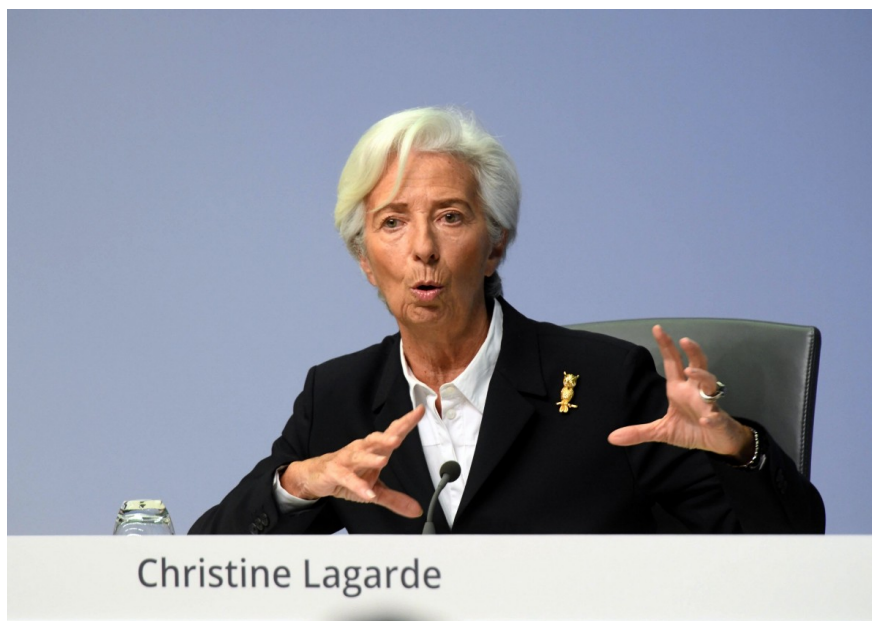


Return of “Peripheral”

We haven't heard the phrase "peripheral Europe" since the dark days of the debt crisis, but looking at the behaviour of global bond markets today, this may return amidst a sense of extreme risk aversion



President of European Central Bank Christine Lagarde

Source: Shutterstock

Yes, stocks are down 10%, what else?

Of course, the main story for financial markets today is the 10% drop in US stocks overnight, but what catches my eye this morning is not this, nor the fact that unlike previous big drops, futures markets are not looking for a correction. My eyes were instead drawn to the bond pages today. And there we can see something we haven't seen for a while, sell-offs in the non-core or what we used to call "peripheral countries" of Europe. It's actually a broader list than this though - basically, anywhere with a lot of debt, Greece of course, Ireland, Italy, Belgium, even France (10Y up 20bp). Germany barely managed to hang on with 10Y bond yields down only fractionally.

At the heart of this will be disappointment with the package of measures from Christine Lagarde's ECB. [Carsten Brzeski writes about them in this note, here.](#)

In Asia, the bond markets haven't yet reponded too much, but it is interesting to see that commodity-heavy Australian and New Zeland government bonds are seeing the biggest increases, though not on the scale of some of those in Europe. Both are up a bit more than 7bp at a 10Y

maturity. For any signs that this is becoming a generalised EM rout, we would look to the Indonesian 10Y yield as a litmus indicator. Right now it isn't showing too much, though yields have already risen over recent weeks by close to 70bp. So it looks normal right now, but I would keep watching this, as well as Indian and Philippine bonds for signs that the rush for the exits may be beginning.

And the USD comes storming back

With US Treasury yields staging a much more sedate decline as the stock market tanks, and with investors seemingly taking a "sell European assets" view, the USD has come screaming back. I'm pleased, as this is what I told some investors in India a week or two back. Where it goes from here is harder to call, but [Petr Krpata has written on the latest moves, so read his note for some more insight](#). Fortunately, EURUSD is his headache, not mine. But I think he is right that the ECB yesterday, far from pouring oil on troubled waters, has poured oil onto the fire.

For what it is worth, and it probably isn't much, there probably is also a Covid-19 overlay to FX right now, so the USD may be enjoying a late-mover advantage. That will come to an end as the case count rockets, which is what I think happens soon.

India update

Prakash Sakpal has written this about India, which ties in with my earlier comments about EM stresses: "February CPI inflation eased in line with consensus to 6.6% YoY from 7.6% a month before on lower food and transport components. And, industrial production growth accelerated to 2% YoY in January from 0.1% in December. However, nobody cared about these better data as the markets continued to get crushed by worries about the Covid-19 pandemic. The RBI was reportedly in the market to support the Indian rupee as the currency weakened in the vicinity of 74.4 all-time low against the US dollar reached in Oct-2018. It also announced \$2 billion worth of currency swaps in further support. It's quite a balancing act for the central bank as the pressure to cut rates is mounting. We do expect a rate cut in April, while the government is also mulling more fiscal stimulus to support growth. We continue to see USD/INR rising up to 75 in the days ahead (spot 74.22)".

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