

Caution returned to markets ahead of Thursday's ECB meeting

■ **Cautious tone returned to financial markets amid the latest news about a formal US request for extradition** from Canada of the finance chief of Huawei, which threatens to heighten US-China trade tensions ([see](#)). Moreover, the **World Economic Forum in Davos** started its first day with some **important leaders missing**, notably US President Trump.

■ In the first trading day of the week after yesterday's holiday, the **US Treasury 10Y yield went back to levels below 2.75%**. In Europe, the **German 10Y Bund yield also inched down despite today's release of better-than-expected economic sentiment** for Germany (ZEW) ([see](#)). **Peripheral risk premia remained broadly unchanged**, while high demand for a new syndicated bond issued by the Spanish government has so far had a muted impact on Spain's risk premium ([see](#)).

■ **Equity markets fell across the board, ceding some of the ground gained last week**. US stocks opened their first session of the week with losses fuelled by disappointing 2019 company sales prospects ([see](#)). European equity indices continued to decline, with the banking sector under pressure amid the release of lower-than-expected 4Q18 earnings results for one of the biggest European banks ([see](#)). Asian markets trimmed early gains as trade optimism seemed to fade despite the upcoming high-level talks between the US and China.

■ In FX markets, the **USD remained broadly steady despite ongoing partial US government shutdown**, which shows no signs of coming to an end. However the **GBP appreciated today** despite the uncertainty after yesterday's presentation of May's Brexit "plan B", which seemed very much like the old one ([see](#)). Nonetheless, the UK opposition is looking to push for a second referendum ([see](#)). Meanwhile EM currencies were mixed and **today's sharp drop in crude oil prices had limited impact on some Latam currencies**.

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Debt markets (10Y, %, changes in bp)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	2.58	-3.1	4.8	-6	9
US	2.74	-4.0	3.3	-5	6
GERM (2-yr)	-0.59	-0.4	3.1	1	2
Germany	0.24	-1.8	3.1	-7	-7
France	0.64	-1.2	1.9	-5	-7
Spain	1.34	-3.1	-5.5	-7	-14
Italy	2.74	-2.0	-13.5	-9	0
Portugal	1.73	-2.3	-7.1	-10	-13
Greece	4.13	-3.2	-14.5	-24	-27
Japan (2-yr)	-0.17	0.0	-1.6	-3	-3
Japan	0.00	-0.5	-1.0	-4	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	9.05	-0.4	-19.5	-33	-19
Chile	4.35	1.2	8.4	6	9
Colombia	7.04	1.2	2.5	28	28
Mexico	8.66	-1.5	6.5	-9	2
Peru	5.28	0.1	-0.5	-12	-8
Poland	2.86	0.2	10.7	3	3
Russia	8.40	3.1	-0.8	-43	-38
Turkey	15.36	0.0	-38.0	-73	-44
India	7.32	0.2	6.3	4	-5
Indonesia	8.11	0.8	7.0	13	8
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	41	0.6	-1.2	2	0
Italy	250	-0.2	-16.6	-2	6
Portugal	149	-0.5	-10.2	-3	-7
Spain	110	-1.3	-8.6	1	-8
2-yr sovereign spread vs Germany					
France	11	-0.2	-1.5	-4	-4
Italy	92	-0.8	-12.0	-24	-17
Portugal	42	-0.8	-0.3	16	16
Spain	35	-0.3	-4.3	-2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	169	-1.7	-13	-38	-38
Chile	47	-0.2	-6	-14	-16
Colombia	123	-1.6	-12	-25	-35
Argentina	643	-1.9	-30	-144	-163
Mexico	126	-0.9	-11	-21	-29
Peru	76	-0.6	-8	-17	-19
Poland	66	-0.7	0	-2	-2
Russia	131	-3.5	-12	-19	-23
Turkey	329	-2.6	-48	-31	-31
China	59	0.3	-5	-9	-8
India	106	-0.7	-1	-6	-7
Indonesia	122	-1.0	-8	-17	-15
Risk indicators					
Volatility indicators	level	Daily	Weekly	Monthly	YTD
VIX	19	1.3	0	-11	-6
VSTOXX	16	0.6	-1	-4	-8
EMEFT volatility Index	20	1.6	0	-6	-5
Dollar/euro volatility	7	0.1	0	0	-1
EM FX volatility index	9	-0.1	0	0	-1
Credit spread (BAA) (change in bps)	243	4.0	-4	12	-3
US bonds volatility index	54	0.0	1	-8	-13
Inflation expectations	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2.20	-	-3	-2	6
EZ Inflation expectations (5Y5Y)	1.54	-	0	-3	-7
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD
US	71	-0.2	-13	-8	-12
EZ	104	-0.5	-12	-9	-16
UK	80	0.8	-10	-11	-14
Large Spanish	72	-0.2	-9	-10	-16
Medium Spanish	113	5.3	-4	5	1
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD
US Non-financial	185	-0.2	-13	-8	-12
EZ Non-financial	88	-0.5	-12	-9	-16
UK Non-financial	111	0.2	-3	-5	-8
Interbank markets (% , changes in bp)					
	level	Daily	Weekly	Monthly	YTD
EONIA Index	-0.37	0	0	1	-1
Euribor 3m	-0.31	0	0	0	0
Euribor 12m	-0.12	0	0	0	0
Libor 3m	2.77	1	-1	-5	-2
Libor 12m	3.04	1	3	-3	3
Stock markets (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	2,642	-1.1	1.2	9.3	5
Dow Jones	24,421	-1.2	1.5	8.8	5
Nikkei	20,623	-0.5	0.3	2.3	3
FTSE 100	6,901	-1.0	0.1	2.7	3
EuroStoxx 50	3,113	-0.4	1.5	3.7	4
IBEX	9,038	-0.2	2.1	5.6	6
DAX	11,090	-0.4	1.8	4.3	5
CAC	4,848	-0.4	1.3	3.3	2
MIIB	19,437	-1.0	1.4	5.7	6
ASE Athens	630	1.8	1.2	3.5	3
MSCI Latam *	93,252	-0.2	1.5	9.8	8
Ibovespa (Brazil)	95,362	-0.7	1.4	11.3	9
Mexbol (Mexico)	43,929	-0.2	0.7	5.9	5
Merval (Argentina)	34,512	-2.2	2.8	21.3	14
MSCI EM Europe *	5,561	-0.6	1.6	4.7	5
Poland	2,359	0.0	0.6	4.4	4
Micex 10 (Russia)	4,483	-0.8	2.2	6.8	7
Ise 100 (Turkey)	99,677	1.8	7.0	8.5	9
MSCI EM Asia *	822	0.4	3.4	4.9	5
Shanghai Com (China)	2,580	-1.2	0.4	2.5	3
Jakarta (Indonesia)	6,469	0.3	2.1	5.2	4
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	130.8	-1.6	4.2	18.1	13
JPM	103.0	-1.5	1.3	9.4	6
Citi	62.1	-1.6	1.2	23.6	19
BoA	29.1	-0.5	9.8	24.7	18
MS	42.6	-2.6	-0.8	12.9	7
GS	197.8	-2.4	9.9	23.6	18
EZ banks	73.0	-1.2	1.4	5.8	6
BNP	41.5	-1.9	-0.4	5.1	5
Crédit Agricole	10.1	-1.5	1.1	6.7	7
Deutsche Bank	7.9	-1.5	5.0	11.6	13
ING	10.4	-0.2	4.4	9.3	10
Intesa	2.0	-0.6	3.6	6.0	4
SG	27.8	-1.6	-4.1	-1.0	0
Unicredito	10.4	-2.1	3.4	5.9	5
UK banks	77.2	-1.1	2.2	6.7	6
HSBC	641.3	-1.3	-0.1	-1.9	-1
RBS	239.6	-0.9	4.2	14.8	11
Barclays	163.3	-1.0	2.6	9.6	8
Lloyds	57.4	-1.0	3.4	11.5	11
Large Spanish banks	64.2	-0.8	2.4	10.8	10
Santander	4.3	-0.8	1.1	9.6	8
BBVA	5.2	-0.7	3.6	11.9	12
Medium Spanish banks	57.9	-1.1	-0.2	1.2	1
Caixabank	3.2	-1.2	-1.7	2.6	3
Sabadell	1.0	-1.4	0.8	3.2	3
Bankinter	7.0	-0.3	2.1	0.9	0
Bankia	2.5	-2.6	-3.4	-2.0	-3
Currencies (% , red for currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1.136	0.0	-0.5	-0.1	-1
GBPUSD	1.30	0.5	0.7	2.4	2
USDJPY	109.36	0.3	-0.6	1.7	0
DXY	96.33	0.0	0.3	-0.6	0
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	37.48	0.6	-1.0	1.4	1
USDBRL (Brazil)	3.78	-0.5	-1.5	3.2	3
USDCLP (Chile)	671.96	0.1	0.4	3.0	3
USDCOP (Colombia)	3141	-0.5	0.1	4.6	4
USDMXN (Mexico)	19.14	0.1	-0.8	4.1	3
USDPEN (Peru)	3.34	-0.3	-0.1	0.7	1
LACI	55.66	-0.1	-0.8	3.3	2
USDPLN (Poland)	3.77	0.0	-0.3	0.0	-1
USDRUB (Russia)	66.45	-0.1	0.9	3.8	4
USDTRY (Turkey)	5.33	-0.2	2.2	-0.3	-1
USDCNY (China)	6.81	-0.1	-0.7	1.4	1
USDINR (India)	71.44	-0.2	-0.6	-1.8	-2
USDIDR (Indonesia)	14220	0.0	-0.9	2.3	1
ADXY	105.48	-0.1	-0.4	0.9	0
Commodities (%)					
	level	Daily	Weekly	Monthly	YTD
Brent	60.8	-3.0	0.3	13	13
WTx	52	-3.1	0.0	14	15
Copper	269	-1.8	1.6	1	2
Gold	1283	0.6	-0.5	2	0
S&P Spot commodity *	413	0.0	2.2	9	10
S&P Brent Spot *	533	0.0	3.0	16	16
S&P Metals Spot *	327	0.0	2.2	1	2
S&P Agricultural *	292	0.0	2.0	2	3

Source: Bloomberg, Datastream and Haver

* With one day delay