

Market Comment

Rhetoric-driven swings in trade deal prospects dictate market movements

- During this week, financial markets fluctuated sharply with **US-China trade negotiations** as the key driver. The uncertainty over a US-China trade deal and disappointing IS manufacturing data have increased investor concern about the strength of two of the three recent main pillars (accommodative monetary policy is the third). However, sentiment slightly reversed after optimism about a trade deal emerged on Wednesday.
- This week saw a **wild back and forth on US-China trade talk rhetoric**, led mainly by self-contradictory statements from the US; while China insists that any deal must include a tariff rollback ([see](#))
- This week's **positive economic data in China was offset by weaker US economic figures, ahead of tomorrow's payrolls**. China's PMI increased more than expected, and the euro zone showed a more resilient-than-expected domestic demand in 3Q19. GDP growth was confirmed at 0.2% QoQ in 3Q19 underpinned by the strength of private (0.5% from 0.2%) and public consumption, in contrast to the poor performance of investment and exports (0.4%). However, retail sales in the euro zone declined again in October (-0.6% m/m), pointing to some moderation in household consumption. However, ahead of tomorrow's payrolls, the US ISM manufacturing and services, along with ADP employment report disappointed, sparking concerns about the US economic outlook. Today's reported jobless claims were more encouraging (203K, Cons: 215K, Previous: 213K). The trade deficit decreased more than expected in October (-\$47.2, Cons: -\$48.5 billion, Previous: -\$51.1 billion) as imports unexpectedly contracted more than exports. Separately, durable goods orders and factory orders showed mixed results.
- Elsewhere, **Japan was the first DM country to launch a fiscal stimulus: \$121 bn (1,9% of GDP)**
- Sovereign yields increased at the start of the week**, underpinned by strong Chinese PMI data, **but showed acute corrections, dragged by Trump signaling no rush to strike a deal, and weak US manufacturing ISM (10Y yield declined 15bps intraday), before clawing back on renewed optimism about a trade deal**. However, the decline in European yields was more contained amid political noise in Germany which could lead to higher public expenditure (Change in 10Y yield since Friday +3.1bps in US, +6.7bps in Germany). Spain's risk premium remained unchanged (78bps) but Italy's widened further (+6.8bps) amid political risks.
- Risk-off mood boosted equity volatility (VIX)** to October highs (18) but managed to crawl back to 15 (+3bps since last Friday) on renewed optimism about trade. Equity was shocked due to the trade concerns and weak data in the US but quickly ebbed as odds of a trade deal still remain alive.
- In FX, the USD depreciated against most currencies** led by softer-than-expected US economic data (DXY -1.0%, Euro +0.8%). The GBP appreciated sharply, with the Conservative party leading the polls. EM currencies recovered this week on the back of the weak USD. Despite the turmoil in some Latam countries, the CLP appreciated (5.7%) after its Central Bank surprised markets by holding interest rates (against expectations of a cut), while positive data in Brazil led to gains in the BRL (+0.5%), offsetting the negative impact of higher US tariffs on Brazilian steel. On the other hand, trade tensions weighed on the RMB, albeit slightly.
- In commodities, oil prices increased (Brent +0.7%), driven by fresh news during today's OPEC+ meeting where deeper output-cuts were agreed to support crude prices, although this proposal needs to be confirmed this Friday.

UPDATE 17:35 CET 05 DECEMBER 2019

DEBT MARKETS (10Y, %, CHANGE IN BPS)

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,59	1,4	-4,0	-4	-90
US	1,80	2,3	3,1	-6	-89
GER (2-yr)	-0,62	0,6	1,2	2	-1
Germany	-0,29	2,1	6,7	2	-54
France	0,02	2,9	7,4	4	-69
Spain	0,49	4,6	7,7	16	-93
Italy	1,37	8,0	13,5	34	-137
Portugal	0,43	4,6	2,5	18	-130
Greece	1,54	-0,7	11,0	33	-286
Japan (2-yr)	-0,15	0,4	2,7	8	-1
Japan	-0,03	1,0	5,4	9	-3
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,81	0,5	-10,6	37	-243
Chile	3,11	2,0	25,8	17	-115
Colombia	6,49	0,0	-13,0	40	-26
Mexico	7,08	-1,3	-1,5	25	-156
Peru	3,72	-3,1	-3,1	-3	-165
Poland	2,02	0,3	3,3	1	-80
Russia	6,56	0,8	-1,8	5	-222
Turkey	12,00	4,0	-12,0	-30	-380
India	6,62	14,9	15,8	10	-75
Indonesia	7,12	-4,1	6,8	17	-90

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	32	0,8	0,7	2	-15
Italy	166	5,9	6,8	33	-84
Portugal	72	2,5	-4,2	16	-76
Spain	78	2,5	1,0	15	-39
2-yr sovereign spread vs Germany					
France	4	0,1	-0,8	-2	-12
Italy	71	4,6	6,2	26	-37
Portugal	8	2,3	-1,9	-1	-18
Spain	24	0,5	-1,2	3	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	122	-3,5	-3	7	-85
Chile	53	-2,9	-4	14	-10
Colombia	87	-4,4	-3	11	-72
Argentina	8292	-260,4	999	1878	7485
Mexico	88	-4,4	-4	2	-67
Peru	53	-3,1	-4	5	-41
Poland	62	0,0	0	-4	-5
Russia	68	-1,1	-3	-6	-86
Turkey	312	-7,3	-8	-14	-48
China	40	-0,1	1	2	-27
India	71	0,8	1	-1	-42
Indonesia	74	-1,6	1	0	-63

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	0,0	3	2	-11
VSTOXX	63	0,0	5	2	-4
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	0	0	-3
EM FX volatility index	18	-0,9	1	0	-7
Credit spread (BAA) (change in bps)	208	-2,3	-1	-7	-37
US bonds volatility index	7	0,0	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,11	-	9	2	-3
EZ Inflation expectations (5Y5Y)	1,23	-	3	-3	-38
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	46	-0,9	-1	-1	-37
EZ	48	-1,4	-2	-4	-57
UK	43	-1,6	-1	-2	-51
Large Spanish	35	-1,0	-1	-3	-53
Medium Spanish	89	-1,1	0	-1	-23
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	194	-4,3	2	-32	-20
EZ Non-financial	69	-0,2	0	-2	-28
UK Non-financial	101	0,4	0	0	-18

INTERBANK MARKETS (% CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	-1	0	n.a.
Euribor 3m	-0,40	0	0	1	-9
Euribor 12m	-0,27	0	1	1	-15
Libor 3m	-0,46	0	-1	0	-10
Libor 12m	1,89	0	-2	-2	-91

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3109	-0,1	-1,4	1,1	24
Dow Jones	27613	-0,1	-2,0	0,4	18
Nikkei	23300	0,7	-0,5	0,2	16
FTSE 100	7138	-0,7	-3,8	-3,4	6
EuroStoxx 50	3648	-0,3	-1,5	-0,8	22
IBEX	9243	-0,3	-1,2	-1,7	8
DAX	13055	-0,7	-1,4	-0,7	24
CAC	5802	0,0	-1,9	-0,8	23
MB	22969	-0,3	-1,6	-1,7	25
ASE Athens	879	-1,1	-2,4	0,6	43
MSCI Latam *	96507	1,2	1,2	-0,4	12
Ibovespa (Brazil)	110922	0,6	2,4	2,0	26
Mexbol (Mexico)	42382	0,5	-1,7	-2,8	2
Merval (Argentina)	34835	0,4	1,8	-5,5	15
MSCI EM Europe *	6085	0,6	-1,2	-2,6	15
Poland	2092	0,5	-3,5	-7,9	-8
Micex 10 (Russia)	5033	0,0	-1,0	-1,4	20
Ise 100 (Turkey)	108659	0,9	1,4	8,1	19
MSCI EM Asia *	859	-0,5	-2,1	-1,7	10
Shanghai Com (China)	2899	0,7	0,3	-3,1	16
Jakarta (Indonesia)	6152	0,3	2,1	-0,5	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	154,3	0,1	-1,2	0,7	33
JPM	132,6	0,2	0,4	2,7	36
Citi	74,5	0,4	-1,6	-0,4	43
BoA	33,0	-0,4	-1,2	0,6	34
MS	49,0	0,4	-1,5	0,6	24
GS	215,6	-0,1	-3,3	-1,4	29
EZ banks	80,8	0,0	-0,7	1,2	17
BNP	50,3	-0,1	-1,5	2,4	27
Crédit Agricole	12,4	0,3	-0,7	2,8	31
Deutsche Bank	6,4	-0,4	-2,6	-7,0	-7
ING	10,3	0,0	-1,5	-2,2	10
Intesa	2,3	-0,1	-1,0	-2,2	18
SG	29,1	0,8	2,6	7,9	5
Unicredito	12,4	0,3	-1,2	3,5	25
UK banks	74,1	-0,2	-4,0	-1,0	2
HSBC	552,3	-1,2	-4,9	-7,6	-15
RBS	225,1	1,2	-3,0	4,0	4
Barclays	167,2	0,0	-4,1	-1,2	11
Lloyds	60,5	-0,1	-3,5	4,2	17
Large Spanish banks	55,8	-0,3	-1,3	-5,5	-4
Santander	3,5	-0,4	-0,8	-6,5	-11
BBVA	4,7	-0,1	-1,7	-4,6	2
Medium Spanish banks	50,8	-0,1	0,9	-1,6	-12
Caixabank	2,7	-0,2	1,4	-1,8	-14
Sabadell	1,0	-0,5	1,0	-1,0	3
Bankinter	6,4	0,3	1,3	-1,2	-8
Bankia	1,8	-0,4	-0,8	-4,0	-31

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,110	0,2	0,8	0,2	-3
GBPUSD	1,316	0,4	1,9	2,1	3
USDJPY	108,690	0,2	0,8	0,4	1
DXY	97,413	-0,2	-1,0	-0,6	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,98	-0,2	-0,4	-0,5	-37
USDBRL (Brazil)	4,19	0,4	0,5	-4,7	-7
USDCPL (Chile)	783,47	1,0	5,7	-4,5	-11
USDCOP (Colombia)	3458	0,4	1,59	-4,26	-6
USDMXN (Mexico)	19,37	0,3	0,5	-0,9	1
USDPEN (Peru)	3,38	0,2	0,6	-1,1	0
LACI	49,82	0,3	1,3	-2,8	-8
USDPLN (Poland)	3,85	0,2	1,8	0,0	-3
USDRUB (Russia)	63,76	0,2	0,5	-0,4	9
USDTRY (Turkey)	5,75	-0,1	0,1	0,0	-8
USDCNY (China)	7,04	0,1	-0,1	-0,5	-2
USDINR (India)	71,29	0,3	0,4	-0,8	-2
USDIDR (Indonesia)	14068	0,3	0,2	-0,7	2
ADXY	103,80	0,2	-0,1	-0,6	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	63,5	0,7	-0,6	1	18
WTx	59	0,4	1,0	3	29
Copper	265	0,1	-1,1	-2	1
Gold	1479	0,3	1,6	0	15
S&P Spot commodity *	419	1,9	-0,4	-1	12
S&P Brent Spot *	536	3,6	0,0	0	17
S&P Metals Spot *	312	0,5	-1,7	-6	-2
S&P Agricultural *	286	0,2	0,6	0	1

Source: Bloomberg, Datastream and Haver

* With one day delay