

Markets remain cautious early in the week ahead of FOMC meeting (preview)

- Financial markets remained in a cautious mood at the beginning of a week full of monetary policy meetings. The Fed is expected to raise interest rates in this week's FOMC meeting (see preview below), while investors will also be hanging on the outcome of other central banks' meetings such as those of the Bank of Japan and the Bank of England.
- In this context, sovereign bonds remained almost unchanged but close to their recent lower bound. 10Y UST yields remained well below 3% as the recent tweak in the Fed's discourse (to a more dovish tone) and doubts regarding growth offset the risk of a potential US government shutdown (which had a moderate effect even in the shorter tenors). Recent comments by President Trump also contributed to keeping interest rates subdued (see). Interest rates in core euro zone countries remained almost unchanged - but close to their lower bound- after the release of disappointing EZ inflation data (see), following last week's release of lower-than-expected confidence data. Meanwhile peripheral risk premia remained stable
- Developed countries' equity indices fell across the board early this week. European indices went down, led by the DAX, while the US indices showed timid losses. Meanwhile, Asian indices showed a mixed performance.
- The USD depreciated slightly after last week's sharp appreciation, while the GBP continued to suffer high volatility as flow of news continued regarding Brexit negotiations, the focus now being on talks between May and the EU, and according to EU officials, the EU is not willing to renegotiate the proposed deal that is now on the table (see).
- Emerging currencies were favoured by the stability of the USD, as it momentarily halted its upward trend. The MXN outperformed other currencies as the 2019 budget has been digested positively by financial markets since it looks reasonable (see). On another front, the TRY depreciated despite Fitch's maintaining its sovereign rating (BB) and outlook (negative) last Friday.

Central Bank Annex

Update 18:05 CET 17 December 2018

| Debt markets (10Y, %, changes in bp) | | | | | | |
|--|--------|-------|--------|---------|-----|--|
| Developed Markets | level | Daily | Week | Month | YTD | |
| US (2-yr) | 2.71 | -1.9 | -1.5 | -14 | 80 | |
| US | 2.87 | -1.6 | 1.6 | -24 | 41 | |
| GER (2-yr) | -0.61 | 0.2 | -3.1 | -2 | 0 | |
| Germany | 0.26 | 0.4 | 1.0 | -10 | -27 | |
| France | 0.74 | 2.6 | 4.4 | -1 | -9 | |
| Spain | 1.40 | p | -4.4 | -23 | -27 | |
| Italy | 2.96 | 2.1 | -14.6 | -53 | 87 | |
| Portugal | 1.65 | -1.3 | -13.4 | -32 | -36 | |
| Greece | 4.35 | 10.0 | 9.0 | -24 | 24 | |
| Japan (2-yr) | -0.15 | 0.3 | -0.6 | -2 | -2 | |
| Japan | 0.04 | 0.6 | -0.2 | -7 | -1 | |
| Emerging Markets | level | Daily | Weekly | Monthly | YTD | |
| Brazil | 9.68 | 3.3 | -48.8 | -72 | -57 | |
| Chile | 4.38 | -0.2 | 0.2 | -12 | -13 | |
| Colombia | 6.86 | 0.3 | -1.7 | -21 | 42 | |
| Mexico | 8.83 | -10.4 | -24.2 | -18 | 125 | |
| Peru | 5.51 | -1.5 | -6.0 | 3 | 64 | |
| Poland | 2.93 | -0.4 | -8.2 | -32 | -38 | |
| Russia | 8.83 | 2.8 | 4.8 | 3 | 119 | |
| Turkey | 16.96 | -26.0 | 26.0 | 101 | 560 | |
| India | 7.46 | 2.2 | -12.4 | -29 | 8 | |
| Indonesia | 8.15 | 3.1 | 3.8 | 3 | 185 | |
| Country risk (bp, changes in bp) | | | | | | |
| Developed Markets | level | Daily | Weekly | Monthly | YTD | |
| 10-yr sovereign spread vs Germany | | | | | | |
| France | 48 | 2.2 | 3.4 | 9 | 18 | |
| Italy | 270 | 1.7 | -15.6 | -43 | 113 | |
| Portugal | 140 | -1.7 | -14.4 | -21 | -9 | |
| Spain | 114 | -1.7 | -5.4 | -13 | -1 | |
| 2-yr sovereign spread vs Germany | | | | | | |
| France | 19 | 0.8 | 3.1 | 2 | 2 | |
| Italy | 117 | -0.2 | -8.3 | -79 | 80 | |
| Portugal | 26 | -2.1 | -6.5 | -18 | -24 | |
| Spain | 41 | -1.3 | 0.6 | -5 | 14 | |
| Emerging Markets | level | Daily | Weekly | Monthly | YTD | |
| 5-yr sovereign CDS * | | | | | | |
| Brazil | 196 | -0.2 | -10 | -9 | 36 | |
| Chile | 56 | 0.8 | -3 | 5 | 7 | |
| Colombia | 130 | 1.0 | -6 | 5 | 25 | |
| Argentina | 742 | 28.2 | 65 | 156 | 504 | |
| Mexico | 145 | 2.1 | -3 | -4 | 38 | |
| Peru | 87 | 0.5 | -7 | 6 | 15 | |
| Poland | 68 | 0.0 | 0 | 1 | 19 | |
| Russia | 146 | -1.4 | -8 | -6 | 28 | |
| Turkey | 379 | -1.6 | -7 | 12 | 215 | |
| China | 66 | 1.7 | -3 | 3 | 15 | |
| India | 113 | -0.3 | -2 | 1 | 44 | |
| Indonesia | 135 | 3.4 | -5 | -11 | 50 | |
| Risk indicators | | | | | | |
| Volatility indicators | level | Daily | Weekly | Monthly | YTD | |
| VIX | 23 | 1.3 | 0 | 3 | 13 | |
| VSTOXX | 20 | 0.7 | -4 | 0 | 6 | |
| EM EFT volatility Index | 25 | 0.8 | -2 | -3 | 8 | |
| Dollar/euro volatility | 7 | 0.1 | -1 | -2 | 0 | |
| EM FX volatility index | 10 | 0.0 | 0 | 0 | 2 | |
| Credit spread (BAA) (change in bps) | 227 | 1.6 | -4 | 14 | 49 | |
| US bonds volatility index | 56 | 0.4 | -4 | 0 | 7 | |
| Inflation expectations | level | Daily | Weekly | Monthly | YTD | |
| US Inflation expectations (5Y5Y) | 2.22 | - | -6 | -13 | -10 | |
| EZ Inflation expectations (5Y5Y) | 1.62 | - | 1 | -7 | -12 | |
| Banking 5y CDS | level | Daily | Weekly | Monthly | YTD | |
| US | 71 | 1.8 | 0 | 10 | 29 | |
| EZ | 112 | 2.3 | -10 | 8 | 73 | |
| UK | 92 | 4.4 | 2 | 17 | 51 | |
| Large Spanish | 78 | 2.7 | -4 | 4 | 42 | |
| Medium Spanish | 113 | 5.2 | 7 | 11 | 38 | |
| Corporate 5y CDS | level | Daily | Weekly | Monthly | YTD | |
| US Non-financial | 194 | 1.8 | 0 | 10 | 29 | |
| EZ Non-financial | 91 | 2.3 | -10 | 8 | 73 | |
| UK Non-financial | 115 | 1.5 | -4 | 9 | 22 | |
| Interbank markets (% changes in bp) | | | | | | |
| | level | Daily | Weekly | Monthly | YTD | |
| EONIA Index | -0.36 | 0 | 0 | 1 | 1 | |
| Euribor 3m | -0.31 | 0 | 0 | 1 | 2 | |
| Euribor 12m | -0.13 | 0 | 1 | 2 | 6 | |
| Libor 3m | 2.80 | 1 | 3 | 17 | 111 | |
| Libor 12m | 3.10 | -1 | 0 | -3 | 99 | |
| Stock markets (%) | | | | | | |
| Main indices | level | Daily | Weekly | Monthly | YTD | |
| S&P500 | 2,591 | -0.3 | -1.8 | -5.1 | -4 | |
| Dow Jones | 24,083 | -0.1 | -1.4 | -4.8 | -3 | |
| Nikkei | 21,507 | 0.6 | 1.4 | -1.4 | -6 | |
| FTSE 100 | 6,773 | -1.1 | 0.8 | -3.8 | -11 | |
| EuroStoxx 50 | 3,064 | -0.9 | 1.5 | -4.0 | -12 | |
| IBEX | 8,813 | -0.8 | 1.8 | -2.9 | -13 | |
| DAX | 10,772 | -0.9 | 1.4 | -5.1 | -16 | |
| CAC | 4,800 | -1.1 | 1.2 | -4.6 | -9 | |
| MB | 18,693 | -1.1 | 1.5 | -1.1 | -14 | |
| ASE Athens | 632 | -2.0 | -1.0 | 0.2 | -23 | |
| MSCI Latam * | 86,584 | -0.4 | -0.8 | 0.4 | 1 | |
| Ibovespa (Brazil) | 87,141 | -0.4 | 1.4 | 1.4 | 12 | |
| Mexbol (Mexico) | 41,315 | 0.0 | -0.1 | -0.3 | -17 | |
| Merval (Argentina) | 30,497 | -2.0 | -0.8 | 0.1 | -2 | |
| MSCI EM Europe * | 5,356 | -0.5 | -1.7 | 0.2 | -1 | |
| Poland | 2,282 | -0.9 | 1.8 | 3.6 | -7 | |
| Micex 10 (Russia) | 4,228 | -0.2 | -1.5 | -1.7 | 3 | |
| Ise 100 (Turkey) | 89,962 | -0.6 | -2.5 | -3.6 | -23 | |
| MSCI EM Asia * | 798 | -1.3 | -0.2 | 0.3 | -22 | |
| Shanghai Com (China) | 2,598 | 0.2 | 0.5 | -2.6 | -12 | |
| Jakarta (Indonesia) | 6,089 | -1.4 | -0.6 | 3.9 | -4 | |
| Banking sector | level | Daily | Weekly | Monthly | YTD | |
| US banks | | | | | | |
| JPM | 118.5 | 0.4 | -1.8 | -11.7 | -20 | |
| Citi | 100.0 | -0.3 | -1.4 | -9.2 | -7 | |
| Citi | 55.6 | 1.1 | -2.5 | -13.9 | -25 | |
| BoA | 24.8 | 1.1 | 0.0 | -11.3 | -17 | |
| MS | 40.3 | 1.7 | -0.9 | -9.0 | -23 | |
| GS | 169.6 | -1.9 | -5.2 | -16.8 | -34 | |
| EZ banks | | | | | | |
| BNP | 72.0 | -2.5 | 0.5 | -8.5 | -34 | |
| BNP | 40.6 | -2.4 | 0.4 | -10.8 | -35 | |
| Crédit Agricole | 9.9 | -2.2 | 0.2 | -9.8 | -29 | |
| Deutsche Bank | 7.7 | -2.4 | 5.3 | -11.0 | -52 | |
| ING | 9.9 | -3.0 | 0.8 | -9.4 | -35 | |
| Intesa | 2.0 | -2.0 | 1.7 | 1.0 | -28 | |
| SG | 29.0 | -2.8 | -1.7 | -12.7 | -33 | |
| Unicredito | 10.5 | -2.4 | -0.9 | -4.1 | -33 | |
| UK banks | | | | | | |
| HSBC | 72.7 | -1.7 | 0.5 | -5.2 | -21 | |
| HSBC | 648.8 | -0.7 | 1.6 | -1.4 | -15 | |
| RBS | 208.2 | -1.6 | 2.3 | -7.1 | -25 | |
| Barclays | 152.8 | -3.5 | -0.3 | -8.2 | -25 | |
| Lloyds | 51.9 | -1.5 | -1.9 | -6.4 | -23 | |
| Large Spanish banks | | | | | | |
| Santander | 59.2 | -0.5 | 3.4 | -5.1 | -30 | |
| Santander | 4.0 | -0.8 | 4.0 | -4.8 | -26 | |
| BBVA | 4.7 | -0.1 | 2.9 | -5.4 | -34 | |
| Medium Spanish banks | | | | | | |
| Caixabank | 60.7 | -0.7 | 3.0 | -6.4 | -21 | |
| Caixabank | 3.4 | -1.0 | 1.7 | -9.9 | -15 | |
| Sabadell | 1.1 | -1.4 | 3.9 | -8.4 | -36 | |
| Bankinter | 7.3 | -0.4 | 3.5 | -3.8 | -8 | |
| Bankia | 2.8 | -0.5 | 3.2 | -5.3 | -32 | |
| Currencies (% red for currency depreciation) | | | | | | |
| Developed | level | Daily | Weekly | Monthly | YTD | |
| EURUSD | 1.134 | 0.3 | -0.1 | 0.1 | -6 | |
| GBPUSD | 1.26 | 0.2 | 0.4 | -1.3 | -7 | |
| USDJPY | 112.97 | 0.4 | 0.3 | 0.6 | -1 | |
| DXY | 97.22 | -0.2 | 0.0 | 0.3 | 6 | |
| Emerging | level | Daily | Weekly | Monthly | YTD | |
| USDARS (Argentina) | 38.23 | -0.2 | -1.4 | -5.7 | -52 | |
| USDBRL (Brazil) | 3.89 | 0.5 | 0.8 | -2.7 | -16 | |
| USDCLP (Chile) | 686.41 | -0.2 | -0.9 | -1.5 | -12 | |
| USDCOP (Colombia) | 3189 | 0.2 | 0.0 | 0.0 | -8 | |
| USDMXN (Mexico) | 20.12 | 0.6 | 0.9 | 0.6 | -3 | |
| USDPEN (Peru) | 3.34 | 0.2 | 0.9 | 1.3 | -3 | |
| LACI | 53.92 | 0.4 | 0.4 | -1.4 | -15 | |
| USDPLN (Poland) | 3.78 | 0.6 | 0.1 | 0.3 | -9 | |
| USDRUB (Russia) | 66.67 | 0.3 | 0.1 | -1.2 | -14 | |
| USDTRY (Turkey) | 5.37 | -0.2 | -0.9 | -0.4 | -30 | |
| USDCNY (China) | 6.90 | 0.1 | 0.2 | 0.6 | -6 | |
| USDINR (India) | 71.55 | 0.5 | -0.3 | 0.6 | -11 | |
| USDIDR (Indonesia) | 14580 | 0.0 | -0.2 | 0.6 | -7 | |
| ADXY | 104.49 | 0.1 | 0.2 | 0.3 | -5 | |
| Commodities (%) | | | | | | |
| | level | Daily | Weekly | Monthly | YTD | |
| Brent | 59.7 | -0.9 | -0.4 | -10 | -10 | |
| WTX | 50 | -2.0 | -1.6 | -11 | -17 | |
| Copper | 273 | -1.2 | 0.4 | -1 | -16 | |
| Gold | 1243 | 0.4 | -0.1 | 2 | -6 | |
| S&P Spot commodity * | 406 | -1.7 | -0.6 | -6 | -8 | |
| S&P Brent Spot * | 514 | -1.9 | 0.6 | -10 | -9 | |
| S&P Metals Spot * | 329 | -0.3 | 0.2 | -1 | -17 | |
| S&P Agricultural * | 295 | -0.5 | 0.2 | 2 | 4 | |

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

FOMC preview

- At their last meeting of 2018, the Fed is poised to raise rates for the fourth time this year, bringing the benchmark target to 2.25-2.5%. Solid growth fundamentals, a healthy labor market, stable inflation near its target and low levels of financial stress gave the committee all the support it need to increase rates throughout the first three quarters of the year. Now the Fed is trying to calibrate the remaining stretch of its normalization path in order to ensure a soft-landing amidst an uptick in market volatility and growing concerns about financial stability.
- Given that the risk balance is tilting to the downside, our outlook for the Fed has also shifted downwards. The FOMC forecasts (Dot plot) will reflect these same concerns, suggesting a slight downshift in the median projected path of the benchmark rate. That being said, we still expect the committee consensus to edge closer to two rate hikes next year, as opposed to the three implied by September's projections. The upshot, however, is that the post-meeting communication will likely signal a greater willingness to pause in the short-run in an effort to allow the economy to absorb the removal of policy accommodation over the past 24 months. This shift in the pace of normalization will be aided by the change in post-meeting communication, which will now occur after all eight of next year's meetings.