

Market Comment

'Two-good' to be true developments on trade and Brexit

- Financial markets were volatile this week amid confusing trade news, general elections in the UK and central bank meetings. Early optimism, underpinned by the progress on resolving two key overhangs (the US-China trade conflict and Brexit), faded at the end of the week.
- The US President and Chinese officials said a limited phase-one trade deal has been reached. The US President confirmed that tariffs put on in September at 15% on \$110bn goods rolled back to 7.5%, while December 15 tariffs were canceled. **Nonetheless, 25% tariff rate on about \$225bn of Chinese goods remains in place.** Investors will wait and watch for more details, and mainly whether the two sides are on the same page as the Chinese side seems to have adopted a more conservative approach.
- Regarding monetary policy, both the Fed (see) and the ECB (see) left their benchmark interest rates unchanged, as was widely expected, but both signaled that monetary policy will remain accommodative.
- US domestic conditions remain solid, with November's inflation data further supporting the Fed's pause. Nov headline CPI rose more than expected to 2.1% y/y from 1.8% y/y (Cons: 2% y/y), driven by energy prices, while core inflation was unchanged at 2.3% y/y, as expected. In the Eurozone, improving confidence surveys still to be reflected in hard data. Industrial production in the Eurozone fell again in October (-0.5% MoM from -0.2%), in line with expectations, mainly dragged by the sharp fall in Germany (-1.6%) that contrasts with increasing output in France (+0.5%). German ZEW economic sentiment rose sharply in December (10.7 from -2.1; Con: 0.3), suggesting a better performance of both exports and private consumption in coming months.
- The 10Y US and Germany bond yields ended unchanged this week, although they fluctuated abruptly. Sovereign yields had been on a swing during most of the week, inching down after the Fed and the ECB meetings, but jumping (US +10bps, Germany +6bps, UK +8 bps) after Trump hinted at an eventual interim deal with China. Moreover, German yields extended (by an additional +2bps) their increase after the UK elections results. Risk premia narrowed across peripheral bonds (Spain -9bps, Italy -8bps, Portugal -7bps) and in most EM countries.
- In FX markets, safe haven currencies were sold. The depreciation in the USD was mainly led by the UK election results, which cleared the Brexit uncertainty, reducing the need to hedge the GBP. Conservatives secured an ample majority government and will allow Johnson to deliver Brexit on January 31. As a result, the GBP appreciated sharply (2%) after the elections. Elsewhere, the RMB appreciated, breaking down the USDCNY 7 threshold, while the EM appreciated across the board, with the exception of the TRY, which remained steady, after the CBRT cut interest rates more than expected.
- Equity markets increased across the board (S&P +0.7%, Eurostoxx +1.2% MSCI Latam +1.5%), led by cyclical sectors, including banks (Eurozone banks +2.9%).

UPDATE 16:45 CET 13 DECEMBER 2019

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,60	-5,5	-1,1	-3	-88
US	1,83	-5,9	-0,3	-5	-85
GER (2-yr)	-0,62	0,7	0,7	1	-1
Germany	-0,28	-1,2	0,5	2	-52
France	0,01	-2,6	-2,2	0	-70
Spain	0,42	-2,9	-7,2	-3	-100
Italy	1,28	4,3	-7,5	3	-147
Portugal	0,38	-2,5	-4,6	1	-135
Greece	1,36	0,2	-15,3	-5	-304
Japan (2-yr)	-0,13	-0,1	0,8	6	1
Japan	-0,02	-0,6	-1,2	2	-2
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,76	-4,6	-2,0	2	-248
Chile	2,95	-6,7	-29,9	-14	-130
Colombia	6,24	-0,4	-24,8	-11	-51
Mexico	6,81	-6,7	-17,4	-18	-183
Peru	3,60	-0,8	-10,8	-40	-176
Poland	2,02	-2,4	1,6	-7	-81
Russia	6,54	0,7	-1,4	-16	-224
Turkey	12,00	-15,0	-4,0	-10	-380
India	6,79	1,5	12,4	26	-58
Indonesia	7,23	2,0	12,2	17	-79

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	29	-1,4	-2,7	-2	-18
Italy	156	5,5	-8,0	1	-94
Portugal	66	-1,3	-5,1	-1	-82
Spain	70	-1,7	-7,7	-5	-47
2-yr sovereign spread vs Germany					
France	2	-1,7	-2,7	-2	-14
Italy	54	-3,2	-16,1	-2	-55
Portugal	7	-2,1	-1,2	-9	-19
Spain	23	-0,7	-1,7	-2	-14
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	101	-7,3	-19	-19	-106
Chile	44	-2,7	-9	-4	-19
Colombia	73	-1,6	-11	-6	-85
Argentina	6047	-658,7	-2613	-2200	5241
Mexico	75	-1,5	-10	-14	-80
Peru	46	-2,1	-7	-6	-48
Poland	60	0,0	-2	-6	-8
Russia	55	-5,0	-12	-17	-99
Turkey	294	-10,1	-16	-17	-66
China	37	-1,4	-3	0	-31
India	70	0,0	0	2	-43
Indonesia	71	-0,8	-3	-1	-67

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	-0,5	0	0	-12
VSTOXX	62	0,0	-2	-4	-5
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,2	0	0	-3
EM FX volatility index	17	0,0	1	-2	-7
Credit spread (BAA) (change in bps)	200	5,9	-8	-11	-46
US bonds volatility index	7	-0,1	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,07	-	0	5	-6
EZ Inflation expectations (5Y5Y)	1,29	-	6	4	-32
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	41	-0,7	-4	-5	-42
EZ	45	-1,6	-2	-6	-59
UK	42	-0,9	-1	-2	-52
Large Spanish	33	-1,1	-1	-4	-55
Medium Spanish	79	0,2	-9	-9	-34
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	189	-4,5	-4	-25	-24
EZ Non-financial	68	-0,2	-1	-1	-29
UK Non-financial	99	-0,2	-1	-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	-1	-1	0	-9
Euribor 12m	-0,26	0	1	0	-15
Libor 3m	-0,46	0	0	-1	-10
Libor 12m	1,89	0	0	-2	-90

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3168	0,0	0,7	2,4	26
Dow Jones	28087	-0,2	0,3	1,1	20
Nikkei	24023	2,6	2,9	3,0	20
FTSE 100	7375	1,4	1,9	0,3	10
EuroStoxx 50	3736	0,8	1,2	1,0	24
IBEX	9579	1,2	2,1	4,2	12
DAX	13301	0,6	1,0	0,5	26
CAC	5928	0,7	1,0	0,4	25
MIB	23340	-0,2	0,7	-1,0	27
ASE Athens	891	0,7	2,0	2,3	45
MSCI Latam *	98303	0,9	1,5	3,4	14
Ibovespa (Brazil)	112306	0,1	1,1	5,9	28
Mexbol (Mexico)	44048	2,0	5,0	2,2	6
Merval (Argentina)	36348	2,4	-0,6	12,4	20
MSCI EM Europe *	6239	1,4	2,4	-0,2	18
Poland	2104	0,1	1,5	-5,9	-8
Micex 10 (Russia)	5241	0,7	2,4	2,3	25
Ise 100 (Turkey)	110477	0,3	1,5	5,4	21
MSCI EM Asia *	884	0,9	2,2	1,3	13
Shanghai Com (China)	2968	1,8	1,9	2,1	19
Jakarta (Indonesia)	6197	0,3	0,7	0,3	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	160,2	-0,4	1,6	5,0	38
JPM	137,1	-0,7	1,5	6,7	40
Citi	76,8	-0,4	1,3	3,9	47
BoA	34,6	-0,3	2,7	5,4	40
MS	50,6	-0,1	1,7	4,6	28
GS	225,5	-0,3	0,4	2,8	35
EZ banks	84,2	0,5	2,9	3,5	22
BNP	52,4	1,4	2,8	4,4	33
Crédit Agricole	13,1	1,0	3,9	4,6	38
Deutsche Bank	6,8	-0,2	3,7	1,7	-3
ING	10,7	0,9	3,0	1,7	14
Intesa	2,3	-1,1	0,5	-0,8	20
SG	30,4	1,1	3,7	8,1	9
Unicredito	13,1	-0,9	3,1	5,4	33
UK banks	80,0	5,0	6,4	6,8	10
HSBC	577,2	0,1	2,7	0,5	-11
RBS	252,5	8,7	10,7	13,6	17
Barclays	184,2	7,2	10,7	7,8	22
Lloyds	64,8	5,9	5,3	8,7	25
Large Spanish banks	58,8	1,1	4,0	4,5	1
Santander	3,7	1,2	4,1	4,5	-6
BBVA	5,0	1,0	3,9	4,5	7
Medium Spanish banks	52,8	0,2	2,8	8,9	-8
Caixabank	2,8	0,1	1,1	7,3	-12
Sabadell	1,1	0,6	5,5	10,1	9
Bankinter	6,7	-0,1	2,1	9,1	-5
Bankia	1,9	0,7	4,4	11,9	-27

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,114	0,0	0,7	1,2	-3
GBPUSD	1,334	1,4	1,5	3,8	5
USDJPY	109,300	0,0	-0,7	-0,4	0
DXY	97,128	-0,3	-0,6	-1,3	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,82	0,0	0,2	-0,2	-37
USDBRL (Brazil)	4,11	-0,4	0,8	1,7	-5
USDCOP (Chile)	764,30	-0,7	1,8	4,0	-9
USDCOLP (Colombia)	3379	0,2	1,31	1,48	-4
USDMXN (Mexico)	19,06	0,0	1,3	1,6	3
USDPEN (Peru)	3,37	0,3	0,3	0,6	0
LACI	50,68	-0,1	1,0	1,7	-7
LADPLN (Poland)	3,84	0,4	0,8	1,7	-3
USDRUB (Russia)	62,90	-0,2	1,2	2,3	10
USDTRY (Turkey)	5,83	-0,6	-0,8	-1,5	-9
USDCNY (China)	6,99	0,3	0,7	0,5	-2
USDINR (India)	70,82	0,0	0,6	1,8	-1
USDIDR (Indonesia)	13990	0,3	0,3	0,6	3
ADXY	104,30	-0,4	0,4	0,3	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	64,8	0,9	0,6	4	20
WTx	60	0,8	0,8	4	31
Copper	278	-0,4	2,5	5	6
Gold	1473	0,2	0,9	1	15
S&P Spot commodity *	424	0,8	0,2	1	13
S&P Brent Spot *	539	0,4	-1,4	3	18
S&P Metals Spot *	322	0,7	2,2	1	1
S&P Agricultural *	292	1,5	1,7	2	3

Source: Bloomberg, Datastream and Haver

* With one day delay