

Market Comment

Draghi's reinforced dovish tone pushed bund yields to new lows

- Stocks rallied globally while bond yields declined drastically driven by unexpectedly dovish comments from ECB officials supporting market's expectations for easier monetary policies from both the ECB and the Fed and slight relief on US-China trade frictions.
- The ECB President Draghi announced that the ECB will ease its monetary policy if inflation fails to accelerate "we are not resigned to having a low rate of inflation forever or even for now". Draghi listed ECB's instruments available for boosting inflation expectations, namely reinforcing interest rate forward guidance, cutting interest rates along with mitigating measures to contain the side effects, and resuming QE. Moreover, Draghi stated willingness to adjust the ECB's bond purchase limit if QE were to be implemented again (see). Moreover, German's ZEW confidence indicators worsened dramatically in June (-21.1, consensus -5.6, previous month -2.1), supporting the fact that markets implied probability of an ECB depo rate cut for the end of this year increased significantly today from 59% to 83% (see).
- On the trade front, the U.S. President Trump said he will meet with China's leader next week at the Group of 20 summit for 'extended talks' (see). Moreover, investors will watch closely tomorrow's FOMC meeting decision, looking for hints if the Fed would cut rates in coming months.
- In bond markets, yields declined significantly with the German Bund 10Y yield hitting fresh lows, in turn, dragging down the UST10Y. However, the later trimmed its declines after the confirmation of Trump-Xi meeting in the sideline of the G-20 meeting. 'Search for yield' strategies boosted peripheral bonds. Italy's risk premium narrowed dramatically (-18.4 bps) not only driven by the ECB's carry strategies but also because Italy's Economy Minister Tria said that Italy would meet a deficit target of 2.1% for this year by cutting spending rather than increasing taxes, which would help Italy avoid the European disciplinary action (see). However, the Italian Deputy Prime Minister Salvini said that Italy will carry on with so-called mini-BOT to repay some of the state's commercial debts, contradicting his finance minister (see) and raising concerns among investors.
- Regarding FX markets, the EUR depreciated following ECB President Draghi dovish comments. Elsewhere, EM currencies appreciated across the board, especially South American currencies. Oil fluctuated, with OPEC having trouble to agree on a date for their next meeting, adding concerns about further production cuts.
- Equity markets rallied, supported by decline in yields across the board, and fueled further by the potential relief on US-China trade tensions.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,85	-1,7	-7,8	-35	-64
US	2,05	-4,3	-9,2	-34	-63
GER (2-yr)	-0,76	-7,5	-9,4	-12	-15
Germany	-0,32	-7,6	-8,8	-22	-56
France	0,01	-9,8	-11,1	-28	-70
Spain	0,39	-13,3	-18,6	-48	-113
Italy	2,11	-18,4	-27,9	-55	-78
Portugal	0,53	-10,7	-11,6	-52	-133
Greece	2,51	-20,5	-26,8	-92	-189
Japan (2-yr)	-0,20	-0,5	-1,0	-4	-6
Japan	-0,12	-0,1	-1,5	-7	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,88	-7,0	-10,2	-122	-136
Chile	3,15	-0,5	0,1	-68	-110
Colombia	6,33	-3,6	0,4	-45	-42
Mexico	7,67	-6,8	-4,0	-38	-97
Peru	4,25	1,9	-22,7	-51	-111
Poland	2,34	-8,4	-19,8	-55	-49
Russia	7,62	-7,2	-11,1	-55	-116
Turkey	16,91	-73,0	-48,0	-141	111
India	6,81	-12,0	-22,7	-55	-56
Indonesia	7,67	-1,1	-5,2	-39	-36

COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	33	-2,2	-2,3	-6	-8
Italy	243	-10,8	-19,1	-33	-21
Portugal	85	-3,1	-2,8	-30	-71
Spain	71	-5,7	-9,8	-27	-51
2-yr sovereign spread vs Germany					
France	9	0,9	1,8	0	-7
Italy	101	-4,9	-9,9	-24	-8
Portugal	37	0,2	1,7	8	11
Spain	33	2,3	3,1	3	-4
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	164	-1,5	-3	-16	-43
Chile	42	-0,2	-2	-4	-22
Colombia	107	-2,0	0	-1	-52
Argentina	1024	15,6	-92	-207	217
Mexico	123	-1,4	2	7	-32
Peru	59	-0,7	-4	-8	-35
Poland	65	0,0	-2	-1	-3
Russia	123	-0,9	-1	-5	-32
Turkey	480	0,5	19	-8	120
China	51	-0,4	0	3	-17
India	83	0,1	1	2	-30
Indonesia	102	-1,1	2	-1	-35

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0,0	-1	-1	-10
VSTOXX	13	-0,8	-2	-2	-11
EMEFT volatility Index	19	-0,2	0	-3	-6
Dollar/euro volatility	5	0,0	0	0	-2
EMFX volatility index	8	0,0	0	-1	-1
Credit spread (BAA) (change in bps)	245	4,3	6	21	-1
US bonds volatility index	77	-3,9	12	20	10
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	1,98	-	-9	-16	-15
EZ Inflation expectations (5Y5Y)	1,23	-	1	-9	-38
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	59	0,2	1	3	-23
EZ	75	-0,7	-1	-4	-30
UK	62	-0,7	1	-3	-33
Large Spanish	52	-0,6	1	-5	-36
Medium Spanish	82	3,2	0	1	-30
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	172	0,2	1	3	-23
EZ Non-financial	81	-0,7	-1	-4	-30
UK Non-financial	105	-0,2	0	-2	-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	-1	-1	-5	-7
Eonia Swap 3m	-0,39	-2	-2	-2	-3
Eonia Swap 12m	-0,49	-6	-7	-10	-13
Libor 3m	2,42	2	-2	-10	-38
Libor 12m	2,29	4	-5	-33	-73

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2.923	1,2	1,3	2,2	17
Dow Jones	26.433	1,2	1,5	2,6	13
Nikkei	20.973	-0,7	-1,1	-1,3	5
FTSE 100	7.443	1,2	0,6	1,3	11
EuroStoxx 50	3.453	2,1	1,5	0,8	15
IBEX	9.241	1,2	-0,4	-0,4	8
DAX	12.332	2,0	1,4	0,8	17
CAC	5.510	2,2	1,9	1,3	16
MIB	21.134	2,5	2,5	0,1	15
ASE Athens	853	0,7	0,9	17,0	39
MSCI Latam *	91.812	-0,5	-0,1	5,2	6
Ibovespa (Brazil)	99.242	1,7	0,3	10,3	13
Mexbol (Mexico)	43.146	0,4	-1,3	-0,7	4
Merval (Argentina)	41.037	1,4	7,0	23,2	35
MSCI EM Europe *	5.886	-0,2	-0,8	5,9	11
Poland	2.325	2,1	1,3	6,4	2
Micex 10 (Russia)	4.796	0,9	0,1	5,8	15
Ise 100 (Turkey)	94.219	2,1	1,5	8,6	3
MSCI EM Asia *	825	-0,3	-1,1	-1,6	5
Shanghai Com (China)	2.890	0,1	-1,2	0,3	16
Jakarta (Indonesia)	6.257	0,1	-0,5	6,1	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	135,0	2,0	0,3	0,6	17
Citi	110,8	1,5	0,1	0,1	14
BoA	67,7	1,8	-0,2	4,1	30
MS	28,6	2,4	1,2	0,7	16
GS	43,5	2,4	-0,3	-0,8	10
US banks	195,3	2,3	0,3	-1,1	17
EZ banks					
BNP	68,8	2,1	0,0	-7,9	0
Crédit Agricole	41,5	1,8	-0,1	-8,6	5
Deutsche Bank	10,5	1,4	0,1	-6,2	11
ING	6,3	3,6	2,3	-7,5	-9
Intesa	10,1	2,0	-0,6	-0,4	7
SG	1,9	2,3	1,4	-13,7	-3
SG	21,6	2,1	-3,3	-16,1	-22
Unicredito	10,5	3,8	2,1	-1,1	6
UK banks					
HSBC	75,4	0,6	-0,1	-2,8	3
RBS	657,6	1,0	0,3	0,4	2
RBS	215,0	0,4	-0,6	-5,5	-1
Barclays	151,6	0,6	-0,4	-4,5	1
Lloyds	58,1	0,2	0,0	-3,8	12
Large Spanish banks					
Santander	60,4	1,0	-1,0	-4,2	3
Santander	4,0	1,3	0,1	-3,5	1
BBVA	4,9	0,7	-2,0	-4,9	6
Medium Spanish banks					
Caixabank	49,1	-1,3	-4,5	-10,2	-15
Sabadell	2,5	-1,3	-3,7	-9,2	-20
Sabadell	0,9	0,8	-1,9	-12,7	-7
Bankinter	6,0	-2,1	-6,3	-10,7	-14
Bankia	2,1	-2,0	-5,1	-9,3	-18

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,120	-0,2	-1,1	0,3	-2
GBPUSD	1,25	0,1	-1,4	-1,4	-2
USDJPY	108,40	0,1	0,1	1,5	1
DXY	97,68	0,1	1,0	-0,3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43,65	0,8	2,4	3,1	-14
USDBRL (Brazil)	3,86	0,9	0,1	6,3	1
USDCPL (Chile)	696,34	0,6	-0,5	-0,1	0
USDCOP (Colombia)	3264	0,7	-0,1	1,7	0
USDMXN (Mexico)	19,12	0,3	0,1	0,3	3
USDPEN (Peru)	3,34	0,3	-0,4	-0,3	1
LACI	54,09	0,6	0,3	2,5	0
USDPLN (Poland)	3,81	-0,2	-1,1	1,4	-2
USDRUB (Russia)	64,01	0,5	0,8	1,0	8
USDTRY (Turkey)	5,84	0,5	-0,8	3,7	-9
USDCNY (China)	6,90	0,3	0,1	0,2	0
USDINR (India)	69,69	0,3	-0,3	0,8	0
USDIDR (Indonesia)	14326	0,1	-0,6	0,9	0
ADXY	104,71	0,6	0,2	0,9	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	62,3	2,2	0,0	-14	16
WTx	54	3,7	1,1	-14	19
Copper	271	2,3	1,4	-1	3
Gold	1346	0,5	1,5	5	5
S&P Spot commodity *	405	-0,6	-0,7	-9	8
S&P Brents Spot *	511	-1,7	-2,9	-16	12
S&P Metals Spot *	312	0,1	-0,9	-3	-2
S&P Agricultural *	310	0,6	4,8	15	9

Source: Bloomberg, Datastream and Haver

* With one day delay