on UK Gilts fell sharply on renewed fears of a disorderly Brexit after the rejection of bid to block no-deal.
- In FX markets, the DXY index was flat while the CHF appreciated against the backdrop of escalating uncertainties. The GBP reverted its early losses despite Boris Johnson, a hard-line Brexiteer, leading the race to be the next British Prime Minister (see). In EM markets, the TRY weakened post Turkey's unwillingness to withdraw its purchase of Russian missile defence systems despite US warning. Moreover, **crude oil prices rallied**, reverting yesterday's losses, following a tanker incident in the Gulf of Oman (see) which the US blamed on Iran, in turn stocking fears of a military confrontation.
- Equity markets oscillated in a narrow band given the cautious undertone marked by heightened trade frictions and a rise in geopolitical risks alongside weak economic outturns from the US.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.86	-2.1	0.1	-34	-63
<b>US</b>	2.10	-1.7	-3.2	-31	-58
GER (2-yr)	-0.67	0.2	0.3	-4	-6
<b>Germany</b>	0.24	-0.5	-1.5	-17	-48
France	0.11	-0.3	-4.3	-22	-60
Spain	0.54	-3.0	-8.5	-43	-98
Italy	2.36	-7.2	-10.8	-37	-53
Portugal	0.64	-1.4	-3.5	-50	-122
Greece	2.71	-4.7	-25.0	-86	-169
Japan (2-yr)	-0.20	-0.5	2.2	-4	-6
<b>Japan</b>	-0.11	-0.2	1.0	-6	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.96	-4.3	-31.5	-83	-127
Chile	3.14	0.1	-28.2	-71	-111
Colombia	6.26	-7.4	-27.1	-48	-49
Mexico	7.71	-1.4	-21.0	-38	-94
Peru	4.30	-0.4	-27.9	-50	-106
Poland	2.44	-5.5	-9.2	-42	-38
Russia	7.77	3.7	-12.7	-51	-101
Turkey	17.36	79.0	-76.0	-125	156
India	7.01	-0.1	-0.8	-37	-36
Indonesia	7.70	-2.3	-26.7	-36	-33

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	35	0.2	-2.8	-5	-6
Italy	260	-6.7	-9.3	-20	-4
Portugal	88	-0.9	-2.0	-33	-68
Spain	79	-2.5	-7.0	-26	-43
<b>2-yr sovereign spread vs Germany</b>					
France	7	-0.2	-0.1	1	-8
Italy	108	-5.6	-11.9	-23	0
Portugal	36	-1.2	6.8	5	10
Spain	30	-0.4	0.4	0	-7
Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	165	0.2	-6	-11	-42
Chile	42	-0.8	-6	-5	-21
Colombia	107	2.7	-5	-5	-52
Argentina	1028	-33.9	-153	-222	222
Mexico	121	2.2	-2	-3	-33
Peru	61	-0.1	-7	-7	-34
Poland	66	0.0	0	1	-1
Russia	123	0.3	-5	-8	-31
Turkey	464	-2.8	-10	-31	104
China	51	1.8	-7	0	-16
India	83	1.1	-2	4	-31
Indonesia	102	1.8	-9	-7	-36

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	-0.1	0	-2	-10
VSTOXX	14	-0.6	-2	-3	-9
EM EFT volatility Index	20	-0.2	-1	-4	-5
Dollar/euro volatility	5	-0.3	-1	0	-2
EMFX volatility index	8	-0.1	0	-1	-1
Credit spread (BAA) (change in bps)	244	1.7	0	19	-2
US bonds volatility index	68	3.5	-9	13	2
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.06	-	-9	-14	-8
EZ Inflation expectations (5Y5Y)	1.18	-	-10	-16	-42
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	58	1.6	-5	-3	-24
EZ	75	0.7	-6	-1	-29
UK	60	1.0	-6	-3	-34
Large Spanish	53	1.8	-4	-7	-35
Medium Spanish	81	-3.2	-4	-7	-31
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	172	1.6	-5	-3	-24
EZ Non-financial	80	0.7	-6	-1	-29
UK Non-financial	104	0.5	-5	-4	-15

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
<b>Euribor 12m</b>	-0.17	0	1	-5	-5
Eonia Swap 3m	-0.37	0	1	0	-1
<b>Eonia Swap 12m</b>	-0.42	0	0	-4	-7
Libor 3m	2.43	-2	-5	-9	-37
Libor 12m	2.33	-1	-7	-34	-68

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,887	0.2	2.2	1.9	15
Dow Jones	26,052	0.2	2.0	2.0	12
Nikkei	21,032	-0.5	1.2	-0.2	5
FTSE 100	7,367	0.0	2.0	1.7	9
<b>EuroStoxx 50</b>	3,390	0.1	1.5	0.8	13
IBEX	9,243	0.1	1.0	1.3	8
DAX	12,164	0.4	1.5	1.4	15
CAC	5,377	0.0	1.6	0.7	14
MIB	20,618	0.8	2.3	-1.3	13
ASE Athens	850	0.8	3.5	16.2	39
<b>MSCI Latam *</b>	92,891	-0.2	1.4	5.4	8
Ibovespa (Brazil)	98,947	0.6	3.1	7.4	13
Mexbol (Mexico)	43,639	-0.4	0.5	0.5	5
Merval (Argentina)	40,416	-1.3	14.6	24.3	33
<b>MSCI EM Europe *</b>	5,915	-0.4	1.5	8.3	12
Poland	2,300	0.8	3.5	6.3	1
Micex 10 (Russia)	4,790	0.0	1.0	5.2	14
Ise 100 (Turkey)	90,501	-2.3	0.2	2.8	-1
<b>MSCI EM Asia *</b>	834	-0.7	1.7	-1.2	7
Shanghai Com (China)	2,911	0.0	1.7	0.9	17
Jakarta (Indonesia)	6,273	-0.5	1.0	2.2	1
Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>	133.1	0.5	0.8	-0.9	15
JPM	109.5	0.2	-0.6	-0.8	12
Citi	67.2	0.6	2.2	3.0	29
BoA	28.1	0.5	0.6	-1.9	14
MS	43.0	0.8	1.3	-2.3	8
GS	191.5	0.7	1.6	-2.4	15
<b>EZ banks</b>	67.9	0.0	-0.7	-9.7	-1
BNP	41.2	0.1	-1.3	-9.4	4
Crédit Agricole	10.4	0.4	0.0	-8.3	10
Deutsche Bank	6.1	-0.4	-0.5	-11.3	-12
ING	9.9	-0.8	0.6	-11.6	6
Intesa	1.8	0.7	-0.5	-14.4	-5
SG	21.5	-1.6	-4.1	-16.7	-23
Unicredito	10.2	1.6	1.4	-4.7	3
<b>UK banks</b>	74.7	-0.2	-0.3	-3.8	2
HSBC	647.2	-0.3	0.1	-1.0	0
RBS	215.0	0.5	0.3	-6.5	-1
Barclays	149.2	-0.9	-2.2	-5.4	-1
Lloyds	58.0	0.1	0.4	-4.3	12
<b>Large Spanish banks</b>	60.1	-0.3	-1.2	-3.3	3
Santander	4.0	0.0	-1.0	-3.2	0
<b>BBVA</b>	4.9	-0.6	-1.4	-3.4	6
<b>Medium Spanish banks</b>	50.3	-0.5	-4.5	-6.5	-13
Caixabank	2.6	-0.2	-4.8	-5.0	-18
Sabadell	0.9	0.0	-6.4	-10.2	-7
Bankinter	6.2	-0.9	-3.9	-6.5	-11
Bankia	2.2	-0.8	-3.9	-5.6	-15

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.128	-0.1	0.5	0.6	-2
GBPUSD	1.27	-0.1	-0.1	-1.7	-1
USDJPY	108.45	0.0	0.0	1.1	1
DXY	97.04	0.0	-0.3	-0.5	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43.62	0.1	3.0	3.1	-14
USDBRL (Brazil)	3.85	0.5	0.9	3.3	1
USDCLP (Chile)	697.42	-0.3	-0.5	-0.9	0
USDCOP (Colombia)	3264	0.1	1.3	0.8	0
USDMXN (Mexico)	19.17	0.0	2.2	-0.1	3
USDPEN (Peru)	3.33	-0.1	0.3	-0.3	1
LACI	54.09	0.2	1.3	1.3	0
USDPLN (Poland)	3.77	-0.1	1.0	1.9	-1
USDRUB (Russia)	64.51	0.6	1.3	0.6	7
USDTRY (Turkey)	5.87	-1.1	-2.4	2.7	-10
USDCNY (China)	6.92	-0.1	-0.2	-0.7	-1
USDINR (India)	69.51	-0.2	-0.4	1.3	0
USDIDR (Indonesia)	14280	-0.3	-0.1	1.1	1
ADXY	104.40	-0.1	0.0	0.0	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	61.4	2.4	1.3	-14	14
WTx	53	2.8	1.7	-15	16
Copper	265	-0.3	1.0	-3	1
Gold	1339	0.4	0.7	3	4
S&P Spot commodity *	400	-1.9	0.3	-8	7
S&P Brent Spot *	505	-3.9	-2.1	-16	10
S&P Metals Spot *	315	0.0	1.1	-2	-1
S&P Agricultural *	300	1.5	4.6	13	6

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