

Powell's speech and FOMC minutes drove markets in the week

- Events in the US drove financial markets during the week as the comments of Powell and the release of the latest FOMC minutes posed some doubts about the pace of Fed tightening in 2019. The Brexit negotiation process and Italy's budget were also in the spotlight, while geopolitical tensions in Russia increased ahead of the G-20 meeting.
- US markets moved sharply in an eventful week. The Fed Chairman's speech - read as dovish - along with the release of FOMC minutes of November (showing a cautious mood) raised doubts about the pace of tightening of the Fed (see). Looking ahead, it seems that the monetary policy path will be data-dependent for 2019, while a 25 bps hike at the December meeting is already priced in. Market expectations for the pace of Fed tightening were down, dragging UST long-term yields (10Y hovering around 3%) and the USD. Consequently, equity markets benefited from the "dovish" Fed. The slower-than-expected inflation figures in the US (see) reinforced this mood, despite the expected revision for 3Q18 US GDP (see).
- In Europe, developments on Brexit negotiations and the Italian budget, along with economic indicators, kept investors' attention. Despite the UK-EU agreement on Brexit (see), May still needs the support of the UK parliament, making for a challenging context, exacerbated by Trump's comments on Brexit (see) and the release of estimates of the potential impact of Brexit on the UK economy by the Bank of England and the government. On the other hand, the recent willingness of the Italian government to adjust its budget deficit target in order to avoid sanctions led to an abrupt narrowing of the Italian risk premium during the week (see). Other peripheral risk premia also benefited from the positive news.
- The downward trend in US yields contributed to maintaining Germany yields at very subdued levels (close to 0.30% in 10Y), while equity indices increased in the week despite threats of US tariffs on auto imports (see). A raft of economic indicators in Europe, such as today's EZ inflation data (see), was released (see) during the week, but did not have any significant impact on markets, and nor did comments from ECB policy makers about the reinvestment strategy (see).
- Most of emerging markets improved their performance due to the improvement in global funding conditions (weak USD and lower UST yields) coupled with the stability in oil prices, which halted their negative trend which had driven them to their lowest point in more than a year. The Trump-Xi meeting today is expected to provide key hints as to future trade relations, in a context in which China continues to show some signs of slowing growth, as today's PMI were lower than expected (see). There were some exceptions to the good performance of emerging countries, such as Russia, which suffered from increasing geopolitical tensions as Trump cancelled his meeting with Putin at the G-20 summit (see).

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.81	0.6	0.5	-5	90	
US	3.01	-1.8	-2.8	-13	55	
GER (2-yr)	-0.60	-0.5	-2.2	2	1	
Germany	0.31	-1.4	-3.3	-8	-22	
France	0.68	-2.0	-4.3	-7	-15	
Spain	1.50	-0.5	-12.9	-4	-17	
Italy	3.20	-0.7	-21.0	-23	110	
Portugal	1.82	-1.1	-11.8	-5	-19	
Greece	4.27	-0.7	-28.6	3	16	
Japan (2-yr)	-0.13	1.2	1.0	-1	0	
Japan	0.09	1.0	-0.8	-4	4	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.93	-8.4	2.5	-29	-33	
Chile	4.40	-0.1	-1.6	-16	-12	
Colombia	6.99	-9.6	-3.4	-19	55	
Mexico	9.04	-3.5	-2.6	18	146	
Peru	5.33	-0.1	-0.5	-25	46	
Poland	3.06	-7.2	-12.0	-16	-26	
Russia	8.82	-0.8	-11.5	14	118	
Turkey	16.08	23.0	-12.0	-160	472	
India	7.61	-0.1	-10.4	-25	22	
Indonesia	7.87	-3.5	-4.2	-68	157	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	37	-0.6	-1.0	1	7	
Italy	289	0.7	-17.7	-15	132	
Portugal	152	0.3	-8.5	3	3	
Spain	120	0.9	-9.6	3	5	
2-yr sovereign spread vs Germany						
France	15	0.3	1.0	-5	-2	
Italy	145	-0.3	-7.2	-23	108	
Portugal	39	-1.1	-0.3	-9	-10	
Spain	43	0.5	-1.0	-6	16	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	208	-1.2	-3	5	48	
Chile	58	0.2	1	5	9	
Colombia	140	-0.9	-1	13	35	
Argentina	659	9.0	47	44	421	
Mexico	148	-3.7	-9	6	41	
Peru	90	1.6	4	8	19	
Poland	68	0.0	-1	1	19	
Russia	165	-6.1	8	19	47	
Turkey	390	-11.7	1	9	225	
China	70	-0.2	-3	-2	20	
India	113	0.6	0	-1	44	
Indonesia	143	-3.1	-9	-16	58	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	20	0.8	-2	-2	10	
VSTOXX	19	0.2	0	-2	5	
EMEFT volatility Index	27	0.0	0	-1	10	
Dollar/euro volatility	7	-0.1	-1	0	0	
EM FX volatility index	10	0.0	0	0	2	
Credit spread (BAA) (change in bps)	227	1.8	8	23	49	
US bonds volatility index	51	0.2	-6	-9	2	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.33	-	2	-2	1	
EZ Inflation expectations (5Y5Y)	1.62	-	1	-4	-11	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	64	1.5	-3	3	22	
EZ	121	0.9	2	14	82	
UK	88	0.7	3	18	48	
Large Spanish	84	-1.1	-2	5	48	
Medium Spanish	108	2.3	2	0	33	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	184	1.5	-3	3	22	
EZ Non-financial	86	0.9	2	14	82	
UK Non-financial	113	1.1	3	7	20	
Interbank markets (% , changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	0	-2	1	
Euribor 3m	-0.32	0	0	0	1	
Euribor 12m	-0.15	0	0	0	4	
Libor 3m	2.71	0	2	17	101	
Libor 12m	3.13	0	2	6	103	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,738	0.0	4.0	1.0	2	
Dow Jones	25,339	0.0	4.3	0.9	2	
Nikkei	22,351	0.4	3.3	2.0	-2	
FTSE 100	6,996	-0.6	0.6	-1.9	-9	
EuroStoxx 50	3,172	-0.1	1.1	-0.8	-9	
IBEX	9,084	-0.2	1.9	2.1	-10	
DAX	11,253	-0.4	0.5	-1.7	-13	
CAC	4,996	-0.2	1.0	-1.9	-6	
MIB	19,175	0.1	2.5	0.7	-12	
ASE Athens	619	0.2	2.8	-3.2	-24	
MSCI Latam *	88,364	0.9	2.0	1.4	3	
Ibovespa (Brazil)	90,025	0.4	4.4	3.0	16	
Mexbol (Mexico)	41,913	0.0	1.9	-4.6	-16	
Merval (Argentina)	31,483	0.0	2.5	6.8	1	
MSCI EM Europe *	5,398	1.0	1.4	4.8	0	
Poland	2,274	-1.3	2.2	5.7	-8	
Micex 10 (Russia)	4,276	-0.8	1.6	1.5	4	
Ise 100 (Turkey)	95,141	0.0	2.3	5.5	-19	
MSCI EM Asia *	812	-0.2	2.0	6.0	-12	
Shanghai Com (China)	2,588	0.8	0.3	-0.6	-23	
Jakarta (Indonesia)	6,056	1.1	1.1	4.6	-5	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	133.6	0.0	3.7	-2.2	-10	
JPM	110.1	0.0	3.2	1.0	2	
Citi	64.9	0.0	5.1	-0.9	-13	
BoA	28.0	0.0	4.0	2.0	-6	
MS	44.5	0.0	3.3	2.5	-15	
GS	194.9	0.0	3.0	-13.5	-24	
EZ banks	77.9	-1.1	1.1	-0.9	-29	
BNP	44.2	-1.2	-0.3	-4.1	-29	
Crédit Agricole	11.0	-0.9	2.2	-3.3	-22	
Deutsche Bank	8.0	-3.2	-1.7	-7.1	-50	
ING	10.7	-1.2	-0.3	1.9	-30	
Intesa	2.0	0.3	4.4	4.4	-26	
SG	32.3	-1.6	-0.7	-0.6	-25	
Unicredit	11.5	-0.6	5.4	1.2	-27	
UK banks	75.9	-1.7	-1.0	-2.8	-18	
HSBC	661.3	-1.2	1.1	2.5	-14	
RBS	217.8	-1.6	-1.5	-7.9	-21	
Barclays	162.5	-2.8	-1.2	-5.8	-20	
Lloyds	55.2	-1.7	-3.5	-3.5	-18	
Large Spanish banks	62.1	-0.5	1.8	0.8	-27	
Santander	4.2	-1.0	2.1	-0.6	-24	
BBVA	5.0	0.0	0.7	2.1	-30	
Medium Spanish banks	63.6	0.4	1.5	1.6	-17	
Caixabank	3.7	0.8	0.1	1.9	-8	
Sabadell	1.1	0.4	1.5	-3.2	-33	
Bankinter	7.4	0.0	-0.3	2.3	-7	
Bankia	2.9	0.4	3.0	5.1	-28	
Currencies (% , red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.136	-0.3	0.2	0.4	-6	
GBPUSD	1.28	-0.2	-0.4	0.0	-6	
USDJPY	113.49	0.0	-0.5	-0.5	-1	
DXY	96.98	0.2	0.1	-0.2	6	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	37.75	0.0	-0.7	-4.9	-51	
USDBRL (Brazil)	4	-0.3	-1.0	-3.7	-16	
USDCLP (Chile)	670.87	-0.2	0.7	3.9	-10	
USDCOP (Colombia)	3234	0.1	-0.2	-0.4	-9	
USDMXN (Mexico)	20.30	-0.3	0.5	0.2	-4	
USDPEN (Peru)	3	0.0	-0.1	-0.3	-4	
LACI	54.01	-0.2	-0.1	-1.4	-15	
USDPLN (Poland)	4	-0.4	0.2	1.6	-9	
USDRUB (Russia)	66.91	-1.0	-1.1	-1.5	-14	
USDTRY (Turkey)	5	-0.4	2.0	7.7	-27	
USDCNY (China)	6.95	-0.1	0.0	0.4	-7	
USDINR (India)	70	0.4	1.6	6.3	-9	
USDIDR (Indonesia)	14302	0.6	1.7	6.3	-6	
ADXY	105	-0.1	0.4	1.3	-5	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	58.8	-1.2	0.0	-2.2	-12	
WTX	51	-1.3	0.7	-2.2	-16	
Copper	277	-0.3	-0.1	4	-15	
Gold	1220	-0.3	-0.2	0	-7	
S&P Spot commodity *	408	0.9	1.1	-11	-8	
S&P Metals Spot *	510	1.4	1.5	-20	-10	
S&P Metals Spot *	330	0.5	-0.3	1	-16	
S&P Agricultural *	288	-0.2	1.0	2	1	

Source: Bloomberg, Datastream and Haver

* With one day delay