

Budget deal between Italy and the EU boosted Italian markets; Fed in focus

- Financial markets continued in a cautious mood with all eyes on the expected hike of 25 bps in the US interest rate and especially on the Fed's forward guidance later today. Powell's press conference will be closely monitored for any hints of the Fed's being ready to slow the pace of rate rises in 2019. Italian markets benefited from today's agreement between Italy and the EU on its 2019 budget plan, while the possibility of further trade talks between China and the US in January helped to ease the ongoing concerns over trade disputes (see).
- Against this backdrop, US and European equity indices recovered, the latter despite the cut in the profit outlook from Fedex amid concerns over economic growth (see). Asian stock markets were lower, despite optimism on trade issues, while China's key economic conference started today, with investors' expectations of fiscal policy loosening and further tax cuts.
- Sovereign bond markets remained steady: the US Treasury 10Y yield and the 10Y Bund yield continued at subdued levels. However, the approval of the Italian budget plan by the European Union dragged down Italy's 10Y yield, driving the Italian risk premium to narrow sharply (by around 15 bps) as the deal allowed the country to avoid sanctions (see).
- The USD depreciated against its main peers ahead of the Fed policy decision, while the EUR went back to the 1.14 USD/EUR level, also favoured by the positive news on Italy. The GBP was flat but concerns over Brexit negotiations remained (see). Most EM currencies benefited from the weakness of the US dollar while the rebound in oil prices - favoured by the release of a decline in US crude inventories (see) - also had a positive effect on Latam currencies. The RMB ended steady despite the PBOC's announcement of new measures to support China's economy (see).

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.65	0.4	-12.4	-14	73	
US	2.81	-0.9	-10.1	-25	35	
GER (2-yr)	-0.60	0.3	-3.7	-2	1	
Germany	0.24	-0.3	-3.8	-13	-28	
France	0.71	-0.5	-2.9	-8	-12	
Spain	1.38	0.1	-5.0	-27	-29	
Italy	2.77	-16.6	-22.8	-83	68	
Portugal	1.65	1.3	-7.4	-34	-36	
Greece	4.30	-8.7	2.6	-28	19	
Japan (2-yr)	-0.15	0.4	-1.3	-1	-2	
Japan	0.04	0.9	-2.0	-6	-1	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.56	-16.5	-45.9	-56	-70	
Chile	4.36	-1.0	-3.5	-11	-16	
Colombia	6.82	-4.1	-5.1	-22	38	
Mexico	8.68	-6.6	-34.4	-32	111	
Peru	5.49	0.3	-1.8	4	61	
Poland	2.90	-0.6	-5.0	-34	-41	
Russia	8.88	-0.8	13.5	8	124	
Turkey	16.21	-66.0	-104.0	21	485	
India	7.22	-12.2	-18.8	-57	-16	
Indonesia	8.00	-12.4	-21.0	-4	170	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	46	-0.2	0.9	6	16	
Italy	253	-16.3	-19.0	-69	96	
Portugal	141	1.6	-3.6	-21	-8	
Spain	114	0.4	-1.2	-14	-1	
2-yr sovereign spread vs Germany						
France	16	-0.7	1.0	2	0	
Italy	104	-11.0	-10.0	-93	68	
Portugal	23	-3.6	-3.1	-20	-26	
Spain	38	-2.5	-1.5	-9	11	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	199	2.6	-6	-4	38	
Chile	56	0.6	-2	4	7	
Colombia	134	3.8	-2	4	29	
Argentina	763	-2.6	53	175	525	
Mexico	139	0.2	-9	-11	32	
Peru	88	0.9	-4	6	16	
Poland	68	0.0	0	0	19	
Russia	145	-0.6	-9	-7	27	
Turkey	374	-3.0	-16	5	210	
China	64	0.0	-6	-6	13	
India	112	-0.5	-4	1	43	
Indonesia	133	-1.8	-8	-15	47	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	24	-1.2	3	4	15	
VSTOXX	20	-0.4	0	2	6	
EMEFT volatility Index	25	-0.7	0	-4	9	
Dollar/euro volatility	7	0.2	0	0	0	
EM FX volatility index	10	-0.1	0	0	2	
Credit spread (BAA) (change in bps)	227	0.9	3	11	49	
US bonds volatility index	59	4.0	1	0	10	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.24	-	-5	-5	-8	
EZ Inflation expectations (5Y5Y)	1.60	-	-2	-8	-14	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	74	-0.8	4	9	32	
EZ	114	1.2	-8	3	75	
UK	91	-1.0	-1	6	50	
Large Spanish	80	0.6	-1	-1	44	
Medium Spanish	113	3.3	2	9	38	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	200	-0.8	4	9	32	
EZ Non-financial	92	1.2	-8	3	75	
UK Non-financial	116	0.5	-3	6	23	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	-1	0	0	
Euribor 3m	-0.31	0	0	1	2	
Euribor 12m	-0.12	0	1	2	6	
Libor 3m	2.79	-1	1	15	110	
Libor 12m	3.06	-4	-3	-6	95	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,563	0.6	-3.3	-4.8	-5	
Dow Jones	23,891	0.9	-2.6	-4.5	-4	
Nikkei	20,988	-0.6	-2.8	-3.8	-8	
FTSE 100	6,766	1.0	-1.7	-3.4	-12	
EuroStoxx 50	3,051	0.4	-1.8	-3.4	-13	
IBEX	8,769	0.8	-1.0	-2.6	-13	
DAX	10,766	0.2	-1.5	-4.3	-16	
CAC	4,777	0.5	-2.7	-4.2	-10	
MIB	18,942	1.6	0.0	0.6	-13	
ASE Athens	619	-1.0	-4.2	0.3	-24	
MSCI Latam *	85,704	0.5	0.0	-2.8	0	
Ibovespa (Brazil)	87,698	1.3	0.8	-0.2	13	
Mexbol (Mexico)	41,442	1.3	1.3	-2.1	-17	
Merval (Argentina)	30,314	1.8	-2.5	-2.6	-2	
MSCI EM Europe *	5,323	-0.1	-0.6	0.2	-1	
Poland	2,343	1.2	3.0	7.0	-5	
Micex 10 (Russia)	4,227	0.2	-0.5	-0.9	3	
Ise 100 (Turkey)	92,553	1.6	2.8	-2.1	-21	
MSCI EM Asia *	788	-0.9	-0.4	-2.2	-15	
Shanghai Com (China)	2,550	-1.1	-2.0	-5.7	-24	
Jakarta (Indonesia)	6,176	1.4	1.6	2.7	-3	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	118.5	1.2	-1.0	-11.4	-20	
JPM	99.4	0.9	-1.6	-10.3	-8	
Citi	54.6	1.3	-2.4	-15.5	-27	
BoA	25.0	2.0	1.8	-10.1	-17	
MS	40.4	1.3	-1.0	-9.0	-23	
GS	172.4	0.5	-2.4	-13.0	-33	
EZ banks	72.2	0.5	-2.7	-7.4	-34	
BNP	40.9	0.8	-2.4	-9.7	-34	
Crédit Agricole	9.9	0.2	-3.5	-9.3	-29	
Deutsche Bank	7.5	-1.5	-4.2	-12.1	-53	
ING	9.9	-0.4	-2.9	-9.4	-36	
Intesa	2.0	1.7	0.3	4.8	-27	
SG	28.9	0.3	-5.0	-12.5	-33	
Unicredito	10.7	2.7	-0.5	-0.7	-32	
UK banks	72.9	0.3	-1.6	-4.1	-21	
HSBC	652.7	0.6	-0.6	0.2	-15	
RBS	209.9	0.3	0.7	-3.4	-24	
Barclays	151.5	-0.5	-4.7	-8.8	-25	
Lloyds	52.3	0.6	-2.1	-6.4	-23	
Large Spanish banks	59.5	1.1	1.2	-3.8	-30	
Santander	4.0	1.3	0.8	-3.8	-26	
BBVA	4.7	1.0	1.7	-3.7	-33	
Medium Spanish banks	59.9	0.1	-1.3	-7.4	-22	
Caixabank	3.4	1.1	-0.8	-9.6	-16	
Sabadell	1.0	-1.4	-3.0	-9.8	-38	
Bankinter	7.2	0.2	-1.2	-6.4	-10	
Bankia	2.7	0.3	-0.5	-5.2	-32	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.142	0.6	0.5	-0.3	-5	
GBPUSD	1.27	0.2	0.3	-1.4	-7	
USDJPY	112.15	0.3	1.0	0.4	0	
DXY	96.66	-0.5	-0.4	0.5	5	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	38.31	-0.1	-1.9	-6.2	-52	
USDBRL (Brazil)	3.87	0.9	-0.5	-2.9	-16	
USDCLP (Chile)	687.88	0.1	-1.5	-2.8	-12	
USDCOP (Colombia)	3216	-0.3	-1.4	-1.3	-9	
USDMXN (Mexico)	20.02	0.3	0.2	1.7	-2	
USDPEN (Peru)	3.35	-0.1	0.3	0.8	-3	
LACI	54.02	0.5	-0.5	-1.4	-15	
USDPLN (Poland)	3.75	0.6	0.7	0.9	-8	
USDRUB (Russia)	67.62	-0.3	-1.7	-3.0	-15	
USDTRY (Turkey)	5.27	1.5	1.5	0.9	-28	
USDCNY (China)	6.89	0.1	-0.2	0.7	-6	
USDINR (India)	70.40	0.1	2.3	1.8	-10	
USDIDR (Indonesia)	14439	0.4	1.1	1.0	-6	
ADXY	104.83	0.1	0.1	0.6	-5	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	57.8	2.6	-4.0	-14	-13	
WTx	48	3.1	-6.8	-16	-21	
Copper	269	0.8	-2.7	-4	-15	
Gold	1255	0.5	0.8	3	-5	
S&P Spot commodity *	388	-3.1	-4.9	-11	-12	
S&P Brent Spot *	479	-5.7	-6.7	-16	-16	
S&P Metals Spot *	324	-1.4	-1.7	-3	-18	
S&P Agricultural *	294	-0.2	-0.5	2	3	

Source: Bloomberg, Datastream and Haver
* With one day delay