

Market Comment

Phase one deal done, but the devil will lie in the details

- A **vigilant optimism** prevailed in financial markets as **investors await more details on the phase-one trade deal** reached between the US and China, especially clues as to the enforcement mechanism and agricultural purchases.
- On the trade front, **US tariffs on \$160bn of Chinese products scheduled for yesterday did not go into effect** due to the phase-one agreement. US Trade Representative, Lighthizer, noted that the phase one deal implies doubling US exports to China and increasing Chinese purchases of US agricultural goods to \$50bn over the next two years. However, a date for senior US and Chinese officials to formally sign the agreement is still being determined. Separately, **China's threat of retaliation against Germany** if it excludes Huawei as a supplier of 5G wireless equipment shows tensions remain high elsewhere with carmakers as a potential target, while doubts on the USMCA deal surged over US labour inspectors.
- **While the economic outlook for Europe seems to be under pressure, Chinese November activity data surprised positively** with industrial output and retail sales both exceeding expectations. China's industrial production grew at the fastest pace in 5 months to 6.2% y/y from 4.7% y/y (Cons: 5% y/y), while retail sales rose by 8% y/y in November (Cons: 7.6% y/y; Previous: 7.2% y/y). On the other hand, the Eurozone showed subdued growth as December's Flash Eurozone PMI Composite disappointed by remaining unchanged at 50.6 (Cons: 50.7), dragged down by a 5-year low for employment growth. The **manufacturing contraction in the euro area deepened unexpectedly** (45.9; Cons: 47.3; Previous: 46.9), while the **service sector remains resilient** (52.4; Cons: 52; Previous: 51.9). Elsewhere, UK factories also contracted further in December to 47.4 from 48.9 (Cons: 49.2), the weakest performance in more than 7 years, whereas US manufacturing activity grew at a slower pace than expected (52.5; Cons: 52.6; Previous 52.6).
- **The yield on the 10Y UST bond rose** to 1.88%, below the 1.94% reached on Friday intraday, as investors wait for more details about the phase-one trade deal. Meanwhile, **European bond yields were relatively steady**, limited by the ongoing deterioration in the Eurozone's manufacturing. Italy's risk premium widened slightly as Italy's general government debt rose in October by €7.52bn. As regards monetary policy, **investors postponed an additional Fed rate cut** from mid 2020 to December as US-China trade tensions cooled.
- **G10 currencies showed minor changes. The USD continued to weaken**, underpinned by investors' cautious risk appetite as US-China trade frictions eased and the expansion of the Fed balance sheet, while the **SEK outperformed** its G10 peers ahead of the Riksbank meeting on Thursday where a 25bp hike to 0% is widely expected. Despite the weak activity data, **the euro strengthened** with the Bundesbank President's statements on measures to bolster economic conditions, although he said a fiscal stimulus package is not needed (see). The pound erased early gains driven by a further contraction in the UK manufacturing sector. Moreover, **EM currencies gained in general** (FXJPEMCS index +0.2%), except for the TRY and the CNY, supported by the USD softness.
- European stocks rallied with the **FTSE 100 index climbing sharply as Brexit is likely to happen by the end of January**. The S&P 500 index followed its record-high trend, while the VIX index continued to retreat, hovering around 12.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,64	3,3	2,3	5	-85
US	1,88	5,6	5,9	6	-81
GER (2-yr)	-0,63	-0,7	1,2	2	-2
Germany	-0,27	1,5	3,3	8	-52
France	0,02	1,6	1,1	4	-69
Spain	0,42	0,8	-3,3	-4	-100
Italy	1,30	3,7	2,0	-3	-145
Portugal	0,38	1,1	-1,0	0	-134
Greece	1,35	-1,3	-4,9	-12	-305
Japan (2-yr)	-0,12	0,3	0,0	7	2
Japan	-0,01	0,7	-0,9	6	-1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	6,86	7,0	6,1	15	-238
Chile	2,83	-8,5	-37,0	-67	-142
Colombia	6,24	0,0	-24,8	-8	-51
Mexico	6,81	-1,3	-8,6	-16	-183
Peru	3,57	-0,8	-8,2	-36	-179
Poland	2,01	-0,3	3,7	-5	-81
Russia	6,52	-2,1	-3,8	-11	-226
Turkey	12,15	15,0	-9,0	1	-365
India	6,80	1,4	13,5	28	-57
Indonesia	7,28	4,7	15,3	21	-75

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	0,1	-2,2	-3	-17
Italy	157	2,2	-1,3	-11	-93
Portugal	66	-0,4	-4,3	-8	-82
Spain	70	-0,7	-6,6	-11	-48
2-yr sovereign spread vs Germany					
France	2	-0,8	-3,1	-2	-14
Italy	56	3,4	-9,2	-6	-52
Portugal	8	0,1	-1,1	-11	-18
Spain	23	0,3	-2,1	-3	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	100	-1,4	-16	-21	-107
Chile	43	-0,9	-8	-5	-20
Colombia	73	-0,8	-9	-10	-86
Argentina	6123	76,7	-1962	-2051	5317
Mexico	77	2,2	-5	-14	-77
Peru	45	-1,1	-6	-8	-49
Poland	58	-1,8	-2	-7	-9
Russia	54	-0,7	-12	-19	-100
Turkey	291	-3,3	-15	-24	-69
China	35	-1,4	-2	-5	-32
India	71	0,2	0	2	-43
Indonesia	69	-1,7	-3	-5	-68

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	12	-0,9	-4	-1	-14
VSTOXX	56	0,0	-11	-8	-10
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	0,0	0	0	-3
EM FX volatility index	16	-1,8	-2	-3	-9
Credit spread (BAA) (change in bps)	196	-5,6	-10	-17	-49
US bonds volatility index	7	0,0	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,09	-	4	8	-5
EZ Inflation expectations (5Y5Y)	1,29	-	5	6	-32
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	40	-1,0	-3	-7	-43
EZ	44	-1,2	-3	-9	-60
UK	41	-1,8	-2	-6	-54
Large Spanish	32	-0,9	-2	-7	-55
Medium Spanish	78	-0,3	-9	-11	-34
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	185	-4,5	-8	-44	-29
EZ Non-financial	66	-1,4	-2	-4	-31
UK Non-financial	97	-2,7	-3	-4	-22

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	-0,26	0	2	0	-15
Libor 3m	-0,46	0	0	-1	-10
Libor 12m	1,90	0	0	-2	-90

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3195	0,8	1,9	3,2	27
Dow Jones	28308	0,6	1,4	1,9	21
Nikkei	23952	-0,3	2,2	3,5	20
FTSE 100	7545	2,6	4,3	3,5	12
EuroStoxx 50	3774	1,1	2,8	2,3	26
IBEX	9685	1,3	3,5	5,6	13
DAX	13408	0,9	2,3	1,7	27
CAC	5995	1,3	2,7	1,6	27
MB	23516	0,8	2,4	0,1	28
ASE Athens	881	-1,2	2,0	-1,0	44
MSCI Latam *	99112	0,8	2,2	4,9	15
Ibovespa (Brazil)	113170	0,5	2,0	6,2	29
Mexbol (Mexico)	44344	0,2	5,7	2,7	6
Merval (Argentina)	37436	1,8	2,8	20,7	24
MSCI EM Europe *	6273	0,6	2,3	0,9	19
Poland	2113	0,3	2,2	-5,1	-7
Micex 10 (Russia)	5252	0,2	1,8	2,7	25
Ise 100 (Turkey)	111126	0,6	2,2	7,1	22
MSCI EM Asia *	897	1,5	3,2	3,8	15
Shanghai Com (China)	2984	0,6	2,4	2,6	20
Jakarta (Indonesia)	6212	1,2	0,4	1,1	0
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks					
JPM	161,8	1,4	3,2	6,0	40
Citi	138,3	1,1	2,9	7,5	42
BoA	77,2	1,0	2,4	4,5	48
MS	35,0	1,7	4,5	7,1	42
GS	50,9	1,4	2,7	4,8	28
229,2	1,9	3,3	4,5	37	
EZ banks					
BNP	85,2	1,5	4,1	5,0	24
Crédit Agricole	53,1	1,9	4,5	5,4	34
Deutsche Bank	13,2	0,8	4,4	4,9	40
ING	7,0	3,4	6,3	6,1	0
Intesa	10,8	1,4	3,5	3,6	15
SG	2,3	0,8	2,2	0,9	21
Unicredito	30,9	1,9	5,3	9,4	11
13,3	1,8	4,5	7,6	35	
UK banks					
HSBC	82,8	4,1	9,4	11,5	14
RBS	587,0	2,2	4,7	2,9	-9
Barclays	263,0	4,4	14,3	18,8	21
Lloyds	192,4	5,4	12,1	13,1	28
67,6	5,0	8,7	15,1	30	
Large Spanish banks					
Santander	59,8	2,3	6,2	6,9	2
BBVA	3,8	2,4	5,9	7,1	-4
5,1	2,2	6,4	6,8	9	
Medium Spanish banks					
Caixabank	53,0	1,0	3,6	10,3	-8
Sabadell	2,8	1,4	2,6	7,8	-12
1,1	0,4	4,6	11,5	9	
Bankinter	6,7	0,8	3,2	10,9	-4
Bankia	1,9	1,9	5,6	14,0	-26

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,114	0,2	0,7	1,1	-3
GBPUSD	1,334	0,1	1,5	3,5	5
USDJPY	109,640	-0,2	-1,0	-1,1	0
DXY	97,087	-0,1	-0,6	-1,1	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,82	0,0	0,2	-0,2	-37
USDBRL (Brazil)	4,07	1,0	1,7	3,0	-5
USDCOP (Chile)	761,71	0,3	1,8	5,4	-9
USDCOLP (Colombia)	3356	0,9	1,86	2,92	-3
USDMXN (Mexico)	18,97	0,4	1,4	1,8	4
USDPEN (Peru)	3,35	0,4	0,6	1,0	0
LACI	50,96	0,6	1,4	2,4	-6
USDPLN (Poland)	3,82	0,4	1,4	1,7	-2
USDRUB (Russia)	62,47	0,6	1,7	2,4	11
USDTRY (Turkey)	5,85	-0,8	-0,7	-1,8	-10
USDCNY (China)	6,99	-0,1	0,6	0,4	-2
USDINR (India)	71,01	-0,3	0,1	1,4	-2
USDIDR (Indonesia)	14010	-0,1	0,0	0,6	3
ADXY	104,56	0,1	0,7	0,4	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	65,4	0,3	1,9	5	22
WTX	60	0,2	1,9	6	33
Copper	281	1,2	2,4	7	7
Gold	1475	-0,1	0,9	0	15
S&P Spot commodity *	428	1,0	1,5	3	14
S&P Brent Spot *	547	1,5	0,6	5	19
S&P Metals Spot *	321	-0,4	1,4	1	0
S&P Agricultural *	293	0,3	1,8	2	3

Source: Bloomberg, Datastream and Haver

* With one day delay