

Risk assets recovered amid optimism on US-China trade relations

■ Prices of main risk assets recovered, improving the mood in financial markets after the recent positive developments in the US-China trade talks. The surrounding concerns about the relationship between the two major economies were overshadowed by the latest news announcing potential tariff cuts on US cars imported by China (see). However, concerns remained among investors, with eyes on the upcoming developments on Italy's budget and Brexit negotiations.

■ In this optimistic context, developed equity markets rebounded. Both US and European stocks were up, recovering from their recent sharp drops. However, the implied volatility in the US continued at its highest level (VIX above 20%).

■ The US Treasury 10Y yield was broadly steady ahead of tomorrow's release of inflation figures in the US. In the same line, the 10Y Bund yield continued to hover around 0.25% despite the release of better-than-expected economic sentiment indicator in Germany (ZEW) (see). The Italian risk premium remained steady (below 295 bps) despite surrounding uncertainty on Italy's deficit target in its 2019 budget (see).

■ The USD appreciated slightly while the EUR remained below the 1.14 USD/EUR level, with investors' focus on next Thursday's ECB meeting. The GBP remained under strong pressure amid ongoing fears on Brexit issues, with the focus on the parliamentary vote on the Brexit deal that will now take place before 21 January (see). In EM FX markets, the INR depreciated after yesterday's unexpected resignation of the governor of the Reserve Bank in India (see). Latam currencies were little changed, despite the recovery in oil prices.

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.74	1.0	-5.5	-18	82	
US	2.85	-0.4	-6.0	-33	39	
GER (2-yr)	-0.60	-2.3	1.3	0	1	
Germany	0.23	-1.4	-3.1	-18	-29	
France	0.71	1.9	4.6	-7	-11	
Spain	1.44	-0.6	-4.8	-16	-24	
Italy	3.12	1.5	-3.5	-28	103	
Portugal	1.76	-2.8	-5.4	-19	-25	
Greece	4.26	0.8	2.6	-12	16	
Japan (2-yr)	-0.14	0.5	-1.1	-1	-1	
Japan	0.05	0.7	-2.4	-7	0	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	10.19	2.0	13.2	-21	-6	
Chile	4.39	0.4	-3.1	-16	-13	
Colombia	6.86	-1.9	-10.1	-21	42	
Mexico	9.04	-3.4	-10.6	17	146	
Peru	5.54	-3.0	7.8	4	67	
Poland	3.01	-0.8	-4.5	-22	-31	
Russia	8.75	-2.9	-0.6	-29	112	
Turkey	16.83	13.0	63.0	39	547	
India	7.53	-5.5	-4.1	-23	15	
Indonesia	8.28	17.3	45.3	14	199	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	48	3.3	7.7	10	18	
Italy	289	2.9	-0.4	-11	132	
Portugal	153	-1.4	-2.3	-1	4	
Spain	121	0.8	-1.7	1	5	
2-yr sovereign spread vs Germany						
France	17	1.2	1.9	-3	0	
Italy	126	1.2	-1.3	-29	89	
Portugal	32	0.0	-1.5	-12	-18	
Spain	43	2.2	-1.5	-3	16	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	208	2.2	3	10	48	
Chile	60	1.3	5	10	11	
Colombia	138	1.9	3	17	33	
Argentina	701	23.7	55	130	463	
Mexico	150	1.8	7	11	43	
Peru	95	1.8	4	16	23	
Poland	68	0.0	0	1	19	
Russia	156	1.8	-2	7	38	
Turkey	391	4.7	11	28	226	
China	71	2.9	7	8	21	
India	115	0.0	2	6	46	
Indonesia	144	3.2	8	2	58	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	23	0.0	2	5	13	
VSTOXX	21	-2.6	4	5	8	
EMEFT volatility index	26	-1.5	1	0	9	
Dollar/euro volatility	7	0.0	0	0	0	
EM FX volatility index	10	0.1	0	0	2	
Credit spread (BAA) (change in bps)	231	0.4	6	32	53	
US bonds volatility index	60	-0.5	6	7	11	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.26	-	-3	-9	-6	
EZ Inflation expectations (5Y5Y)	1.62	-	-2	-9	-12	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	73	1.5	10	22	31	
EZ	123	0.9	2	24	84	
UK	92	1.5	3	23	51	
Large Spanish	82	0.7	1	12	47	
Medium Spanish	112	5.7	3	11	37	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	194	1.5	10	22	31	
EZ Non-financial	95	0.9	2	24	84	
UK Non-financial	119	0.4	6	17	26	
Interbank markets (% , changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.36	0	1	0	1	
Euribor 3m	-0.31	0	0	0	2	
Euribor 12m	-0.13	0	1	2	6	
Libor 3m	2.78	0	2	16	108	
Libor 12m	3.08	-2	-5	-6	98	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,649	0.4	-1.9	-4.7	-2	
Dow Jones	24,488	0.3	-2.2	-5.8	-1	
Nikkei	21,148	-0.3	-4.0	-5.0	-7	
FTSE 100	6,807	1.3	-3.1	-4.2	-11	
EuroStoxx 50	3,055	1.3	-4.2	-5.4	-12	
IBEX	8,736	0.9	-3.6	-4.4	-13	
DAX	10,781	1.5	-4.9	-6.5	-16	
CAC	4,806	1.3	-4.1	-5.9	-9	
MIB	18,591	1.0	-3.9	-3.5	-15	
ASE Athens	636	-0.4	-3.2	-1.2	-22	
MSCI Latam *	85,556	-1.9	-3.3	-1.9	0	
Ibovespa (Brazil)	86,288	0.4	-2.6	0.8	11	
Mexbol (Mexico)	41,195	-0.4	-1.6	-6.9	-18	
Merval (Argentina)	31,196	1.4	-2.4	4.3	0	
MSCI EM Europe *	5,365	-1.5	-2.3	-1.8	0	
Poland	2,221	-0.9	-5.3	-0.5	-10	
Micex 10 (Russia)	4,279	-0.4	-1.7	-1.1	4	
Ise 100 (Turkey)	91,801	-0.5	-2.2	-1.1	-22	
MSCI EM Asia *	790	-1.2	-4.8	-2.5	-14	
Shanghai Com (China)	2,594	0.4	-2.7	-0.2	-23	
Jakarta (Indonesia)	6,077	-0.8	-0.7	1.7	-4	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	121.1	0.4	-5.9	-12.4	-19	
JPM	101.6	0.2	-5.2	-8.7	-6	
Citi	57.2	0.1	-8.2	-13.1	-23	
BoA	24.9	0.6	-7.7	-12.6	-17	
MS	41.0	0.8	-4.9	-10.3	-21	
GS	179.2	0.2	-2.8	-19.5	-30	
EZ banks	71.9	0.3	-7.7	-11.0	-34	
BNP	40.7	0.7	-7.3	-12.3	-34	
Crédit Agricole	9.9	0.0	-8.8	-13.0	-29	
Deutsche Bank	7.4	2.1	-7.8	-17.1	-53	
ING	9.9	0.7	-7.4	-12.5	-35	
Intesa	1.9	-0.3	-6.3	-3.6	-30	
SG	29.6	0.2	-8.0	-12.2	-31	
Unicredit	10.5	-1.0	-8.3	-6.1	-33	
UK banks	72.4	0.1	-4.9	-9.4	-21	
HSBC	644.3	0.9	-4.6	1.7	-16	
RBS	203.0	-0.3	-6.4	-19.4	-27	
Barclays	154.0	0.4	-3.2	-12.9	-24	
Lloyds	52.3	-1.1	-5.6	-12.7	-23	
Large Spanish banks	57.1	-0.3	-7.4	-8.1	-33	
Santander	3.9	0.2	-6.9	-8.5	-29	
BBVA	4.5	-0.8	-8.0	-7.6	-26	
Medium Spanish banks	59.2	0.5	-4.5	-8.4	-33	
Caixabank	3.3	0.4	-6.0	-9.8	-17	
Sabadell	1.0	0.8	-5.0	-12.6	-38	
Bankinter	7.1	0.2	-3.3	-6.3	-11	
Bankia	2.7	1.0	-5.0	-7.3	-33	
Currencies (% , red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.132	-0.4	-0.2	-0.2	-6	
GBPUSD	1.25	-0.3	-1.5	-3.5	-8	
USDJPY	113.44	-0.1	-0.6	0.3	-1	
DXY	97.49	0.3	0.5	0.6	6	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	37.72	-0.1	-0.9	-6.1	-51	
USDBRL (Brazil)	3.91	0.2	-1.7	-4.7	-17	
USDCLP (Chile)	682.76	-0.4	-2.2	0.3	-11	
USD COP (Colombia)	3187	0.1	-0.4	-0.2	-8	
USDMXN (Mexico)	20.29	0.1	1.1	-0.8	-4	
USDPEN (Peru)	3.37	0.0	0.4	0.1	-4	
LACI	53.73	0.0	-0.6	-2.4	-15	
USDPLN (Poland)	3.80	-0.6	-0.7	-0.5	-9	
USD RUB (Russia)	66.45	0.4	0.6	2.3	-13	
USDTRY (Turkey)	5.36	-0.7	0.5	1.8	-30	
USDCNY (China)	6.90	0.2	-0.9	0.8	-6	
USDINR (India)	71.87	-0.7	-1.9	0.9	-12	
USDIDR (Indonesia)	14608	-0.4	-2.2	0.5	-7	
ADXY	104.37	0.1	-0.8	0.5	-5	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	60.6	1.0	-2.5	-14	-9	
WTx	52	1.8	-2.5	-14	-14	
Copper	277	1.7	0.6	3	-15	
Gold	1243	-0.1	0.4	3	-6	
S&P Spot commodity *	408	-1.9	-2.1	-7	-8	
S&P Metals Spot *	511	-2.7	-3.3	-15	-10	
S&P Metals Spot *	328	-1.0	-2.0	-1	-17	
S&P Agricultural *	294	-0.6	0.1	2	4	