

## Sell-off continued in risk assets ahead of an eventful week. ECB Preview

- **Financial markets remained in a risk-off mood as concerns over US-China relations continued in the spotlight** with China protesting about the detention of the CFO of Huawei. Moreover, the latest news announcing a delay to the parliamentary vote on a Brexit deal added more pressure on UK assets, spreading concerns to other markets (see). **This week the focus will be on Europe, mainly on Thursday's ECB meeting** (see preview below) and new developments on Brexit and Italy's budget.
- **Developed equity markets continued their downward trend:** US and European stocks were not able to recover, while volatility remained high (VIX above 23%). Asian stock markets fell across the board following Friday's losses in US equity markets. Moreover, Chinese equity indices and the RMB were also dragged down by the release of lower-than-expected inflation data (see) and disappointing foreign trade figures which pointed to a further slowdown in its economy (see).
- **Sovereign yields remained subdued:** the US Treasury 10Y yield continued below 2.90%, while the German 10Y Bund yield was steady around 0.25%. Meanwhile the **USD recovered some ground** after last Friday's disappointing job data releases, while the **EUR remained flat ahead of the ECB meeting**. Peripheral risk premium were unchanged, with investors' attention on the Italian risk premium as Italy is expected to submit revised budget figures to the European Commission later this week.
- Meanwhile, **EM currencies depreciated across the board** despite last Friday's decision by OPEC members and other suppliers to cut oil supply by 1.2m bpd (see). Just after the release, crude prices surged sharply, however they declined to around \$61 per barrel afterwards. The TRY depreciated after the release of worse-than-expected 3Q18 GDP data and ahead of this week's Central Bank meeting in which it is expected to hold rates (see).

### Central Bank Annex

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.70	-1.0	-12.1	-26	78	
<b>US</b>	2.84	0.0	-12.5	-39	38	
GER (2-yr)	-0.58	2.2	2.7	0	3	
<b>Germany</b>	0.25	-0.3	-6.0	-21	-28	
France	0.69	0.6	0.0	-13	-13	
Spain	1.44	-0.8	-4.8	-17	-23	
Italy	3.11	-2.6	-3.9	-29	101	
Portugal	1.79	-1.4	-1.9	-16	-22	
Greece	4.26	2.4	5.2	-8	15	
Japan (2-yr)	-0.15	-0.4	-1.5	-1	-1	
<b>Japan</b>	0.04	-1.6	-4.3	-8	-1	
<b>Emerging Markets</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
Brazil	10.15	10.0	19.3	-30	-10	
Chile	4.38	1.1	-3.1	-16	-13	
Colombia	6.88	1.4	-7.8	-18	44	
Mexico	9.07	2.9	-0.8	25	149	
Peru	5.43	0.8	9.6	-7	56	
Poland	3.02	-3.9	-2.3	-26	-30	
Russia	8.78	2.0	6.2	-13	114	
Turkey	16.70	16.0	71.0	-5	534	
India	7.59	13.0	-3.2	-21	21	
Indonesia	8.11	7.6	28.1	6	181	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
<b>10-yr sovereign spread vs Germany</b>						
France	45	0.9	6.0	8	15	
Italy	286	-2.3	2.1	-8	129	
Portugal	154	-1.1	4.1	6	5	
Spain	120	-0.5	1.2	5	5	
<b>2-yr sovereign spread vs Germany</b>						
France	15	-0.2	0.6	-4	-1	
Italy	125	-8.6	-2.0	-28	88	
Portugal	32	-4.6	-4.4	-10	-18	
Spain	40	-3.4	-2.5	-3	13	
<b>Emerging Markets</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
<b>5-yr sovereign CDS *</b>						
Brazil	206	-3.0	-3	13	46	
Chile	59	-0.1	1	10	10	
Colombia	136	-1.4	-4	18	31	
Argentina	677	-2.2	18	123	439	
Mexico	148	-1.8	-1	15	41	
Peru	94	-0.5	2	15	22	
Poland	68	0.0	0	1	19	
Russia	154	-7.9	-12	10	36	
Turkey	386	-8.5	-3	31	221	
China	69	-0.9	0	5	18	
India	115	0.5	2	5	46	
Indonesia	140	-2.1	0	-2	55	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	25	1.5	8	8	15	
VSTOXX	24	2.0	7	8	10	
EM EFT volatility Index	29	1.1	6	4	12	
Dollar/euro volatility	7	0.2	0	0	0	
EM FX volatility index	10	0.1	1	0	2	
Credit spread (BAA) (change in bps)	232	0.0	4	35	54	
US bonds volatility index	61	-0.2	10	9	12	
<b>Inflation expectations</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
US Inflation expectations (5Y5Y)	2.28	-	-9	-8	-4	
EZ Inflation expectations (5Y5Y)	1.63	-	-2	-8	-11	
<b>Banking 5y CDS</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
US	72	0.2	5	20	29	
EZ	122	-2.2	-2	24	83	
UK	91	-1.3	1	23	50	
Large Spanish	82	-2.2	-3	12	46	
Medium Spanish	107	-1.9	0	4	32	
<b>Corporate 5y CDS</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
US Non-financial	191	0.2	5	20	29	
EZ Non-financial	94	-2.2	-2	24	83	
UK Non-financial	119	-0.3	5	16	26	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	0	0	1	
Euribor 3m	-0.31	0	0	0	2	
<b>Euribor 12m</b>	<b>-0.13</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>5</b>	
Libor 3m	2.77	0	3	17	108	
Libor 12m	3.10	-1	-2	-2	99	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
<b>S&amp;P500</b>	2,605	-1.1	-6.7	-7.2	-3	
Dow Jones	23,975	-1.7	-7.2	-8.5	-3	
Nikkei	21,220	-2.1	-6.0	-5.6	-7	
FTSE 100	6,722	-0.8	-4.8	-5.9	-12	
<b>EuroStoxx 50</b>	3,017	-1.4	-6.2	-6.8	-14	
IBEX	8,660	-1.8	-5.7	-5.6	-14	
DAX	10,622	-1.5	-7.4	-7.9	-17	
CAC	4,742	-1.5	-6.2	-7.6	-10	
MB	18,410	-1.8	-6.2	-5.2	-16	
ASE Athens	638	-1.6	-3.3	-0.4	-22	
<b>MSCI Latam *</b>	87,250	-0.6	-0.8	-2.8	2	
Ibovespa (Brazil)	86,457	-1.9	-3.7	-1.0	11	
Mexbol (Mexico)	41,350	-1.2	-1.7	-6.4	-17	
Merval (Argentina)	30,972	-1.8	-2.9	0.8	0	
<b>MSCI EM Europe *</b>	5,449	0.6	1.2	-0.7	1	
Poland	2,242	-1.7	-3.7	-0.9	-9	
Micex 10 (Russia)	4,294	-1.5	-1.6	-2.3	4	
Ise 100 (Turkey)	92,227	-1.6	-2.9	-1.4	-22	
<b>MSCI EM Asia *</b>	800	0.0	-1.7	-1.4	-13	
Shanghai Com (China)	2,585	-0.8	-2.6	-1.9	-23	
Jakarta (Indonesia)	6,111	-0.1	0.9	2.9	-4	
<b>Banking sector</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
<b>US banks</b>	119.2	-2.9	-11.7	-15.5	-20	
JPM	100.1	-3.1	-10.8	-10.9	-7	
Citi	56.5	-3.2	-13.3	-16.6	-24	
BoA	24.5	-3.7	-14.2	-15.2	-23	
MS	40.2	-2.6	-11.4	-13.3	-18	
GS	176.6	-1.7	-7.8	-23.8	-31	
<b>EZ banks</b>	72.8	-1.5	-8.4	-10.8	-33	
BNP	41.3	-0.8	-8.0	-11.8	-34	
Crédit Agricole	10.1	-0.8	-8.8	-12.0	-28	
Deutsche Bank	7.3	-5.6	-12.6	-20.5	-54	
ING	10.1	-0.6	-7.0	-11.6	-34	
Intesa	1.9	-2.1	-8.2	-4.4	-30	
SG	30.1	-1.1	-8.3	-11.0	-30	
Unicredito	10.6	-2.6	-9.2	-6.3	-32	
<b>UK banks</b>	72.3	-1.5	-6.3	-10.2	-22	
HSBC	638.6	-0.8	-6.1	-0.9	-17	
RBS	203.6	-3.0	-8.0	-19.5	-27	
Barclays	153.4	-0.6	-6.1	-14.3	-25	
Lloyds	52.9	-2.1	-5.5	-11.3	-22	
<b>Large Spanish banks</b>	57.3	-2.6	-9.7	-11.2	-32	
Santander	3.9	-2.7	-9.3	-10.1	-29	
<b>BBVA</b>	4.6	-2.5	-10.1	-12.3	-35	
<b>Medium Spanish banks</b>	58.9	-1.4	-7.6	-9.4	-23	
Caixabank	3.3	-1.8	-9.0	-10.5	-17	
Sabadell	1.0	-2.1	-8.5	-15.2	-39	
Bankinter	7.1	-0.5	-6.1	-6.5	-11	
Bankia	2.7	-2.2	-8.7	-8.7	-34	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
<b>EURUSD</b>	1.137	-0.1	0.2	0.1	-6	
GBPUSD	1.26	-1.3	-1.3	-3.8	-8	
USDJPY	112.95	-0.2	0.6	1.0	-1	
DXY	97.09	0.6	0.0	0.4	6	
<b>Emerging</b>	<b>level</b>	<b>Daily</b>	<b>Weekly</b>	<b>Monthly</b>	<b>YTD</b>	
USDARS (Argentina)	37.89	-1.3	-3.6	-6.4	-51	
USDBRL (Brazil)	3.93	-0.6	-2.2	-4.3	-17	
USDCLP (Chile)	680.24	-0.8	-0.7	-0.6	-11	
USDCOP (Colombia)	3181	-1.1	1.2	-0.9	-8	
USDMXN (Mexico)	20.38	-0.6	-0.1	-0.9	-4	
USDPEN (Peru)	3.37	-0.2	0.2	-0.3	-4	
LACI	53.59	-0.7	-1.3	-2.5	-16	
USDPLN (Poland)	3.78	-0.2	-0.3	-0.2	-9	
USDRUB (Russia)	66.52	-0.1	0.0	0.6	-14	
USDRY (Turkey)	5.34	-0.6	-1.6	2.3	-29	
USDCNY (China)	6.91	-0.5	-0.4	0.3	-6	
USDINR (India)	71.34	-0.7	-1.2	2.3	-11	
USDIDR (Indonesia)	14553	-0.5	-2.1	-0.1	-7	
ADXY	104.28	-0.4	-0.8	0.1	-5	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
<b>Brent</b>	60.9	-1.2	-1.3	-1.4	-9	
WTX	52	-1.8	-2.5	-1.5	-14	
Copper	272	-1.3	-2.8	-1	-16	
Gold	1246	-0.2	1.2	2	-5	
S&P Spot commodity *	416	2.1	0.3	-6	-6	
S&P Brent Spot *	525	2.7	0.0	-1.3	-7	
S&P Metals Spot *	331	0.8	-1.6	-1	-16	
S&P Agricultural *	296	1.6	0.9	2	4	

\* Source: Bloomberg, Datastream and Haver

\* With one day delay

### Central Bank Annex

- The ECB is expected to announce the end of QE at its December meeting while the forward guidance on rates will remain unchanged.
- In the context of weakening growth and growing risks ranging from Italy, Brexit, financial markets volatility and protectionism, the cautious tone is likely to be reinforced. However, we do not expect the ECB to alter its exit strategy for now. They will confirm the end of the APP (asset purchase program) in December, and will probably give some details on the reinvestment policy, but keeping the options open about its duration ... "for and extended period of time (...) and in any case as long as necessary". On the possibility of the announcement of a new round of LTROs, it seems too early: the terms of the new facility seem to be still under discussion, there is enough time to take a decision in the coming months (before June 2019) without affecting the Net Stable Funding Ratio regulatory requirement, and announcing it at the same time of QE end could give a conflicting signal about the monetary policy stance. On interest rates, do not expect the ECB will alter its forward guidance yet ("Interest rates to remain at their present levels at least through the summer of 2019"). Current market expectations are already dovish and probably the ECB does not want to reinforce such expectations.
- On the macro side, the economic outlook since the last ECB Staff macroeconomic forecasts is weakening, while important decisions (on Brexit and Italy) are still pending amid more signs of global demand slowing. The euro zone GDP slowdown in 3Q18 (0.2% QoQ after 0.4%) was driven by the negative contribution of net exports (-0.2 pp), while domestic demand remained robust. Although some transitory effect could also be behind this performance (especially in Germany), confidence data fail to suggest a significant rebound and hard data up to October have improved only moderately. Our MICA-BBVA model projects a slight growth upturn to around 0.3-0.4% QoQ in 4Q18. All in all, the ECB staff will likely revise their growth forecast down slightly (by around 0.1 pp in 2018 from 2% and by 0.1-0.2 pp from 1.8% in 2019 and 1.7% in 2020) and inflation (by around 0.1 pp over the forecast horizon after a slight upward revision to 1.8% this year) driven by softer economic data and lower oil prices. We do not expect significant changes in their view of a gradual convergence towards potential growth and the expected trend in core inflation next year, but a more cautious tone is guaranteed due to increasing downward risks.