

Sharp drop in core yields as investors flee risk assets

- Financial markets have started 2019 on the wrong foot, as doubts about China's economy added to the already deteriorated environment in which the market ended 2018. The release of **worse-than-expected confidence indices (PMI) (see)** for China extended the risk-off mood in markets as it increased the odds of a potential global slowdown, triggering demand for safe-haven assets across the board.
- Sovereign core yields went down sharply from their already very low levels in both the US and Germany. In fact, the **10Y German yield fell below the 0.20% threshold**. Peripheral risk premia inched up despite peripheral yields fading, albeit to a lesser extent than core yields.
- Against this backdrop, **equity indices started the year with significant losses**. Asian markets opened the year with a very poor performance that led China's equity markets to stay at their lowest level in more than two years. European equity markets also followed this trend, however, the stability in US equities when the markets opened allowed some recovery in Europe as the session went by. However volatility still remains at high levels.
- Safe-haven currencies also benefited** from the challenging market environment. The JPY and the USD appreciated, the latter despite idiosyncratic uncertainties, one of the biggest at the moment being the current shutdown of the US government (see). The GBP depreciated sharply as negotiations about Brexit seem to be stalled.
- Commodity prices also felt the doubts regarding the Chinese economy**. Demand for metals other than gold seems to have dropped, dragging down the entire sector in main equity markets, while gold appreciated today. **Oil prices** continued to suffer high volatility and they were down early today but **recovered sharply** as the session went by, boosted by the release of oil exports from Saudi Arabia (see).
- In this context, EM equities registered a mixed performance while debt spread widened (EMBI spread). There was also mixed performance among currencies: the increase in oil prices moderated the impact of the strong USD on some currencies, while others, such as the TRY, depreciated sharply. The BRL appreciated against the USD on the first trading day after Bolsonaro's inauguration

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.51	2.0	-10.7	-31	2
US	2.67	-1.6	-14.0	-30	-2
GER (2-yr)	-0.61	0.0	-0.7	-1	0
Germany	0.17	-7.1	-7.9	-14	-13
France	0.66	-5.5	-4.2	-4	-5
Spain	1.40	-1.4	0.1	-9	-7
Italy	2.69	-5.0	-13.9	-45	-5
Portugal	1.71	-0.9	2.6	-9	-1
Greece	4.39	-0.9	-0.5	19	-1
Japan (2-yr)	-0.14	0.0	-1.4	-1	0
Japan	0.00	0.0	-1.9	-8	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.16	-7.9	-19.6	-80	-8
Chile	4.21	-3.7	-4.6	-20	-4
Colombia	6.72	-2.9	-4.2	-24	-3
Mexico	8.63	-0.6	-14.9	-44	-1
Peru	5.36	-0.4	1.0	2	0
Poland	2.77	-6.0	-5.7	-27	-6
Russia	8.78	0.0	-8.3	6	0
Turkey	16.05	25.0	2.0	6	25
India	7.36	-6.2	9.3	-27	-1
Indonesia	8.05	2.2	2.6	22	2
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	48	1.6	3.7	10	7
Italy	252	2.1	-6.0	-32	8
Portugal	154	6.2	10.5	4	12
Spain	123	5.7	8.0	5	5
2-yr sovereign spread vs Germany					
France	14	-1.5	-1.7	-1	-1
Italy	106	-2.4	-9.6	-21	-2
Portugal	26	0.3	0.8	-10	0
Spain	38	1.1	0.9	-5	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	205	-0.6	-9	-5	-3
Chile	63	0.0	-3	5	0
Colombia	157	0.3	-1	17	-1
Argentina	800	0.0	-8	141	-7
Mexico	154	0.3	-3	5	-1
Peru	95	0.2	-2	3	0
Poland	68	0.0	0	0	0
Russia	153	0.0	0	-13	-1
Turkey	357	-1.0	-5	-32	-3
China	67	0.0	-3	-2	-1
India	111	-0.4	-3	-2	-2
Indonesia	137	0.2	-5	-3	0
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	26	0.1	-5	9	0
VSTOXX	23	-0.5	3	6	0
EM EFT volatility Index	25	0.2	-1	2	0
Dollar/euro volatility	7	0.2	0	1	0
EM FX volatility index	10	0.0	0	0	0
Credit spread (BAA) (change in bps)	247	1.4	14	20	1
US bonds volatility index	67	0.0	3	16	0
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.13	-	-8	-24	-1
EZ Inflation expectations (5Y5Y)	1.56	-	-2	-9	-5
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	81	-0.4	0	15	-1
EZ	116	-0.5	-4	-8	-4
UK	91	-0.5	-4	1	-4
Large Spanish	83	-0.6	-4	-2	-5
Medium Spanish	113	0.5	2	7	0
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	211	-0.4	0	15	-1
EZ Non-financial	95	-0.5	-4	-8	-4
UK Non-financial	118	-0.5	-1	4	-1
Interbank markets (% changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.36	0	1	0	0
Euribor 3m	-0.31	0	0	1	0
Euribor 12m	-0.12	0	0	2	0
Libor 3m	2.81	0	-1	7	1
Libor 12m	3.01	0	-4	-11	-1
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,502	-0.2	1.4	-10.3	0
Dow Jones	23,295	-0.1	1.8	-9.8	0
Nikkei	20,015	0.0	3.6	-11.3	0
FTSE 100	6,726	0.0	0.6	-4.8	0
EuroStoxx 50	2,991	-0.3	0.6	-7.0	0
IBEX	8,549	0.1	0.8	-6.9	0
DAX	10,577	0.2	-0.5	-7.7	0
CAC	4,683	-1.0	1.2	-7.3	-1
MIB	18,344	0.1	-0.3	-6.5	0
ASE Athens	605	-1.3	-0.5	-8.2	-1
MSCI Latam *	86,417	0.0	1.7	-1.7	0
Ibovespa (Brazil)	90,869	3.4	6.7	1.2	3
Mexbol (Mexico)	41,936	0.7	0.9	-0.3	1
Merval (Argentina)	31,203	3.0	9.6	-2.2	3
MSCI EM Europe *	5,298	0.0	1.7	-1.6	0
Poland	2,302	1.1	1.9	-1.2	1
Micex 10 (Russia)	4,187	0.0	1.7	-4.0	0
Ise 100 (Turkey)	88,865	-2.6	-2.3	-6.4	-3
MSCI EM Asia *	785	0.0	1.2	-3.5	0
Shanghai Com (China)	2,465	-1.1	-1.3	-7.1	-1
Jakarta (Indonesia)	6,181	-0.2	0.3	2.1	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	117.3	1.4	3.2	-13.1	1
Citi	98.7	1.1	2.8	-12.1	1
BoA	53.1	1.9	3.2	-18.6	2
MS	24.9	1.0	3.3	-12.8	1
GS	40.2	1.3	2.2	-11.6	1
GS	170.9	2.3	4.9	-10.8	2
EZ banks					
BNP	68.2	-1.0	0.1	-14.2	-1
Crédit Agricole	39.0	-1.3	0.4	-13.1	-1
Deutsche Bank	9.3	-1.5	0.1	-16.2	-1
ING	7.1	2.6	1.5	-14.1	3
Intesa	9.3	-0.8	0.2	-13.8	-1
SG	1.9	-1.3	0.1	-9.4	-1
SG	27.4	-1.7	-0.9	-16.7	-2
Unicredito	9.8	-1.1	-0.4	-16.6	-1
UK banks					
HSBC	72.5	-0.5	1.4	-6.1	-1
HSBC	645.2	-0.3	-0.3	-5.1	0
RBS	216.1	-0.3	4.9	-2.3	0
Barclays	150.5	0.0	2.8	-7.9	0
Lloyds	51.1	-1.5	0.2	-8.7	-2
Large Spanish banks					
Santander	58.7	0.5	2.4	-7.6	0
BBVA	4.0	0.1	2.2	-6.9	0
BBVA	4.7	0.8	2.5	-8.2	1
Medium Spanish banks					
Caixabank	57.1	-0.6	1.7	-10.4	-1
Caixabank	3.1	-0.9	1.5	-13.5	-1
Sabadell	1.0	0.0	2.9	-10.9	0
Bankinter	7.0	0.5	1.5	-7.1	-1
Bankia	2.5	-1.1	1.3	-13.3	-1
Currencies (% red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.135	-1.0	0.0	0.0	-1
GBPUSD	1.26	-1.2	-0.3	-1.0	-1
USDJPY	109.31	0.4	1.9	4.0	0
DXY	96.80	0.7	-0.3	-0.3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	37.85	-0.5	1.9	-3.5	0
USDBRL (Brazil)	3.81	1.8	3.0	0.9	2
USDCLP (Chile)	697.46	-0.5	-0.6	-4.1	0
USDCOP (Colombia)	3241	0.4	1.3	-1.9	0
USDMXN (Mexico)	19.60	0.3	1.6	3.6	0
USDPEN (Peru)	3.37	0.1	0.1	0.3	0
LACI	54.62	0.6	1.6	0.6	1
USDPLN (Poland)	3.78	-1.0	-0.1	-0.3	-1
USDRUB (Russia)	68.80	0.9	-0.1	-3.3	1
USDTRY (Turkey)	5.40	-2.5	-2.3	-2.8	-2
USDCNY (China)	6.86	0.2	0.3	0.3	0
USDINR (India)	70.17	-1.0	-0.1	0.4	-1
ADSIDR (Indonesia)	14458	-0.5	0.8	-1.5	0
ADXDR	105.19	0.0	0.3	0.1	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	55.2	2.6	1.3	-11	3
WTx	47	3.0	1.2	-12	3
Copper	261	-0.6	-3.6	-7	-1
Gold	1284	0.5	1.3	4	0
S&P Spot commodity *	374	0.0	-1.6	-10	0
S&P Brent Spot *	458	0.0	-1.8	-13	0
S&P Metals Spot *	319	0.0	-0.8	-5	0
S&P Agricultural *	284	0.0	-0.5	-3	0

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