

Market Comment

Markets takeoff on Trump's "big deal" tweet

- Trade developments swung to optimistic after the US President said a trade deal with China is close. In this context, according to The WSJ, the US offered to roll back existing tariff rates by up to 50% on \$360bn of Chinese goods and to cancel the tariffs set to take effect on Sunday. In exchange, China needs to commit to purchasing larger amounts of U.S. farm goods, better protect IP rights, and allow greater access to China's financial-services sector.
- Both the Fed and the ECB left their benchmark interest rates unchanged, as was widely expected, but both signaled that monetary policy will remain accommodative. The Fed signaled an indefinite pause as it would alter the level of accommodation only if there were some "material" changes in its outlook, including global developments and muted inflation pressures. Regarding Fed's member outlook for interest rates, the DOTs suggest a steady interest rate in 2020, and a slight increase in following years. The number of members expecting an increase in 2020 dropped from nine in September to four (see). At her first meeting, Ms. Lagarde left unchanged the ECB's monetary policy stance, suggesting a continuist of the dovish message. Although she recognized some improvement in growth and inflation outlook, especially when she sees that risks have become less pronounced. Elsewhere, Ms. Lagarde announced for 2020 (to start in January) a comprehensive review of ECB's strategy. The definition of the target will be reviewed, and the different tools for monetary policy, or even a digital currency. When asked if this implies helicopter money or equity purchases, she did not close the door to them.
- Eurozone industrial production continued to shrink in October by 0.5% m/m (Cons: 0.5% m/m; Previous: -0.1% m/m), while previous figures were revised down from 0.1% m/m. By country, German and Italian industrial production continued to fall, while French industrial production grew more than estimated. In the US, producer prices were unchanged in November (Cons: 0.2% m/m), while the measure that excludes energy and food fell unexpectedly by 0.2% m/m (Cons: 0.2% m/m), signaling inflation remains subdued.
- Sovereign bond yields jumped sharply driven by investors' risk appetite on trade deal hopes, with the US and German 10-2Y yield curves steepening. In Europe, the 10Y German bond underperformed its peers with the ECB monetary policy decision having a mute impact on it, whereas peripheral risk premia narrowed.
- Stock markets rallied with cyclical sectors leading the gains. The banking sector surged significantly amid prospects of a trade deal, although European banks were also supported by ECB's Lagarde statements, especially when she seems open to quantitative measures. The S&P 500 continued to hit fresh record highs, while the VIX index inched down to 15.
- The Japanese yen underperformed its G10 peers as market risk sentiment improved with positive trade developments. This time optimism about a trade deal boost the USD, as trade deal should improve growth outlook, while the euro fluctuated in a narrow range amid ECB's Lagarde statements. Meanwhile, the pound depreciated on the British election uncertainty as the latest polls showed a tighter race between the Conservative and Labour parties. Elsewhere, EM currencies also gained on trade hops, with the TRY appreciating, despite the Central Bank of Turkey deciding to cut its one-week repo rate more than expected by 2 percentage points to 12%.

UPDATE 17:35 CET 12 DECEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,67	5,5	7,6	1	-82
US	1,89	10,1	8,2	-4	-79
GER (2-yr)	-0,62	2,0	0,2	0	-1
Germany	-0,26	5,7	3,0	-1	-51
France	0,05	5,3	2,2	0	-67
Spain	0,45	4,1	-3,5	1	-96
Italy	1,24	3,1	-13,6	2	-151
Portugal	0,41	4,9	-1,8	4	-132
Greece	1,36	-1,6	-18,1	-4	-304
Japan (2-yr)	-0,13	-1,1	2,5	3	2
Japan	-0,01	-1,5	1,6	1	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,74	-1,8	-11,0	-3	-250
Chile	3,03	-4,5	-23,5	9	-122
Colombia	6,24	-5,0	-25,7	-9	-52
Mexico	6,87	0,0	-19,0	-8	-177
Peru	3,62	-1,7	-11,4	-19	-175
Poland	2,04	5,6	1,9	-11	-78
Russia	6,53	-4,5	-2,8	-10	-225
Turkey	12,15	2,0	15,0	-5	-365
India	6,78	1,4	16,4	21	-59
Indonesia	7,21	4,4	8,9	18	-81

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	31	-0,4	-0,8	1	-16
Italy	150	-2,6	-16,6	3	-100
Portugal	67	-0,8	-4,8	6	-81
Spain	72	-1,6	-6,5	2	-46
2-yr sovereign spread vs Germany					
France	3	-0,7	-0,7	-2	-12
Italy	56	-2,3	-14,9	4	-52
Portugal	9	-0,3	0,5	-5	-17
Spain	23	-1,8	-0,6	-1	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	109	-4,8	-13	-10	-99
Chile	46	-2,7	-7	3	-17
Colombia	75	-2,8	-12	-1	-83
Argentina	6706	-329,6	-1586	-993	5899
Mexico	77	-3,8	-11	-9	-78
Peru	49	-1,7	-5	-1	-46
Poland	60	0,0	-2	-5	-8
Russia	60	-2,8	-8	-12	-94
Turkey	304	0,9	-8	-9	-56
China	38	0,1	-2	1	-30
India	70	0,1	-1	1	-43
Indonesia	72	-0,7	-3	-2	-66

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	15	-0,5	0	2	-11
VSTOXX	61	0,0	-2	-9	-5
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	5	-0,1	0	0	-3
EM FX volatility index	17	0,2	0	-2	-8
Credit spread (BAA) (change in bps)	194	-10,1	-14	-15	-52
US bonds volatility index	7	0,0	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,08	-	2	2	-6
EZ Inflation expectations (5Y5Y)	1,27	-	5	0	-33
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	42	-1,8	-4	-5	-41
EZ	47	-0,2	-1	-5	-57
UK	43	0,8	0	-2	-51
Large Spanish	34	0,3	-1	-3	-53
Medium Spanish	79	-9,9	-11	-12	-34
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	194	2,6	0	-88	-20
EZ Non-financial	68	-0,4	-1	-1	-29
UK Non-financial	100	-0,1	-2	-1	-19

INTERBANK MARKETS (% , CHANGE IN BPS)

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

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3161	0,6	1,4	2,2	26
Dow Jones	28074	0,6	1,4	1,4	20
Nikkei	23425	0,1	0,5	-0,4	17
FTSE 100	7287	1,0	2,1	-1,1	8
EuroStoxx 50	3707	0,5	1,6	-0,1	23
IBEX	9480	0,9	2,6	1,9	11
DAX	13222	0,6	1,3	-0,5	25
CAC	5884	0,4	1,4	-0,6	24
MIB	23391	1,0	1,8	-1,6	28
ASE Athens	885	0,1	0,8	2,2	44
MSCI Latam *	97427	0,5	1,0	1,1	13
Ibovespa (Brazil)	112003	0,9	1,2	4,9	27
Mexbol (Mexico)	43195	0,0	2,3	0,2	4
Merval (Argentina)	34849	-0,5	-1,7	4,2	15
MSCI EM Europe *	6152	0,6	1,1	-1,9	16
Poland	2102	2,7	0,5	-6,5	-8
Micex 10 (Russia)	5207	0,6	3,4	1,0	24
Ise 100 (Turkey)	110115	2,0	1,3	5,9	21
MSCI EM Asia *	876	0,7	2,0	1,0	12
Shanghai Com (China)	2916	-0,7	0,6	0,0	17
Jakarta (Indonesia)	6139	-0,7	0,4	-0,2	-1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	160,2	2,2	3,4	4,0	38
JPM	137,6	2,6	3,4	6,6	41
Citi	77,1	2,0	3,2	2,7	48
BoA	34,4	2,2	3,9	3,9	40
MS	50,3	1,7	2,5	2,7	27
GS	225,8	2,1	4,0	2,4	35
EZ banks	83,8	2,4	3,7	1,0	22
BNP	51,7	2,5	2,8	1,5	31
Crédit Agricole	12,9	2,1	4,2	1,5	37
Deutsche Bank	6,8	2,1	5,2	-2,5	-3
ING	10,6	2,1	3,2	-1,5	13
Intesa	2,4	1,8	2,8	-1,1	21
SG	30,1	2,9	3,5	4,7	8
Unicredito	13,3	3,2	7,2	4,0	34
UK banks	76,2	1,9	2,9	0,7	5
HSBC	576,5	2,6	4,4	-2,1	-11
RBS	232,3	1,9	3,2	4,5	7
Barclays	171,9	1,9	2,8	-0,5	14
Lloyds	61,1	1,2	1,0	2,6	18
Large Spanish banks	58,1	3,4	4,2	-0,1	0
Santander	4,7	3,6	4,3	-0,3	-7
BBVA	3,9	3,3	4,2	0,1	6
Medium Spanish banks	52,7	3,9	3,6	5,4	-8
Caixabank	2,8	4,6	1,9	4,8	-12
Sabadell	1,1	4,6	5,4	6,2	8
Bankinter	6,7	3,2	3,6	5,1	-5
Bankia	1,9	4,3	4,8	7,3	-28

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,111	-0,1	0,1	1,0	-3
GBPUSD	1,313	-0,5	-0,2	2,2	3
USDJPY	109,250	-0,6	-0,4	-0,2	0
DXY	97,385	0,0	0,0	-0,9	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,82	0,0	0,3	-0,2	-37
USDBRL (Brazil)	4,10	0,5	2,2	1,6	-5
USDCOP (Chile)	769,45	0,0	1,8	1,9	-10
USDCOP (Colombia)	3370	0,2	2,62	1,16	-3
USDMXN (Mexico)	19,08	0,2	1,5	1,2	3
USDPEN (Peru)	3,39	0,1	-0,3	-0,2	-1
LACI	50,64	0,2	1,6	1,1	-7
USDPLN (Poland)	3,86	-0,2	-0,2	0,8	-3
USDRUB (Russia)	62,82	0,8	1,4	2,3	10
USDTRY (Turkey)	5,78	0,4	-0,5	0,0	-8
USDCNY (China)	7,00	0,5	0,6	0,0	-2
USDINR (India)	70,84	0,0	0,6	0,9	-2
USDIDR (Indonesia)	14033	0,0	0,2	0,1	3
ADXY	104,39	0,4	0,6	0,2	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64,4	1,0	1,6	4	20
WTx	59	0,9	1,5	4	31
Copper	278	0,1	5,1	5	6
Gold	1467	-0,6	-0,6	1	14
S&P Spot commodity *	420	-0,7	0,1	1	12
S&P Brent Spot *	536	-1,3	-0,6	3	17
S&P Metals Spot *	320	0,9	2,7	-1	0
S&P Agricultural *	288	-0,7	0,6	0	1

Source: Bloomberg, Datastream and Haver

* With one day delay