

Market Comment

# Bond yields decline after the Fed dovish stance

- Bond yields declined across the board, while the US dollar depreciated following the FOMC's dovish statement, supporting equity markets.
- The FOMC left interest rates unchanged but open the door to a pre-emptive monetary easing, as expected. Although the assessment of economic conditions was mixed, the statement highlighted the elevated policy uncertainty, renewed "cross-currents" and the threat of inflation and inflation expectations drifting further below the Fed's two percent target. The word "patient" was substituted by "closely monitor" in the statement, suggesting the Fed will start the easing cycle this year. This would likely imply a 25bps rate cut in 3Q19 and again in 4Q19. If risks materialize more quickly than anticipated, this could imply 25bps rate cuts as early as July, while the greater likelihood of an economic recession would warrant both immediate and larger reductions in the Federal Funds rate. Notwithstanding any shocks, the easing cycle is likely to be somewhat modest relative to other recessionary periods (see).
- Business confidence dropped sharply in the US. The Philadelphia Fed business index were well below expectations (0.3, consensus 10.4, previous month 16.6) which indicates that business activity in the U.S. Mid-Atlantic region did not grow in June (see), supporting the view that the Fed's easing cycle will start this year.
- The U.S. government bond yields declined significantly after yesterday's Powell speech, with the decline in the 2Y yield far outpacing the 10Y yield rally, although markets were already pricing in close to 3 interest rate cuts. However, the UST 10Y has partially reverted today's early losses. The decline in US yields dragged European yield, while the UK Gilts yields fell further despite the BoE's decision to maintain interest rates unchanged, signaling a gradual rise in interest rates. Moreover, the BoE recognized concerns over a no-deal Brexit by cutting its second quarter growth forecast (see) which helped safe-haven flows to the UK Gilt.
- The US dollar extended its depreciation against all currencies after the FOMC outcome. EM currencies appreciated across the board led by easier funding conditions on the back of lower yields and a weaker USD. Moreover, positive sentiment towards a Trump-Xi meeting outcome also help EM markets assets. On the other hand, gold rose to its highest in more than five years on the back of a weaker USD and concerns about inflation outlook, while the crude oil prices also increased driven by geopolitical concerns after Iran said it shot down a U.S. military spy drone in its airspace (see).
- The search for yield benefited peripheral bonds at the beginning of the trading day although they trimmed its early decline ahead of EU summit in Brussels while safe-haven bond remained well demanded amid geopolitical tensions. Moreover, the debt exchange in Italy also weighed on Italy's long-term yield. The search for yield also inched up equity markets, as lower yield improved the market's valuation, amid positive prospect of Trump and Xi avoiding an escalation in tensions.
- Fed officials will closely watch the outcome of Trump-Xi summit in the sidelines of the G-20 meeting, following the Fed Chairman's remarks that trade policy impacted on sentiment. Markets will look for signs of thawing in the recently intensified trade tensions.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1.71	-2.3	-12.4	-54	-78
<b>US</b>	1.99	-3.3	-10.4	-44	-69
GER (2-yr)	-0.76	-1.8	-8.0	-13	-15
<b>Germany</b>	-0.32	-3.0	-7.7	-26	-56
France	0.01	-3.4	-9.7	-31	-70
Spain	0.39	-1.1	-15.1	-48	-113
Italy	2.15	3.6	-21.1	-50	-75
Portugal	0.54	-1.4	-10.5	-50	-133
Greece	2.57	8.4	-13.7	-82	-183
Japan (2-yr)	-0.23	-1.8	-3.5	-8	-9
<b>Japan</b>	-0.17	-2.8	-5.2	-12	-17

Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7.83	0.0	-6.0	-97	-141
Chile	3.10	-5.7	-4.5	-72	-115
Colombia	6.19	-11.9	-1.8	-60	-56
Mexico	7.54	-9.7	-15.4	-52	-110
Peru	4.20	-4.6	-11.2	-54	-116
Poland	2.36	0.0	-8.0	-55	-46
Russia	7.44	-7.3	-32.4	-61	-134
Turkey	15.77	-133.0	-159.0	-264	-3
India	6.79	-4.7	-21.5	-51	-57
Indonesia	7.41	-13.8	-28.5	-66	-62

## COUNTRY RISK (BP, CHANGES IN BP)

Developed Markets	level	Daily	Weekly	Monthly	YTD
<b>10-yr sovereign spread vs Germany</b>					
France	33	-0.4	-2.0	-6	-8
Italy	246	6.6	-13.4	-24	-18
Portugal	86	1.6	-2.8	-24	-71
Spain	71	1.9	-7.4	-23	-51

<b>2-yr sovereign spread vs Germany</b>					
France	9	0.1	1.6	1	-6
Italy	97	2.4	-11.0	-24	-11
Portugal	36	0.4	0.2	12	10
Spain	34	2.2	4.2	6	-3

Emerging Markets	level	Daily	Weekly	Monthly	YTD
<b>5-yr sovereign CDS *</b>					
Brazil	155	-3.2	-11	-27	-52
Chile	39	-1.4	-4	-8	-25
Colombia	95	-4.5	-12	-15	-63
Argentina	956	-28.0	-72	-270	150
Mexico	114	-3.2	-7	-3	-41
Peru	56	-1.6	-6	-12	-39
Poland	65	0.0	-2	-1	-3
Russia	114	-3.7	-9	-13	-40
Turkey	455	-10.3	-10	-31	95
China	44	-3.9	-8	-7	-24
India	82	-0.6	-1	1	-32
Indonesia	94	-4.3	-8	-13	-44

## RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0.5	-1	0	-11
VSTOXX	13	-0.3	-1	-2	-11
EM EFT volatility Index	18	-0.3	-1	-2	-7
Dollar/euro volatility	5	0.1	0	0	-2
EMFX volatility index	8	0.0	0	-1	-1
Credit spread (BAA) (change in bps)	246	4.1	3	22	0
US bonds volatility index	71	-5.4	-4	16	5

Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.05	-	1	-14	-8
EZ Inflation expectations (5Y5Y)	1.30	-	12	-3	-31

Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	52	-2.9	-6	-4	-30
EZ	66	-2.4	-9	-15	-39
UK	58	-2.1	-2	-11	-37
Large Spanish	46	-1.3	-6	-11	-41
Medium Spanish	85	2.2	4	-2	-27

Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	164	-2.9	-6	-4	-30
EZ Non-financial	77	-2.4	-9	-15	-39
UK Non-financial	102	-1.1	-2	-4	-17

## INTERBANK MARKETS (% CHANGES IN BP)

	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.38	0	-2	-1	-2
Euribor 3m	-0.34	0	-2	-3	-3
<b>Euribor 12m</b>	-0.21	0	-4	-7	-9
Eonia Swap 3m	-0.40	-1	-3	-3	-4
<b>Eonia Swap 12m</b>	-0.49	-1	-6	-10	-13
Libor 3m	2.39	0	-4	-14	-41
Libor 12m	2.30	3	-4	-35	-72

## STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
<b>S&amp;P500</b>	2,944	0.6	1.8	2.8	17
Dow Jones	26,564	0.2	1.8	2.7	14
Nikkei	21,463	0.6	2.0	0.9	7
FTSE 100	7,424	0.3	0.8	1.3	10
<b>EuroStoxx 50</b>	3,468	0.4	2.3	2.4	16
IBEX	9,209	-0.2	-0.4	-0.3	8
DAX	12,355	0.4	1.5	1.7	17
CAC	5,536	0.3	3.0	2.8	17
MIB	21,361	0.7	3.5	3.2	17
ASE Athens	837	-0.9	-1.6	14.1	36
<b>MSCI Latam *</b>	93,771	0.7	0.9	6.2	9
Ibovespa (Brazil)	100,303	0.0	1.5	6.2	14
Mexbol (Mexico)	43,704	0.8	0.5	1.2	5
Merval (Argentina)	39,862	0.0	-1.9	15.6	32
<b>MSCI EM Europe *</b>	5,957	-0.2	0.7	7.6	13
Poland	2,320	0.0	0.8	5.9	2
Micex 10 (Russia)	4,826	0.4	0.7	5.7	15
Ise 100 (Turkey)	94,158	-0.1	4.0	10.4	3
<b>MSCI EM Asia *</b>	846	1.6	1.3	2.7	8
Shanghai Com (China)	2,987	2.4	2.6	2.8	20
Jakarta (Indonesia)	6,336	1.3	0.9	7.3	2

Banking sector	level	Daily	Weekly	Monthly	YTD
<b>US banks</b>					
JPM	133.7	-0.4	0.5	-1.5	16
Citi	109.6	-0.2	0.1	-1.9	12
BoA	67.5	-0.1	0.7	2.2	30
MS	28.0	-1.3	0.1	-2.5	13
GS	43.2	0.2	0.7	-2.6	9
<b>EZ banks</b>	194.9	-0.4	1.8	-2.1	17
BNP	68.7	-2.0	1.4	-5.8	0
Crédit Agricole	41.4	-1.9	0.8	-7.9	5
Deutsche Bank	10.4	-2.9	0.5	-6.9	11
ING	6.3	-2.6	3.5	-5.9	-9
Intesa	10.0	-2.8	0.2	-1.0	6
SG	1.9	-0.9	2.6	-4.4	-3
SG	21.7	-1.5	1.1	-13.9	-22
Unicredit	10.6	-0.5	4.0	2.5	7
<b>UK banks</b>	75.4	-1.3	0.9	-2.3	3
HSBC	654.0	-0.5	0.9	0.2	1
RBS	217.7	-2.2	1.4	-3.5	0
Barclays	150.5	-1.8	0.6	-4.2	0
Lloyds	58.4	-1.4	0.6	-3.5	13
<b>Large Spanish banks</b>					
Santander	60.6	-1.3	0.7	-2.8	4
Santander	4.0	-1.1	0.8	-2.0	1
<b>BBVA</b>	4.9	-1.4	0.5	-3.5	7
<b>Medium Spanish banks</b>					
Caixabank	48.0	-2.8	-4.6	-11.9	-17
Sabadell	2.5	-2.2	-4.3	-11.8	-22
Sabadell	0.9	-4.5	-2.7	-13.7	-9
Bankinter	5.9	-2.3	-5.6	-12.3	-16
Bankia	2.0	-3.4	-5.7	-11.6	-20

## CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
<b>EURUSD</b>	1.129	0.6	0.1	1.2	-2
GBPUSD	1.27	0.5	0.2	0.0	0
USDJPY	107.26	0.8	1.0	3.0	2
DXY	96.66	-0.5	-0.4	-1.4	1

Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	43.35	0.0	0.4	3.4	-13
USDBRL (Brazil)	3.84	0.0	0.3	5.2	1
USDCLP (Chile)	683.00	1.4	1.9	1.7	2
USDCOP (Colombia)	3199	1.3	2.1	4.3	2
USDMXN (Mexico)	18.98	0.2	1.1	0.2	4
USDPEN (Peru)	3.31	0.6	0.6	1.0	2
LACI	54.57	0.3	1.1	2.6	0
USDPLN (Poland)	3.77	0.8	0.2	2.4	-1
USDRUB (Russia)	62.89	1.4	2.7	2.4	10
USDTRY (Turkey)	5.78	0.2	1.5	4.7	-9
USDCNY (China)	6.85	0.8	1.0	0.8	0
USDINR (India)	69.44	0.4	0.1	0.4	0
USDIDR (Indonesia)	14183	0.6	0.7	2.1	1
ADXY	105.32	0.5	0.8	1.3	0

## COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
<b>Brent</b>	64.5	4.4	5.2	-11	20
WTX	57	5.5	8.5	-10	25
Copper	272	1.2	2.1	0	3
Gold	1390	2.2	3.6	9	8
S&P Spot commodity *	408	-0.5	0.9	-8	9
S&P Brents Spot *	519	-0.5	1.0	-14	13
S&P Metals Spot *	316	-0.2	0.6	-1	-1
S&P Agricultural *	303	-1.3	-0.6	10	7

Source: Bloomberg, Datastream and Haver

\* With one day delay