

Risk assets drop ahead of an eventful week. FOMC preview

- Financial markets started the week on the wrong foot, awaiting the outcome of a raft of events that will take place this week. **High-level US-China trade talks and Wednesday's FOMC meeting** (see preview below) will be the main milestones. Additionally, a **vote on May's Brexit "plan B" in the UK along with the release of economic and confidence data** in the US, Europe and China will also take investors' attention in a week full of earnings reports in the US and the euro zone.
- Developed equity markets fell early this week.** The release of poor quarterly earnings and the cuts in 2019 earnings forecasts weighed on US stocks (see). European equity markets went down after last week's gains, while Asian markets closed mixed, awaiting the outcome of trade talks.
- Core yields were mixed.** The UST 10Y yield inched down despite the **agreement to end the US partial government shutdown**, but only until February 15th (see). Funding for the border wall will remain as the main issue during this time, while analysts try to assess the impact of the longest ever government shutdown on growth of the US economy. In Europe, the German 10Y Bund yield inched up, however peripheral risk premia were unchanged.
- The USD continued flat ahead of the FOMC meeting**, which is likely to see a slightly dovish shift in the policy stance. The EUR remained above the 1.14 USD/EUR level, but the GBP depreciated ahead of tomorrow's UK parliament vote on May's "plan B" (see).

- Meanwhile, **most emerging currencies started the week depreciating, but the rally in EM bonds continued**, despite the sharp drop in oil prices due to potential extra supply from the US (see). Among Latam currencies, the **COP fell ahead of Colombia's Central Bank meeting** later this week, which is not expected to bring about any change in interest rates. The BRL was steady despite the collapse of a dam at an iron ore mine in Brazil (see). The Turkish lira underperformed its peers today.

Central Bank Annex

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.58	-2.3	-3.1	2	10	
US	2.73	-2.9	-5.5	-4	5	
GER (2-yr)	-0.58	-0.2	0.2	4	3	
Germany	0.21	1.2	-5.0	-9	-10	
France	0.61	1.0	-4.7	-9	-10	
Spain	1.22	-1.1	-14.6	-17	-25	
Italy	2.67	1.6	-9.4	-8	-8	
Portugal	1.65	-0.1	-10.3	-18	-21	
Greece	4.06	-2.7	-10.1	-33	-34	
Japan (2-yr)	-0.16	0.6	0.5	-4	-2	
Japan	0.00	0.5	-0.6	-2	0	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.13	4.2	7.3	-16	-11	
Chile	4.22	-2.5	-11.9	-3	-4	
Colombia	7.07	1.8	4.2	29	31	
Mexico	8.39	2.1	-27.8	-34	-25	
Peru	5.30	0.6	2.6	-4	-6	
Poland	2.81	-0.9	-4.2	-1	-1	
Russia	8.41	2.5	3.8	-41	-37	
Turkey	14.81	-8.0	-55.0	-116	-99	
India	7.33	0.4	2.0	6	-4	
Indonesia	8.12	1.3	2.0	11	10	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	40	-0.2	0.3	0	0	
Italy	246	0.4	-4.4	0	2	
Portugal	144	-1.3	-5.3	-9	-12	
Spain	101	-2.4	-9.7	-8	-16	
2-yr sovereign spread vs Germany						
France	12	0.2	0.2	-5	-4	
Italy	89	2.2	-3.5	-24	-20	
Portugal	40	0.3	-3.0	12	14	
Spain	32	0.7	-3.1	-5	-4	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	170	-1.5	-1	-44	-38	
Chile	49	-0.4	1	-16	-14	
Colombia	128	-0.4	3	-33	-30	
Argentina	627	6.9	-18	-182	-179	
Mexico	131	-0.4	4	-29	-24	
Peru	77	-0.4	1	-20	-18	
Poland	66	0.0	-1	-2	-2	
Russia	131	-0.5	-3	-22	-23	
Turkey	316	1.2	-15	-46	-44	
China	58	-1.3	-1	-12	-9	
India	107	-0.5	0	-7	-7	
Indonesia	116	-4.0	-7	-26	-21	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	20	2.4	2	-10	-6	
VSTOXX	16	1.4	1	-10	-8	
EM EFT volatility Index	21	1.6	3	-5	-4	
Dollar/euro volatility	6	0.2	0	-1	-1	
EM FX volatility index	9	0.0	0	-1	-1	
Credit spread (BAA) (change in bps)	237	2.9	-2	1	-9	
US bonds volatility index	52	-1.7	-1	-16	-14	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.16	-	0	-1	2	
EZ Inflation expectations (5Y5Y)	1.52	-	-4	-5	-9	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	69	-2.4	-2	-14	-13	
EZ	102	-3.5	-2	-18	-18	
UK	77	-2.9	-2	-18	-17	
Large Spanish	69	-3.7	-3	-17	-18	
Medium Spanish	113	-0.8	5	2	1	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	188	-2.4	-2	-14	-13	
EZ Non-financial	86	-3.5	-2	-18	-18	
UK Non-financial	110	-1.7	-1	-9	-9	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EONIA Index	-0.37	0	0	-3	-1	
Euribor 3m	-0.31	0	0	0	0	
Euribor 12m	-0.11	0	0	1	1	
Libor 3m	2.75	-1	-1	-6	-5	
Libor 12m	3.03	0	0	-2	2	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,632	-1.2	-1.5	5.7	5	
Dow Jones	24,347	-1.6	-1.5	5.2	4	
Nikkei	20,649	-0.6	-0.3	2.8	3	
FTSE 100	6,747	-0.9	-3.2	2.5	0	
EuroStoxx 50	3,137	-0.8	0.4	6.8	5	
IBEX	9,062	-1.3	0.1	8.4	6	
DAX	11,210	-0.6	0.7	8.0	6	
CAC	4,889	-0.8	0.4	6.3	3	
MB	19,608	-1.0	-0.2	8.5	7	
ASE Athens	631	-0.4	1.8	5.5	3	
MSCI Latam *	94,054	0.1	0.7	11.1	9	
Ibovespa (Brazil)	95,477	-2.3	-0.6	11.7	9	
Mexbol (Mexico)	43,881	0.6	-0.3	5.9	5	
Merval (Argentina)	34,501	-0.9	-2.3	16.9	14	
MSCI EM Europe *	5,658	0.3	1.1	8.2	7	
Poland	2,371	-1.2	0.5	5.3	4	
Micex 10 (Russia)	4,447	-1.0	-0.8	7.7	6	
Ise 100 (Turkey)	101,290	-0.5	3.4	11.3	11	
MSCI EM Asia *	831	1.4	1.5	7.1	6	
Shanghai Com (China)	2,597	-0.2	-0.5	4.6	4	
Jakarta (Indonesia)	6,459	-0.1	0.2	5.4	4	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	131.7	-0.7	-0.9	14.6	14	
JPM	103.2	-0.1	-1.3	6.4	6	
Citi	63.7	-0.6	0.9	23.0	22	
BoA	29.5	-0.4	0.6	20.9	20	
MS	42.3	-1.7	-3.3	6.5	7	
GS	198.1	-1.3	-2.2	19.7	19	
EZ banks	74.1	-1.5	0.2	10.1	7	
BNP	42.5	-1.2	0.4	10.1	8	
Crédit Agricole	10.1	-2.3	-0.9	10.5	8	
Deutsche Bank	8.1	-0.9	0.9	19.4	16	
ING	10.5	-1.2	1.2	14.4	12	
Intesa	2.0	-0.9	0.3	7.2	5	
SG	28.1	-1.7	-0.5	3.4	1	
Unicredito	10.7	-2.5	0.8	11.7	8	
UK banks	76.3	-2.0	-2.3	7.8	5	
HSBC	631.1	-1.1	-2.9	-1.1	-2	
RBS	238.5	-2.0	-1.4	15.7	10	
Barclays	160.1	-2.4	-3.0	9.6	6	
Lloyds	57.0	-2.7	-1.7	13.9	10	
Large Spanish banks	65.0	-1.4	0.4	14.0	11	
Santander	4.3	-1.7	0.0	12.5	9	
BBVA	5.2	-1.1	0.7	15.4	13	
Medium Spanish banks	58.7	-2.6	0.3	5.8	2	
Caixabank	3.3	-2.1	1.2	8.7	5	
Sabadell	1.0	-3.1	0.2	8.9	5	
Bankinter	7.0	-3.5	-0.1	4.4	0	
Bankia	2.5	-1.6	0.3	2.5	0	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.144	0.3	2.1	0.1	0	
GBPUSD	1.32	-0.3	0.7	4.1	3	
USDJPY	109.20	0.3	0.4	1.7	0	
DXY	95.66	-0.1	-0.7	-0.9	-1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	37.05	0.0	1.8	3.4	2	
USDBRL (Brazil)	3.77	0.1	-0.2	2.8	3	
USDCLP (Chile)	672.45	-0.8	0.0	3.8	3	
USDCOP (Colombia)	3170	-0.6	-1.4	3.3	3	
USDMXN (Mexico)	19.04	-0.3	0.6	3.3	3	
USDPEN (Peru)	3.36	-0.3	-0.8	0.5	0	
LACI	55.78	-0.2	0.1	3.0	3	
USDPLN (Poland)	3.75	0.2	0.5	0.0	0	
USDRUB (Russia)	66.18	-0.3	0.3	5.0	5	
USDTRY (Turkey)	5.33	-1.1	-0.2	-0.9	-1	
USDCNY (China)	6.75	0.0	0.8	1.8	2	
USDINR (India)	71.11	0.1	0.2	-1.1	-2	
USDIDR (Indonesia)	14072	0.1	1.1	3.5	2	
ADXY	106.15	-0.1	0.6	1.1	1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	59.6	-3.4	-5.1	14	11	
WTX	51	-4.2	-4.4	15	13	
Copper	271	-1.2	-1.3	1	3	
Gold	1303	0.0	2.1	2	2	
S&P Spot commodity *	410	0.7	-0.8	9	9	
S&P Brent Spot *	524	0.7	-1.6	17	14	
S&P Metals Spot *	333	1.8	1.7	4	4	
S&P Agricultural *	291	0.1	-0.2	2	3	

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

FOMC preview

- After the negative market reaction to the December meeting, it is likely that the committee will use the January 29th-30th statement and press conference to communicate a slightly dovish shift in policy. This will likely include language about proceeding carefully with a heavy emphasis on data dependence and, global and financial conditions. Moreover, labor market conditions remain strong, and inflation, while slower than in the 1H18, remains near the committee's target. Financial conditions have also improved since December, despite increased policy uncertainty in the U.S., Europe and China. While the tone of the press conference will be slightly more dovish, Powell will likely be careful not to overcommit to an indefinite pause, leaving the possibility of further rate increases in 2019 open if economic conditions remain supportive. In addition, there is a strong possibility that he takes the opportunity to reaffirm the committee's commitment to its short-term balance sheet normalization plans, while also highlighting that the committee, if needed, would remain flexible to adjust the pace of balance sheet normalization. In essence, this meeting will be the committee's opportunity to engineer its soft landing, after creating unwanted market turbulence during the last part of 2018.