

Market Comment

Prudence before today's FOMC meeting

- **Markets remained cautious** as a phase-one trade deal between the US and China is still uncertain amid **conflicting trade news**. Chinese officials expect the US to delay the tariff hike set for this coming Sunday, in a bid for more time to negotiate a phase-one trade deal. However, Kudlow, White House economic advisor, noted that the **December 15 tariffs are still on the table**.
- Regarding **Latin America**, Kudlow also said that no decision has yet been made on re-imposing tariffs on Brazilian and Argentinian steel. Separately, trade negotiators from the US, Canada and Mexico signed changes to the **USMCA trade pact** that aims to improve enforcement of worker rights and hold down prices for biologic drugs by eliminating a patent provision. The new deal still has to be approved by the US Congress, which is expected early next year.
- **November's US inflation data further supports Fed's monetary pause**. U.S. headline CPI rose more than expected in November to 2.1% y/y driven by a rise in energy prices (Cons: 2% y/y; Previous: 1.8% y/y), while core stayed unchanged at 2.3% y/y in line with economist expectations (Cons: 2.3% y/y; Previous 2.3% y/y). **US inflation is in line with the Fed's target** of 2% a year, further supporting market expectations that the Fed will maintain the status quo on rate today. The Fed chairman is expected to reiterate that monetary policy will remain unchanged for the foreseeable future, although markets expect at least one more Fed rate cut next year.
- **Sovereign bond yields inched down, especially in longer tenors**, underpinned by the uncertainty over the progress in trade talks. In Europe, peripheral bonds outperformed core and semi-core bonds as investors searched for yield with the Spanish risk premium narrowing by 2bps.
- Yesterday's release of the **YouGov poll** suggested the Conservatives will win by a smaller majority than previously forecast. As a result, options showed increased demand to hedge an unexpected election outcome tomorrow, while the **pound fluctuated**, recovering from yesterday's fall. Meanwhile, the DXY index trimmed early gains, despite stronger-than-expected US inflation, ahead of today's FOMC meeting. Elsewhere, **LatAm currencies appreciated** (LACI index +0.5%) with the Chilean peso leading the gains, shored up by the intervention of the Central Bank of Chile.
- In commodities, **oil prices fell** after the US Energy Administration announced an unexpected increase in US crude inventories of 800,000 barrels for the first week of December. Meanwhile, OPEC's analysts expect Russia to continue increasing its output next year.
- **US stock markets were mixed** with the VIX index oscillating around 16, while **European equities erased early losses**.

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DEBT MARKETS (10Y, %, CHANGE IN BPS)					
Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,65	-0,6	7,4	-3	-84
US	1,82	-2,6	4,2	-13	-87
GER (2-yr)	-0,64	-0,4	-1,0	-3	-3
Germany	-0,32	-2,6	-0,6	-8	-56
France	-0,01	-2,4	-0,1	-6	-72
Spain	0,41	-4,8	-2,9	-2	-100
Italy	1,21	-3,8	-8,5	-6	-154
Portugal	0,36	-3,7	-2,2	0	-137
Greece	1,37	-0,1	-17,4	1	-303
Japan (2-yr)	-0,12	0,0	4,0	8	3
Japan	0,00	1,6	4,1	7	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,76	-2,9	-3,9	10	-247
Chile	3,10	-3,1	1,0	33	-116
Colombia	6,29	-2,3	-20,7	9	-47
Mexico	6,86	-4,5	-22,5	-1	-178
Peru	3,62	-1,8	-12,3	-18	-174
Poland	1,99	-2,1	-3,4	-19	-84
Russia	6,58	1,9	2,5	-4	-220
Turkey	12,13	2,0	17,0	-11	-367
India	6,77	5,6	29,9	20	-60
Indonesia	7,17	4,2	0,4	15	-86
COUNTRY RISK (BP, CHANGE IN BPS)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	0,2	0,5	2	-15
Italy	153	-1,2	-7,9	2	-97
Portugal	68	-1,1	-1,6	8	-80
Spain	73	-2,2	-2,3	6	-44
2-yr sovereign spread vs Germany					
France	3	-0,1	-0,7	-1	-12
Italy	59	-0,6	-7,4	5	-49
Portugal	8	0,2	3,0	-4	-18
Spain	25	-0,2	1,3	2	-12
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	114	-2,0	-12	-5	-94
Chile	49	-0,4	-7	7	-14
Colombia	78	-2,0	-13	2	-81
Argentina	7035	-4,5	-1517	-663	6229
Mexico	81	-1,5	-11	-5	-74
Peru	50	-0,5	-6	1	-45
Poland	60	-0,2	-2	-5	-8
Russia	63	-2,7	-6	-9	-91
Turkey	303	-2,0	-16	-11	-57
China	38	-0,8	-2	1	-30
India	70	-0,1	0	0	-43
Indonesia	72	-0,4	-3	0	-65
RISK INDICATORS					
Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	16	0,0	1	3	-10
VSTOXX	67	0,0	4	3	1
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	0,0	0	0	-3
EM FX volatility index	17	-0,2	-1	-2	-8
Credit spread (BAA) (change in bps)	204	2,6	-6	-6	-41
US bonds volatility index	7	0,0	0	0	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,05	-	0	0	-8
EZ Inflation expectations (5Y5Y)	1,25	-	5	-2	-35
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	43	-0,1	-3	-3	-39
EZ	47	-0,2	-2	-5	-57
UK	43	0,1	-2	-3	-52
Large Spanish	34	0,2	-2	-3	-54
Medium Spanish	88	-0,8	-2	3	-24
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	191	0,1	-7	-91	-22
EZ Non-financial	68	0,0	-1	0	-29
UK Non-financial	100	0,1	-1	0	-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	0	-1	-1	-16
Liber 3m	-0,46	0	0	0	-10
Liber 12m	1,89	0	0	-1	-91
STOCK MARKETS (%)					
Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3136	0,1	0,8	1,6	25
Dow Jones	27849	-0,1	0,7	0,6	19
Nikkei	23392	-0,1	1,1	0,3	17
FTSE 100	7216	0,0	0,4	-1,5	7
EuroStoxx 50	3690	0,5	0,8	-0,2	23
IBEX	9404	0,9	1,4	0,2	10
DAX	13148	0,6	0,1	-0,4	25
CAC	5863	0,3	1,1	-0,5	24
MB	23196	0,3	0,7	-1,3	27
ASE Athens	884	2,6	-0,5	3,3	44
MSCI Latam *	96925	0,1	1,7	0,9	12
Ibovespa (Brazil)	110884	0,2	0,5	2,3	26
Mexbol (Mexico)	42879	0,6	1,6	-1,6	3
Merval (Argentina)	34374	-0,8	-0,9	2,1	13
MSCI EM Europe *	6112	-0,6	1,1	-3,0	16
Poland	2047	-0,3	-1,7	-9,2	-10
MceX 10 (Russia)	5174	0,5	2,8	0,1	24
Ise 100 (Turkey)	107922	-0,1	0,2	4,7	18
MSCI EM Asia *	869	-0,1	0,8	-1,0	11
Shanghai Com (China)	2924	0,2	1,6	0,5	17
Jakarta (Indonesia)	6180	-0,2	0,8	0,0	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	156,9	-0,1	1,7	1,6	36
JPM	134,5	0,0	1,6	3,5	38
Citi	75,6	-0,2	1,9	0,0	45
BoA	33,6	0,3	1,4	1,3	36
MS	49,5	-0,3	1,4	0,9	25
GS	221,2	-0,3	2,5	1,0	32
EZ banks	level	Daily	Weekly	Monthly	YTD
BNP	81,9	0,4	1,5	-0,1	19
Crédit Agricole	12,7	0,6	2,7	2,2	35
Deutsche Bank	6,6	1,3	1,5	-4,4	-6
ING	10,4	0,3	1,2	-2,8	11
Intesa	2,3	0,3	0,9	-2,0	19
SG	29,3	0,5	1,6	1,9	5
Unicredito	12,9	0,3	2,8	3,2	30
UK banks	level	Daily	Weekly	Monthly	YTD
HSBC	74,7	-0,7	0,7	-0,4	3
RBS	561,8	0,5	0,5	-4,2	-13
Barclays	228,0	-0,6	2,5	2,9	5
Lloyds	168,3	-1,1	0,7	-1,9	12
Large Spanish banks	level	Daily	Weekly	Monthly	YTD
Caixabank	56,2	-0,2	0,5	-4,2	-4
Sabadell	3,6	-0,6	0,3	-4,8	-10
Bankinter	6,5	0,8	0,7	0,4	-8
Bankia	1,8	0,5	0,1	-1,8	-30
CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)	level	Daily	Weekly	Monthly	YTD
EURUSD	1,109	0,0	0,1	0,5	-3
GBPUSD	1,317	0,1	0,5	2,5	3
USDJPY	108,680	0,0	0,2	0,3	1
DXY	97,407	0,0	-0,2	-0,8	1
Emerging	level	Daily			