

Turning to Asia, the news flow from China has been fairly mixed overnight but the price action is more unambiguous with falls in the Shanghai Copper futures (-0.9%), HSCEI (-0.9%) and Hang Seng (-1.3%). The latter has been weighed by a sharp fall in Tencent (-5.1%) one of the world's largest internet companies, on reports that the PBoC has called for a halt to virtual credit cards operated by the company. China worries have also sent Australian mining stocks down 2.3% and the Nikkei is down 3.4% with all industry sectors suffering >2% falls. S&P500 futures (+0.1%) are slightly firmer though and US treasury yields are trading flat in Asian trading following yesterday's 9bp move lower. In domestic Chinese equities, banks are leading the markets losses as concerns over corporate defaults continue to weigh on the sector. On the topic of potential defaults, Chinese equipment-maker Boading Tianwei, who generated headlines earlier this week as a potential second default in China's domestic bond sector, released a statement saying that it will be meeting its coupon payment obligations on July 11th this year. The bonds are guaranteed by the company's central-government-linked shareholder. The bonds remain suspended from trading though. There was also news that trust products linked to Shanghai Chaori (the first domestic corporate bond issuer to default last week) have been "paid off" by Zhongrong International Trust Co, suggesting that maybe the trust product's investors may have been able to recover a substantial amount of their investment (Shanghai Securities News).

On the topic of China, our commodities research team writes that fears of Chinese commodity finance deals could unravel and result in widespread metals liquidation might be overdone. In their view, the recent sell-off in copper prices has been primarily driven by speculators trying to anticipate the unwinding of financing deals, rather than actual widespread unwinding itself. According to their channel checks, the scale of actual unwinding has been limited so far. For more detail, a link to their report can be accessed here: <https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c0880451cb.pdf>. Elsewhere in Asia, there was little reaction to the latest BoJ minutes where members said that the economy and prices were on track with Bank forecasts.

Away from the worries in EM, there were interesting comments from Draghi in his prepared remarks at a presentation ceremony in Vienna yesterday. Draghi said that the ECB's efforts in repairing bank balance sheets prior to the start of the Single Supervisory Mechanism was in a sense "encouraging creative destruction in the banking sector". He said he wanted to avoid "zombie banks" that do not lend and that interfere with the "churn process between firms entering and exiting the market that is a crucial driver of productivity". We wouldn't disagree with these comments. As we have argued many times in the past, low default rates are a big feature of this high liquidity world which is great if you're a credit investor but its highly debatable whether it's good for the wider economy in so much as it distorts the efficient allocation of capital. Defaults are a good thing through time. However with so much debt outstanding now we may have long passed the point where you can allow defaults without causing major systemic concerns and subsequent economic weakness. On a separate matter, but also related to the banking industry, the FT wrote yesterday that Barclays is planning a "radical overhaul" of its investment bank with a new management strategy to be unveiled before the summer.

Looking at the day ahead, it's likely that the focus will remain squarely on geopolitical developments rather than economic data. All eyes are on the Kerry-Lavrov meeting in London today, but it's fair to say that expectations of this meeting are low at this point. The world will be watching the Crimean referendum on Sunday, but as we mentioned above, the outcome of the vote seems pretty certain at this point and it will be more about how the protagonists react to the formality. The main data releases are US producer prices and the UofMichigan consumer confidence report.

Other Market Data  
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(ITX Sub Fin @ 141 // +6)