Thomas Lee (right), works with fellow traders on the floor of the New York Stock Exchange on May 23. Wall Street investors are worry about an apparent stalemate in trade talks between the US and China.



Spanish, Portuguese yields hit record lows

Spanish and Portuguese bond yields hit record lows on Monday after European parliamentary elections showed pro-EU parties retained a strong majority, bolstering investor sentiment.

Though nationalist and far-right parties made significant gains, they were not as large as some investors had thought, and parties committed to strengthening the European Union held onto two-thirds of seats in the EU parliament.

"The populists gained significant-ly but from a market point of view, it

wasn't as good a performance as was feared," DZ Bank analyst Rene Albre-

"There's now a chance for a pro-EU grand coalition of liberals, social democrats and conservatives," Albrecht added.

Spain's Socialists also won most votes in European and local elections on Sunday, while Portugul was boosted by ratings agency Fitch giving its sovereign credit rating a positive outlook

As a result, Spanish 10-year bond yields hit a record low of 0.808% while

the Portuguese equivalent dropped to 0.959%, also its lowest on record in thin trading due to holidays in Britain and the

United States.
Far-right and nationalist parties did, however, make strong gains in the vote, anchoring German 10-year Bund yields at -0.133%, a 2-1/2 year low.

Yields were also pushed lower by US President Donald Trump's comments that suggested he wishes to re-examine trade relations with Japan, sparking further trade

If no buyer found

ECB supervisors want to close Banca Carige

FRANKFURT, May 27, (RTRS): European bank supervisors think Italy's long-struggling Banca Carige should be closed if it can't find a buyer, contrary to Rome's plan for a state rescue, four sources close to the matter

Carige's case, the latest in a series of bank crises in an Italian economy still reeling from the last recession, is likely to once again pit Rome's anti-establishment government against the European Central Bank in Frankfurt after skirmishes on the euro.

The sources said supervisors had no immediate plan to pull the plug on Carige and still hope the bank, which has been marred by years of maladministration and a stagnant economy in its domestic region of Liguria, can find an investor.

But the watchdogs see a liquidation of the bank as the logical next step if no saviour materialises, according to the sources. They did not lay out any specific time frame for how long supervisors were prepared to wait for a buyer to emerge, though one source said they were not prepared to wait months.

An ECB spokeswoman said: "This is speculation. ECB Banking Supervision is fully relying on the temporary administrators to pursue their efforts to find a private solution."

Debt

Italy, which has the second largest public debt in the eurozone after Greece, has spent 20 billion euros to prop up its ailing banks since 2017. While Carige is not big enough to pose a threat to the country's financial stability, its woes highlight the persistence of trouble spots in the banking industry more than a decade on from the global finan-

Winding down Carige would allow the government to take on the bank's bad assets while carvto pick up on the cheap - as happened to two banks in the Veneto region in 2017.

However this would be an embarrassment for Italy's ruling coalition of the anti-establishment Five-Star Movement and the right-wing League. The parties, who attacked the country's previous administration over its handling of banking crises, have so far resisted the option and instead raised the prospect of a capital injection by the state.

But the sources said Carige was likely too small to qualify for such a "precautionary recapitalisation", which requires approval from the ECB and the European Commission.

One of sources said Carige was not viable as a standalone business in the long run. Two other sources said a liquidation was the best option for Carige in light of the successful precedent in Veneto and the Genoa-based bank's relatively small size and

limited geographic footprint. An Italian Treasury spokeswoman rejected the view that Carige may not be viable and that as such a precautionary recapitalisation would not be pos-

Carige declined to comment.

Banks

The eurozone's top 117 banks are overseen by the Single Supervisory Mechanism, which includes the ECB and national watchdogs from the area's 19 countries.

While the supervisors can't force Carige to close, they can block a state capital injection and deem the bank to be failing, which could start the process of it being wound down.

Carige is one of several smaller banks struggling with bad loans and resistant to consolidation in Italy, the eurozone's third-biggest economy.

Its biggest investor - the Malacalza family of steel entrepreneurs - voted against a capital increase last year, leading the ECB to place the bank under special administration in January.

Since then the Genoa-based bank has failed to fill a 630-million euro capital hole, most recently missing a mid-May deadline set by the ECB after US fund giant BlackRock walked away from a planned rescue bid,

deeming it too risky.
The bank's ECB-appointed administrators say they're still looking for a private investor while the government has already paved the ground for a precautionary recapitalisation with 1 billion euros of taxpayer

Bankers say Carige has some attractive assets, including up to 700 million euros of potential tax credits stemming from past losses that a bigger buyer could take advantage of, 12 billion euros worth of customer deposits

and a private banking business. But the bank has little subordinated debt outstanding after swapping it for senior notes at steep losses for investors in late

In 2016, Italy's government of the time recapitalised the country's third-largest lender, Monte dei Paschi di Siena but that failed to draw a line under the Tuscan

Europe equities gain on EU poll relief and auto shares advance

Oil rises on Mideast tension and supply cuts

LONDON, May 27, (RTRS): European shares climbed on Monday as investors snapped up automaker stocks following confirmation of merger talks between Fiat Chrysler and Renault, and after pro-EU parties kept a firm grip on power in elections to the European Parliament.

The pan-European STOXX 600 added 0.23% with all major European indices in the black, although trading volumes were thin with markets closed for public holidays in the United States and Britain.

The MSCI world equity index, which tracks shares in 47 countries, was ahead by 0.06%.

Auto stocks climbed 1.6% as Italian-American carmaker Fiat Chrysler confirmed it had made a "transformative merger" proposal to French peer Renault in a deal which would create the world's third-biggest carmaker. Shares of both companies surged.

Markets were also buoyed by provisional results from the EU elections that showed liberals and Greens matching a surge by eurosceptic parties, which took a quarter of seats but failed to dramatically alter the balance of power in par-

Stéphane Barbier de la Serre, macro strategist at Makor Capital Markets, said investors may add more cash to euro zone stocks after the election results. But he cautioned that bigger headwinds facing the regional and global economy, such as trade wars and Brexit, were likely to limit the size and pace of inflows.

"I have a feeling that investors wouldn't have considered entering the market again until the outcome of the elections. The results are slightly positive in the end so we may see customers recommitting. But until I see it, it'll be St Thomas," he said, referring to the Christian Apostle Thomas, known as doubting Thomas.

Investors had been worried about eurosceptic parties gaining a 30% share of seats – the level at which they could seriously disrupt European governance and the region's ability to show unity in addressing key concerns like a global trade war.

Far-right, nationalist or anti-EU groups nevertheless came out on top in Italy, Britain, France and Poland.

The impression of a fragmented political system remains, but perhaps when all is said and done, the message will be that Brexit has reduced appetite to leave the EU," said Kit Juckes, FX strategist at Societe Generale.

A stronger voice for the liberals and Greens could see the next EU executive seek a tougher line on regulating polluting industries, taxing multinational companies or demanding trading partners help contain climate change.

The euro initially rallied above \$1.12 but later slipped 0.1% to \$1.1196.

"In the simple world of FX a possible crisis is averted, leaving us with familiar issues. Europe needs more growth and while EU leaders argue over who gets which top jobs, it needs easier fiscal policy perhaps most of all," Juckes said.

Greek stocks jumped 6.1% and were on track for their best day since early February 2016 after Prime Minister Alexis Tsipras called a snap election following a drubbing for his left-wing Syriza party in the EU poll.

Investors are hoping the opposition conservative New Democracy party, which won the European election in Greece, can seize on Tsipras' unpopularity and on anger against austerity in a general election

Greek 10-year bond yields dropped to a new record low and were set for their biggest one-day fall since December

The spread between the German 10year bond yield, considered one of the world's safest assets, and the Italian 10year government bond yield was little

changed after initially narrowing.
Spanish and Portuguese bond yields hit record lows – a sign of investor confidence after the election results.

Elsewhere, US President Donald Trump's visit to Japan was overshadowed by trade tensions. Trump pressed Japanese Prime Minister Shinzo Abe to even out a trade imbalance with the United States.

Escalating trade tensions between the United States and China have rattled investors in recent weeks, pressuring stocks lower just as concerns build about weakening momentum in the world's largest economies.

The yen, often the currency of choice for nervous investors, fell 0.2% against the dollar to 109.49 but remained close to four-month highs hit earlier in May as traders looked for safety in the face of mounting trade-related woes.

The dollar rose 0.1% against a basket

China's yuan rose to a 1-1/2 week high against the US dollar on Monday, buoyed by a senior official's warning not to bet against the Chinese currency. The pound weakened 0.2% to \$1.2687

but remains above a near five-month low of \$1.2605 struck last week after British Prime Minister Theresa May said she would step down - triggering a leadership contest during which investors fear the risk of a no-deal Brexit will rise. Oil prices steadied after earlier ex-

tending losses from last week when crude dropped the most this year. Concerns the Sino-US trade war could trigger a broad economic slowdown have sent this year's oil rally into reverse, although OPEC's supply cuts have provided some support.

Front-month Brent crude futures, the international benchmark for oil prices, rose 0.48% to \$69.17 per barrel while US West Texas Intermediate (WTI) crude futures shed 0.1% to \$58.58 per barrel.

Asia

Hong Kong stocks eased on Monday, as investors stayed on the sidelines awaiting hints of further policy support to offset impacts of US-China trade war and cooling domestic demand, amid worries about the economy.

At the close of trade, the Hang Seng index was down 65.84 points, or 0.24%, at 27,288.09. The Hang Seng China Enterprises index fell 0.41% to 10,402.76. The biggest loser on the Hang Seng was Want Want China Holdings Ltd, which fell 2.41%, while the top gainer was Sino Biopharmaceutical Ltd, rising 6.93%. The sub-index of the Hang Seng tracking energy shares dipped 0.6%, while the IT sector dipped 0.16%, the financial sector ended 0.04% lower and the property sector dipped 0.21%. China's main Shanghai Composite index closed up 1.38% at 2,892.38, while the blue-chip CSI300 index ended up 1.2%. Around the region, MSCI's Asia ex-Japan stock index was firmer by 0.08%, while Japan's Nikkei index closed up 0.31%. The yuan was quoted at 6.8956 per US dollar at 08:12 GMT, 0.07% firmer than the previous close of 6.9005. The top gainers among H-shares were China Tower Corp Ltd up 4.17%, followed by Huaneng Power International Inc, gaining 4.12% and CGN Power Co Ltd, up by 3.4%. The three biggest H-shares percentage decliners were Hengan International Group Company Ltd, which was down 1.73%, PICC Property and Casualty Co Ltd, which fell 1.6% and China Telecom Corp Ltd, down by 1.5%. About 1.30 billion Hang Seng index shares were traded, roughly 72.9% of the market's 30-day moving average of 1.79 billion shares a day. The volume traded in the previous trading session was 1.73 billion

At close, China's A-shares were trading at a premium of 26.91% over Hong Kong-listed H-shares.

Oil rose to about \$69 a barrel on Monday, supported by Middle East tensions and OPEC-led supply cuts, though concern over the US-China trade dispute and global economy capped gains.

Supply cuts - both voluntary by the Organization of the Petroleum Exporting Countries (OPEC) and allies, plus those resulting from US sanctions - have helped Brent crude, the global benchmark, rise by about 29 percent this year.

Brent was up 33 cents at \$69.02 a barrel by 1334 GMT, having fallen by about 4.5% last week. US West Texas Intermediate crude was down 30 cents at \$58.33. "The main factor preventing the mar-

ket from going higher on the geopolitical news is really the concern about the global economy," said Petromatrix oil analyst Olivier Jakob.

Both crude contracts registered their biggest weekly price declines of the year last week. Public holidays in the United States and Britain on Monday limited participation, keeping volumes low.

Nonetheless, concern about the global economy weighed. Figures on Monday showed that profits for Chinese industrial companies shrank in April while new orders for US-made capital goods fell more than expected.

Currencies

The euro struggled to hold on to \$1.12 on Monday as investor relief at limited

gains for eurosceptic parties in European parliamentary elections was offset by declines in the share of seats held by the biggest blocs.

While centre-right and centre-left blocs lost their shared majority, surges by the Greens and liberals meant parties committed to strengthening the union held on to two-thirds of seats, official projections showed.

The single currency initially rallied to as high as \$1.1215, near its highest in 1-1/2 weeks, and off a two-year low of \$1.11055 touched on Thursday. But by 0820 GMT it was down 0.1% at

"If anything, it was positive that the populists didn't gain more than they did," said Christin Tuxen, an FX analyst at Danske Bank. The reduced vote share for the biggest centrist parties went "in the other direction", however.

The results dented the hopes of antiimmigration, anti-Brussels National Rally led by Marine Le Pen, Italian Deputy Prime Minister Matteo Salvini and others who have been opposing attempts to forge closer EU integration.

Tuxen said the election, normally of limited interest to global markets, was the first of a series of meaningful political events in Europe this year, although monetary policy still mattered more given signs of slowing economic momentum.

FX investors are focused on how the US Federal Reserve will react to a worsening economic outlook.

"What is really going on in the FX market, is we are waiting to hear if there will be a Fed reaction to the deteriorating cyclical outlook," Tuxen said, pointing to rising expectations of a US rate cut

Trading was set to be subdued on Monday due to market holidays in London and New York, limiting moves in other currency pairs. The dollar index rose 0.1% to 97.706.

The US currency traded at 109.53 yen, up 0.2% and underpinned by bargain-hunting by Japanese investors. The dollar is not far from a three-month low of 109.02 touched two weeks ago amid escalating tensions between Washington and Beijing over trade and technology.

The dollar has been also capped against the yen as US President Donald Trump is seen putting pressure on Japan to take measures to reduce its trade surplus with the United States. Trump, who arrived in Tokyo on Saturday, tweeted on Sunday that much of the trade negotiation would wait until after Japan's election in July.

The pound rose marginally to \$1.2718, having regained some ground from 4-1/2 month lows after Prime Minister Theresa May set out a date for her departure. The prospect of a "no-deal" Brexit is fast becoming the defining issue of the race to succeed her.

"Sentiment towards the pound is still negative," said Marshall Gittler, an analyst at ACLS Global, citing option market data that signalled people were buying insurance against a further fall in the pound and positioning data showing a big increase in short positions against it.

foreign currency

exchange rates - May 27

		US dollar		St	Sterling pound			Euro			Japanese yen			Swiss franc		Canadian dollar			Swedish krona			Saudi riyal			UA	E dirham	Bahraini dinar			Omani riyal		
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