BBVA Research

Creating Opportunities

Market Comment

Moderate optimism prevails. ECB and Fed previews.

- **On the trade front, Sunday's upcoming tariffs may be averted** due to economic pressure on both the US and China, while investors are still speculating on the likelihood of a trade agreement amid US trade officials putting the final touches to the United States-Mexico-Canada Agreement (see).

- **Economic data were generally positive in Europe and the US**: German ZEW economic sentiment rose more than expected in December (10.7; Cons: 0.30; Previous: -2.10) suggesting that both exports and private consumption will evolve better than expected. Consequently, Eurozone ZEW economic sentiment gained, driven by the improvement in German expectations. German Current situation index also increased surprisingly in December (-19.9; Cons: -22.0; Previous: -24.7). Nevertheless, manufacturing data in October showed mixed results, Italian industrial production unexpectedly fell, whereas France industrial production grew more than estimated. In November, US non-farm payrolls experienced their largest increase since January with 266K jobs added over the month. In addition to the strong headline job figures, the unemployment rate edged down slightly to 3.5%. These trends are consistent with a two-speed economy, with investment slumping and consumption and services growing strongly.

- **Although economic data disappointed in China**: inflation accelerated slightly more than expected in November (4.5% YoY; Cons: 4.3% YoY; Previous 3. producer price index surprisingly declined by 1.4% YoY in November from -1.6% YoY. Regarding the trade figures, exports fell in November (1.1% YoY), while exports to US declined 12.5%.

- **Slightly risk-on mood prevails financial markets,** underpinned by positive economic data in the US and Euro and increasing prospect of a partial trade deal. However, China's weaker economic data and major events this week: the Fed-ECB meeting, UK General elections and the deadline for the US to hike tariffs on China's goods, have kept equity volatility hovering around a month high.

- **Sovereign bond yields inched up amid trade talk optimism**. The yield on the 10Y UST bond increased by 2.6bps. In Europe, the 10Y German bund yield raised to 1bps With regard to peripheral bonds, risk premia were also steady in Spain and Portugal whereas Italy's risk premium slightly narrowed.

- **The DXY index slightly declined (-0.1%) while other safe-haven currencies led the modest gains** in the G10 (USDCHF +0.29%) as investors remain cautious about the trade deal. Sterling gained as polls showed the ruling Conservative Party widening its lead ahead of this Thursday's elections. Elsewhere, EM FX were broadly steady, although pressure in the CLP continued.

Central Bank Annex

UPDATE 17:55 CET 10 DECEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,65	3,5	11,0	-3	-84
US	1,85	2,6	12,9	-10	-84
GER (2-yr)	-0,64	0,2	-0,2	-2	-3
Germany	-0,30	1,1	5,2	-3	-54
France	0,02	0,7	6,1	-1	-69
Spain	0,46	0,3	4,6	7	-96
Italy	1,25	-3,1	-4,1	5	-150
Portugal	0,39	0,1	2,8	7	-133
Greece	1,37	-2,2	-19,2	4	-303
Japan (2-yr)	-0,12	0,9	3,6	5	3
Japan	-0,01	-1,1	0,9	4	-2
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
Brazil	6,81	1,9	-3,9	13	-242
Chile	3,12	-7,8	8,0	35	-113
Colombia	6,30	-19,1	-19,1	11	-45
Mexico	6,87	-2,5	-27,3	1	-177
Peru	3,65	-0,6	-11,2	-14	-171
Poland	2,00	2,0	0,6	-18	-83
Russia	6,56	0,3	-2,1	1	-222
Turkey	12,11	-13,0	15,0	-28	-369
India	6,71	4,3	23,9	15	-66
Indonesia	7,13	0,0	-3,7	15	-90

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-0,4	0,9	3	-15
Italy	154	-4,2	-9,3	9	-96
Portugal	69	-1,0	-2,4	10	-79
Spain	75	-0,8	-0,6	10	-42
2-yr sovereign spread vs Germany					
France	3	-1,7	-1,2	-1	-12
Italy	60	-5,0	-7,8	11	-48
Portugal	9	-0,3	0,5	-1	-17
Spain	25	-0,3	0,3	2	-12
Emerging Markets	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
5-yr sovereign CDS *					
Brazil	116	-0,9	-10	0	-92
Chile	49	-0,9	-7	8	-14
Colombia	80	-1,8	-10	5	-79
Argentina	7040	-1045,7	-1073	-86	6233
Mexico	82	-0,4	-9	-2	-73
Peru	51	-0,7	-6	3	-44
Poland	60	-0,3	-2	-5	-7
Russia	65	-0,9	-4	-5	-89
Turkey	305	-0,7	-8	-6	-55
China	39	1,0	0	3	-29
India	70	-0,3	0	1	-43
Indonesia	73	0,6	-2	0	-65

RISK INDICATORS

Volatilty indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	-0,2	0	4	-10
VSTOXX	67	0,0	3	3	1
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	0,1	0	0	-3
EM FX volatility index	17	0,5	-1	0	-8
Credit spread (BAA) (change in bps)	203	-2,6	-8	-7	-42
US bonds volatility index	7	0,0	0	0	-3
Inflation expectations (%, change in pp)	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Inflation expectations (5Y5Y)	2,08	-	2	1	-6
EZ Inflation expectations (5Y5Y)	1,24	-	4	1	-36
Banking 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US	44	0,6	-2	-2	-39
EZ	47	0,0	-1	-4	-57
UK	42	-0,1	-2	-3	-52
Large Spanish	34	0,0	-2	-3	-54
Medium Spanish	89	1,4	10	-1	-23
Corporate 5y CDS (bps) *	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US Non-financial	191	-1,1	1	-53	-22
EZ Non-financial	68	-0,2	-1	-1	-29
UK Non-financial	100	-0,4	-1	-1	-19

INTERBANK MARKETS (%, CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,39	0	0	0	-8
Euribor 12m	-0,27	1	-1	-1	-15
Libor 3m	-0,46	0	0	0	-10
Libor 12m	1,89	0	-1	-1	-91

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3139	0,1	1,5	1,5	25
Dow Jones	27922	0,0	1,5	0,9	20
Nikkei	23410	-0,1	0,1	0,1	17
FTSE 100	7217	-0,2	0,8	-1,9	7
EuroStoxx 50	3669	-0,1	1,6	-0,8	22
IBEX	9325	-0,3	2,1	-0,7	9
DAX	13065	-0,3	0,6	-1,2	24
CAC	5844	0,1	2,0	-0,8	24
MIB	23089	0,6	1,6	-1,9	26
ASE Athens	862	-0,2	-2,2	-0,3	40
MSCI Latam *	96858	-0,1	1,3	-0,6	12
Ibovespa (Brazil)	110289	-0,6	1,2	2,5	25
Mexbol (Mexico)	42528	1,4	0,6	-2,7	2
Merval (Argentina)	35686	-2,0	8,9	4,6	18
MSCI EM Europe *	6147	0,3	0,3	-3,5	16
Poland	2054	-0,6	-1,7	-8,9	-10
Micex 10 (Russia)	5148	-0,2	3,0	-0,4	23
Ise 100 (Turkey)	108011	-0,7	1,1	4,7	18
MSCI EM Asia *	870	0,1	0,6	-1,4	11
Shanghai Com (China)	2917	0,1	1,1	-1,6	17
Jakarta (Indonesia)	6184	-0,1	0,9	0,3	0
Banking sector	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
US banks	157,0	0,2	3,3	1,1	36
JPM	134,1	-0,3	3,3	2,8	37
Citi	75,7	0,5	3,3	-0,5	45
BoA	33,5	0,1	2,1	0,8	36
MS	49,9	0,5	3,6	1,5	26
GS	222,7	0,4	4,9	-0,1	33
EZ banks	81,5	-0,4	3,1	-0,3	18
BNP	50,3	-0,9	1,6	-0,8	27
Crédit Agricole	12,6	-0,2	3,8	2,5	34
Deutsche Bank	6,5	-0,8	2,4	-6,0	-7
ING	10,4	-0,7	2,9	-3,2	11
Intesa	2,3	0,3	2,6	-1,7	19
SG	29,1	-0,7	4,0	2,6	5
Unicredito	12,8	0,7	4,3	1,8	30
UK banks	75,2	-0,7	2,6	2,1	3
HSBC	558,9	-0,3	0,5	-6,2	-14
RBS	229,0	-0,4	5,0	7,5	6
Barclays	169,6	-1,2	2,0	1,9	13
Lloyds	61,6	-0,9	4,1	9,4	19
Large Spanish banks	56,3	0,0	3,0	-4,3	-3
Santander	3,6	-0,1	3,9	-4,7	-10
BBVA	4,8	0,1	2,2	-4,0	3
Medium Spanish banks	50,5	-1,3	2,0	-1,5	-12
Caixabank	2,7	-2,0	0,8	-4,2	-16
Sabadell	1,0	-1,2	2,5	-1,3	3
Bankinter	6,4	-1,2	2,2	0,3	-8
Bankia	1,8	-1,0	3,0	-2,2	-31

CURRENCIES (%, RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,109	0,2	0,1	0,7	-3
GBPUSD	1,317	0,2	1,3	3,1	3
USDJPY	108,750	-0,2	-0,1	0,5	1
DXY	97,461	-0,2	-0,3	-0,9	1
Emerging	**level**	**Daily**	**Weekly**	**Monthly**	**YTD**
USDARS (Argentina)	59,98	0,0	-0,1	-0,8	-37
USDBRL (Brazil)	4,14	-0,1	1,5	0,6	-6
USDCLP (Chile)	778,79	-0,4	3,1	-4,0	-11
USDCOP (Colombia)	3408	0,3	2,82	-2,02	-5
USDMXN (Mexico)	19,22	0,0	1,7	-0,6	2
USDPEN (Peru)	3,39	-0,5	-0,1	-1,0	-1
LACI	50,21	-0,1	1,6	-0,8	-8
USDPLN (Poland)	3,87	0,2	-0,1	0,1	-3
USDRUB (Russia)	63,53	0,0	0,9	0,4	9
USDTRY (Turkey)	5,81	0,1	-1,1	-0,7	-9
USDCNY (China)	7,03	0,1	0,4	-0,6	-2
USDINR (India)	70,93	0,2	1,1	0,5	-2
USDIDR (Indonesia)	14020	-0,1	0,7	0,0	3
ADXY	103,89	0,0	0,2	-0,6	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64,4	0,3	5,9	3	20
WTx	59	0,5	5,7	4	31
Copper	275	0,3	5,6	3	5
Gold	1463	0,1	-1,0	0	14
S&P Spot commodity *	422	-0,3	2,7	1	13
S&P Brent Spot *	544	-0,5	5,0	3	19
S&P Metals Spot *	316	0,4	1,7	-4	-1
S&P Agricultural *	288	0,2	0,8	1	1

Source: Bloomberg, Datastream and Haver

* With one day delay

Central Bank Annex

ECB preview

- In her first meeting **as ECB President Mr. Lagarde** is likely to back what October minutes showed **calling for patience to let the new easing package take effect on the economy and the inflation outlook**. Moreover, she will focus **in stressing that more efforts on fiscal policy** by governments along the lines that she recently said that the ECB's accommodative monetary policy would "achieve its goal faster and with fewer side effects" if euro area governments supported it with fiscal policy. It is likely that she would make a reference to the review of its monetary policy strategy, emphasizing what she recently stated in one of her latest speeches that the new strategy will be guided by principles of thorough analysis and an open mind. **Regarding our baseline scenario, we no longer expect a depo rate cut as risks have moderated and the ECB seems less likely to ease further (but it cannot be ruled out if conditions deteriorate).**

- Elsewhere, on the economic side, since the last ECB meeting, there has been some improvement in growth and inflation, though risks persist. Hard data up to September point to a halt in the deterioration of manufacturing and exports, while retail sales grew at steady pace driven by still improving labor market conditions. As a result, eurozone growth stabilized at 0.2% QoQ, slightly better than expected. The stabilization of confidence data suggest that weak growth extends into 4Q19 (0.1%-0.2% QoQ) to average annual growth at around 1.2% in 2019. Regarding prices, core inflation surprised on the upside in November (1.5%) driven by the strong increase in services prices, but the sustainability of this higher rates has yet to be proved. All in all, we do not expect significant changes in the ECB updated forecast, maintaining a gloomy growth outlook and a gradual increase in core inflation over the forecast horizon.

Fed preview

- **We expect the Fed to leave rates unchanged at their upcoming meeting**. The views on the appropriate policy path are likely to coalesce around the post-mid-cycle pause. The hawks, fearing that overly accommodative conditions could fuel financial instability, will view the pause as a positive development, allowing them to time to evaluate how higher accommodation has impacted financial stability. For the doves, the fact that incoming data has tilted to the upside, the yield curve is steepening, inflation is firming and risks to the outlook are improving will ease concerns that failing to reduce rates further could jeopardize the expansion.

- **On the balance sheet, we do not anticipate the Fed will announce any deviation from their current do-what-it-takes approach to shore up Repo markets**; although the groundswell of support for structural, rather than stopgap, solutions suggests that the balance sheet will once again receive significant attention during the meeting.