

Key events in Eurozone and China as main drivers this week. ECB Preview

- **The positive mood in financial markets seemed to fade somewhat at the start of the week** despite the optimism around the US-China trade deal and Brexit, jointly with the recent release of an upbeat on economic data. Following last week's decision by the US to abandon its threat to raise tariffs on Chinese goods, a Trump-Xi summit is expected to take place by the end of March in order to reach a final trade deal (see). Meanwhile, **this week the focus will be mainly on this Thursday's ECB meeting (see preview below) and China's annual National People's Congress**, which will start tomorrow (see), coupled with multiple releases of economic data and various EM Central Banks meetings.
- **Developed equity markets were mixed:** US stocks were down while European stocks reversed partially early gains to finish almost unchanged. In Asia, equity indices were also up, favored by the progress on US-China trade negotiations.
- **Core yields remained steady:** the US Treasury 10Y yield remained above the 2.70% level, while last Friday the release of disappointing confidence indicators for the US (see) had a muted impact on US yields. In Europe, the 10Y Bund yield continued hovering around 0.16% ahead of this week's ECB meeting.
- **The USD appreciated against G-10 currencies** despite the latest comments from Trump showing concern over the strength of the dollar (see). The GBP was broadly flat after last week's rally due to the change in May's Brexit stance (now considering a delay of Brexit deadline).
- **There are little movements across EM FX**, with Latam currencies broadly flat despite the rise in crude oil prices (above \$64 per barrel). The MXN depreciated after last Friday's revision of Mexico's outlook to negative (from stable) by S&P (see). The PEN and COP were flat, the former ahead of this week's Central Bank policy meeting and the later ahead of its inflation data. Also, the TRY ended flat despite the release of lower-than-expected inflation prints (see) and ahead of Turkey's Central Bank meeting later this week, in which markets do not expect any change in rates.

Central Bank Annex

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Debt markets (10Y, %, changes in bp)						
Developed Markets	level	Daily	Week	Month	YTD	
US (2-yr)	2.54	-1.6	3.1	8	5	
US	2.72	-2.9	6.2	9	4	
GER (2-yr)	-0.51	0.1	5.1	6	10	
Germany	0.16	-2.7	4.8	1	-15	
France	0.56	-2.1	3.3	0	-15	
Spain	1.17	-2.7	0.7	-3	-30	
Italy	2.74	0.3	-3.7	15	-1	
Portugal	1.47	-2.5	-0.1	-30	-40	
Greece	3.68	2.6	-10.8	-20	-72	
Japan (2-yr)	-0.14	0.4	3.0	2	0	
Japan	0.00	1.1	3.9	0	0	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
Brazil	9.05	0.0	7.0	19	-19	
Chile	4.19	1.3	5.9	-1	-7	
Colombia	6.91	0.4	5.0	-3	16	
Mexico	8.16	1.3	0.0	-24	-48	
Peru	5.15	-0.6	-0.9	-8	-21	
Poland	2.96	-2.4	4.7	22	13	
Russia	8.45	2.1	4.8	23	-33	
Turkey	14.74	0.0	12.0	92	-106	
India	7.38	0.0	-3.6	9	1	
Indonesia	7.86	0.7	-4.0	-15	-17	
Country risk (bp, changes in bp)						
Developed Markets	level	Daily	Weekly	Monthly	YTD	
10-yr sovereign spread vs Germany						
France	40	0.6	-1.5	6	-1	
Italy	258	3.0	-8.5	14	14	
Portugal	131	0.2	-4.9	-30	-25	
Spain	101	0.0	-4.1	-3	-16	
2-yr sovereign spread vs Germany						
France	7	-0.5	-3.2	-4	-8	
Italy	85	-1.6	-10.9	1	-24	
Portugal	26	-0.1	-5.2	-10	0	
Spain	25	-0.6	-3.9	-6	-12	
Emerging Markets	level	Daily	Weekly	Monthly	YTD	
5-yr sovereign CDS *						
Brazil	157	3.1	-4	-10	-50	
Chile	46	0.5	-1	-3	-17	
Colombia	109	1.6	-3	-17	-49	
Argentina	708	34.2	59	64	-98	
Mexico	126	2.0	-7	-9	-29	
Peru	70	0.3	-3	-6	-25	
Poland	65	0.0	0	0	-3	
Russia	129	0.5	-5	-6	-25	
Turkey	307	5.6	-11	-11	-53	
China	49	-0.3	-2	-8	-18	
India	90	-2.5	-2	-17	-24	
Indonesia	100	-3.6	-9	-16	-37	
Risk indicators						
Volatility indicators	level	Daily	Weekly	Monthly	YTD	
VIX	15	1.5	0	-2	-10	
VSTOXX	14	0.3	0	-1	-10	
EM EFT volatility Index	19	0.4	1	-2	-6	
Dollar/euro volatility	6	0.3	0	0	-1	
EM FX volatility index	8	0.1	0	0	-1	
Credit spread (BAA) (change in bps)	226	2.9	2	-12	-20	
US bonds volatility index	48	0.7	2	-2	-19	
Inflation expectations	level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.30	-	3	5	16	
EZ Inflation expectations (5Y5Y)	1.51	-	5	0	-10	
Banking 5y CDS	level	Daily	Weekly	Monthly	YTD	
US	60	-1.2	-5	-6	-22	
EZ	85	1.6	-7	-16	-35	
UK	64	0.8	-7	-13	-30	
Large Spanish	59	2.1	-2	-10	-29	
Medium Spanish	105	3.1	-2	-5	-8	
Corporate 5y CDS	level	Daily	Weekly	Monthly	YTD	
US Non-financial	150	-1.2	-5	-6	-22	
EZ Non-financial	73	1.6	-7	-16	-35	
UK Non-financial	98	-0.4	-4	-11	-21	
Interbank markets (% changes in bp)						
	level	Daily	Weekly	Monthly	YTD	
EURONIA Index	-0.37	0	0	-1	-1	
Euribor 3m	-0.31	0	0	0	0	
Euribor 12m	-0.11	0	0	0	1	
Libor 3m	2.60	-2	-5	-14	-20	
Libor 12m	2.88	1	-1	-14	-13	
Stock markets (%)						
Main indices	level	Daily	Weekly	Monthly	YTD	
S&P500	2,791	-0.5	-0.2	3.2	11	
Dow Jones	25,726	-1.2	-1.4	2.9	10	
Nikkei	21,822	1.0	1.4	5.0	9	
FTSE 100	7,134	0.4	-0.7	2.4	6	
EuroStoxx 50	3,317	0.2	1.1	5.0	11	
IBEX	9,260	-0.1	0.6	2.2	8	
DAX	11,593	-0.1	0.8	3.8	10	
CAC	5,287	0.4	1.0	5.9	12	
MB	20,718	0.1	1.4	5.0	13	
ASE Athens	704	-1.2	2.5	11.0	15	
MSCI Latam *	91,141	-0.9	-3.3	-2.5	6	
Ibovespa (Brazil)	94,604	0.0	-2.7	-2.9	8	
Mexbol (Mexico)	42,337	-0.7	-3.0	-3.8	2	
Merval (Argentina)	33,835	0.0	-6.9	-6.9	12	
MSCI EM Europe *	5,610	-0.4	-0.7	-1.3	6	
Poland	2,328	-0.2	-1.8	-2.2	2	
Micex 10 (Russia)	4,404	-0.5	-0.6	-2.9	5	
Ise 100 (Turkey)	104,193	0.9	-0.1	0.1	14	
MSCI EM Asia *	861	0.5	0.0	3.2	10	
Shanghai Com (China)	3,028	1.1	2.2	17.1	21	
Jakarta (Indonesia)	6,488	0.7	-0.2	0.4	5	
Banking sector	level	Daily	Weekly	Monthly	YTD	
US banks	131.9	-0.3	-0.6	0.7	14	
JPM	104.7	0.2	-1.4	1.1	7	
Citi	64.2	-0.5	-0.6	-0.4	23	
BoA	29.1	-0.8	-0.6	2.2	18	
MS	42.5	-0.1	0.7	0.4	7	
GS	197.3	-0.5	-0.7	-0.4	18	
EZ banks	78.6	-0.1	4.0	9.3	14	
BNP	44.9	0.1	4.9	9.7	14	
Crédit Agricole	11.1	-0.3	3.3	11.6	18	
Deutsche Bank	8.1	-0.5	5.0	5.0	17	
ING	11.6	-0.4	3.4	12.8	24	
Intesa	2.2	0.3	3.9	8.6	12	
SG	27.2	0.6	4.5	0.3	-2	
Unicredito	11.9	-1.0	3.5	17.7	20	
UK banks	79.9	0.7	2.0	3.9	10	
HSBC	618.0	0.6	-0.6	-3.3	-4	
RBS	266.3	1.1	2.7	10.5	23	
Barclays	163.7	0.8	2.8	3.5	9	
Lloyds	63.1	0.4	4.2	8.9	22	
Large Spanish banks	64.8	-0.6	1.4	2.9	11	
Santander	4.2	-0.3	1.2	2.7	7	
BBVA	5.3	-0.8	1.5	3.2	15	
Medium Spanish banks	58.1	-0.1	3.4	1.3	1	
Caixabank	3.1	0.1	2.6	-5.8	-2	
Sabadell	1.0	0.0	5.6	0.1	0	
Bankinter	7.1	-0.2	2.8	4.9	2	
Bankia	2.7	0.0	4.2	5.8	5	
Currencies (% red for currency depreciation)						
Developed	level	Daily	Weekly	Monthly	YTD	
EURUSD	1.133	-0.3	-0.3	-1.0	-1	
GBPUSD	1.32	-0.1	0.7	0.6	3	
USDJPY	111.68	0.2	-0.6	-2.5	-2	
DXY	96.72	0.2	0.3	1.2	1	
Emerging	level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	39.85	0.0	-2.0	-6.4	-5	
USDBRL (Brazil)	3.78	0.0	-0.8	-3.5	3	
USDCLP (Chile)	658.82	0.0	-1.4	-0.6	5	
USDCOP (Colombia)	3096	0.0	0.3	0.3	5	
USDMXN (Mexico)	19.30	-0.2	-0.9	-1.0	2	
USDPEN (Peru)	3.31	0.0	-0.1	0.6	2	
LACI	55.40	0.0	-0.9	-2.1	2	
USDPLN (Poland)	3.80	-0.3	0.5	-2.0	-2	
USDRUB (Russia)	65.72	0.3	-0.3	-0.5	6	
USDTRY (Turkey)	5.37	0.0	-1.3	-3.9	-2	
USDCNY (China)	6.71	0.0	-0.3	-0.2	3	
USDINR (India)	70.91	0.0	0.1	0.2	-2	
USDIDR (Indonesia)	14130	-0.1	-0.8	-1.1	2	
ADXY	106.29	0.0	-0.5	-0.5	1	
Commodities (%)						
	level	Daily	Weekly	Monthly	YTD	
Brent	65.4	0.6	1.0	6	22	
WTX	56	0.7	1.3	4	24	
Copper	291	-0.8	-1.4	4	11	
Gold	1289	-0.3	-2.9	-2	1	
S&P Spot commodity *	421	-1.2	0.2	3	13	
S&P Brent Spot *	554	-1.9	0.2	7	23	
S&P Metals Spot *	346	0.0	0.8	3	8	
S&P Agricultural *	279	0.2	-1.8	-4	-2	

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

ECB preview

- **We expect at this week meeting changes in the forward guidance on rates -hinting at further delay of the first rate hikes- while an announcement of liquidity measures is also likely.**
- The cautious tone should be reinforced as recent news have been mostly negative: disappointing macro data, inflation expectations at very low levels and growing risks due to global concerns, despite the stabilization in financial markets and the partial easing of concerns about protectionism (and more recently over Brexit). In particular, **the ECB could adapt its forward guidance on interest rates** introducing an additional dovish tweak to its tone defined at the December meeting, when the central bank admitted that the balance of risks was moving to the downside. If the ECB does not move as soon as at this meeting, it could at least open the door to do so in the coming months. Recent **comments from ECB members have turned to the dovish side, signaling concerns on the economic slowdown**, which have raised expectations that a fresh round of stimulus . In particular, ECB's chief economist Peter Praet has said that "if the euro-area economy were to slow more sharply, we could adapt our forward guidance on interest rates and this could be complemented by other measures."
- On economic activity, **data disappointed over the last month and a half**, mostly those data related to the industrial sector and foreign orders, driven by the negative effect of protectionism and slowing global momentum. The deterioration in the gloomy seems to have halted, but only in services and consumers' expectations, and there are increasing concerns that the gloomy mood in manufacturing could end up weighing also on still strong domestic demand. With still limited data, **weak momentum seems to have taken root in early 2019** (GDP growth at 0.2% QoQ), **failing to rebound from the slowdown in 2H18**. As result, **the ECB staff is likely to revise GDP growth markedly downwards in 2019** (to slightly above 1%, from 1.7% three months ago) and project a **more moderate expansion over the forecast horizon** (around 1.5%), while **inflation forecasts could be revised slightly down** (by around 0.1/0.2pp) mainly led by a **slower increase in the core component**.
- Regarding the possibility of a **new liquidity measure (TLTRO)**, the central bank should give some clues this week. The ECB is likely to announce the measure, though giving the details may be still premature, as the accounts from the last meeting revealed that decisions in this respect should not be taken too hastily. We expect that this new liquidity operations (TLTRO) will be designed with less generous conditions as compared to the current TLTROs, i.e. a shorter maturity and at a cost set at the average rate of MROs over the life of the operation, without benefiting from negative rates.