

Market Comment

The Riksbank ended its negative-rate policy

- Despite the trade optimism, markets remained **cautious** amid Brexit developments and weak US data.
- On the trade front, China unveiled a **new list of tariff exemptions** for US imports on some US chemical products. China's commerce ministry said both the Chinese and US trade teams are in close communication, while US Treasury said that the **phase-one trade deal would be signed in early January**. Separately, the USMCA trade deal is set for a US House vote today after the US President became the third president in the US to be impeached ([see](#)). The latter had a mute impact on financial markets.
- The new EU's economy commissioner, Gentiloni, said the actual **budget framework** is not well adapted to the low growth and low inflation environment in the region and called for a more coordinated fiscal policy in the euro area. In this context, the EC plans to publish a review of its fiscal framework earlier the next year.
- The UK Prime Minister's **new Withdrawal Agreement Bill** has been published, which includes the ban on extending the implementation period aimed at pressing on with his commitment to quit the bloc on January 31. Politicians will hold their first vote on the Withdrawal Agreement Bill tomorrow. Meanwhile, EU officials warned that the deadline will limit the scope of trade talks.
- Busy week for central banks. **The Riksbank ended its negative-rate policy** by hiking its key interest rate by 25bp to 0% as expected (0.0%; Cons: 0.0%; Previous: -0.25%). The rate is expected to remain at 0% in the coming years, but the Riksbank said it would both cut the repo rate and take other measures to make monetary policy more expansionary if needed ([see](#)). On the other hand, **Banxico** is expected to cut its overnight rate by 25bps to 7.25% later today. Elsewhere, as expected, the **Norges Bank, BoE and BoJ kept their benchmark interest rates unchanged** at 1.5% ([see](#)), 0.75% and -0.1% respectively.
- On the data front, US Philadelphia Fed Business outlook index dropped more than expected in December (0.3; Cons: 8.0; Previous: 10.4), alongside new home sales. On the other hand, UK retail sales unexpectedly fell in November (-0.6% MoM; Cons: 0.2% MoM; Previous: 0.0% MoM).
- European yields inched up**, supported by the Riksbank's decision to end the negative rates experiment. The 10Y Italian bond yield outperformed its peers (excluding Greece), led by prospects of a referendum on cutting parliamentary seats in Italy, renewing the political risk of an early election. The yield on the 10Y Italian bond reached levels of the 10Y Greek bond, despite the fact that the latter jumped sharply by 10bp.
- FX markets showed minor changes** with the pound remaining under pressure on Brexit concerns. Both the krona and euro were unimpressed today with the recent move of the Riksbank. **The DXY index halted this week's appreciation trend** amid worse-than-expected data, but other safe-haven currencies gained.
- US stock markets followed its upward trend, while European equities fluctuated** in a narrow range.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,61	-1,4	-4,4	2	-87
US	1,91	-0,9	1,6	13	-78
GER (2-yr)	-0,63	0,7	-0,1	1	-2
Germany	-0,24	1,4	3,4	10	-48
France	0,07	1,2	2,7	9	-65
Spain	0,45	1,8	-0,2	2	-97
Italy	1,38	4,3	14,8	14	-136
Portugal	0,41	1,8	0,9	4	-131
Greece	1,39	10,0	3,8	-5	-300
Japan (2-yr)	-0,11	1,2	2,1	10	4
Japan	0,00	1,5	1,5	8	0
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,01	3,7	20,7	20	-223
Chile	2,77	1,3	-24,8	-6	-148
Colombia	6,24	0,0	-0,4	-10	-51
Mexico	6,79	-0,7	-8,5	-18	-185
Peru	3,57	0,0	-4,1	-21	-180
Poland	2,08	4,4	4,1	-2	-74
Russia	6,55	2,4	1,3	-1	-223
Turkey	12,35	3,0	20,0	48	-345
India	6,75	4,3	-2,2	28	-62
Indonesia	7,24	-6,5	2,6	21	-79

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	-0,2	-0,7	-1	-17
Italy	162	2,9	11,4	3	-88
Portugal	65	0,4	-2,5	-7	-83
Spain	68	0,4	-3,6	-9	-49
2-yr sovereign spread vs Germany					
France	2	-0,4	-1,2	-1	-13
Italy	57	0,4	0,5	-11	-51
Portugal	9	-0,4	-0,6	-9	-18
Spain	24	-1,0	0,1	-3	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	99	2,2	-10	-26	-108
Chile	41	0,8	-5	-9	-22
Colombia	71	0,6	-4	-14	-87
Argentina	5360	-487,9	-1345	-2953	4554
Mexico	78	1,0	1	-16	-77
Peru	42	-0,7	-7	-13	-53
Poland	60	1,2	0	-5	-8
Russia	56	3,1	-4	-14	-98
Turkey	284	2,2	-20	-16	-76
China	32	-1,1	-6	-6	-36
India	68	-0,5	-2	-3	-45
Indonesia	64	-1,8	-8	-9	-74

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	13	0,1	-1	0	-13
VSTOXX	53	0,0	-8	-9	-13
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,2	-1	-1	-3
EM FX volatility index	15	-0,4	-2	-2	-10
Credit spread (BAA) (change in bps)	199	0,9	-4	-15	-46
US bonds volatility index	6	0,0	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,09	-	1	5	-4
EZ Inflation expectations (5Y5Y)	1,32	-	4	9	-29
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	41	0,2	-1	-6	-41
EZ	44	0,3	-3	-9	-60
UK	41	0,7	-2	-6	-53
Large Spanish	32	0,3	-2	-7	-55
Medium Spanish	77	-0,9	-2	-12	-36
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	185	-2,6	-9	-47	-29
EZ Non-financial	65	-0,4	-3	-5	-32
UK Non-financial	96	0,0	-3	-4	-22

INTERBANK MARKETS (% , CHANGE IN BPS)

	level	Daily	Weekly	Monthly	YTD
ESTR Index	-0,54	0	0	0	n.a.
Euribor 3m	-0,40	1	0	1	-9
Euribor 12m	-0,26	1	0	1	-15
Libor 3m	-0,46	0	1	1	-10
Libor 12m	1,91	0	2	0	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3201	0,3	1,0	2,6	28
Dow Jones	28351	0,4	0,8	1,5	22
Nikkei	23865	-0,3	1,9	2,5	19
FTSE 100	7574	0,4	4,1	3,4	13
EuroStoxx 50	3739	0,0	0,9	1,2	25
IBEX	9617	0,0	1,6	3,9	13
DAX	13212	-0,1	-0,1	-0,1	25
CAC	5972	0,2	1,5	1,1	26
MIB	23709	0,3	1,4	1,6	29
ASE Athens	903	-0,3	2,0	1,1	47
MSCI Latam *	100396	1,3	3,0	5,5	16
Ibovespa (Brazil)	114635	0,3	2,2	8,3	30
Mexbol (Mexico)	44762	-0,8	3,6	2,7	7
Merval (Argentina)	38330	1,9	8,0	18,8	27
MSCI EM Europe *	6326	0,4	2,8	2,1	20
Poland	2134	0,1	1,5	-3,3	-6
Micex 10 (Russia)	5284	0,0	1,5	3,6	26
Ise 100 (Turkey)	110599	0,0	0,4	2,9	21
MSCI EM Asia *	913	0,4	4,2	4,9	17
Shanghai Com (China)	3017	0,0	3,5	2,8	21
Jakarta (Indonesia)	6250	0,1	1,1	2,1	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	162,4	0,2	1,0	5,2	40
JPM	137,8	-0,2	-0,1	5,5	41
Citi	78,4	0,6	1,8	4,8	51
BoA	35,2	0,2	1,4	6,8	43
MS	50,8	0,2	0,2	2,9	28
GS	231,1	0,3	2,2	5,0	38
EZ banks	85,8	0,3	2,5	5,3	25
BNP	53,5	0,5	3,6	5,4	36
Crédit Agricole	13,2	-0,1	1,7	4,7	39
Deutsche Bank	7,1	1,4	5,0	8,1	2
ING	10,9	-0,7	2,3	3,4	16
Intesa	2,4	0,6	1,2	1,4	23
SG	31,1	0,5	3,2	9,5	12
Unicredito	13,5	1,5	1,7	9,0	36
UK banks	80,2	0,0	5,3	6,9	10
HSBC	600,0	0,2	4,1	3,3	-7
RBS	247,4	-0,5	6,5	11,1	14
Barclays	183,4	-0,9	6,7	7,6	22
Lloyds	63,9	0,9	4,6	7,5	23
Large Spanish banks	60,4	0,6	3,9	7,6	3
Santander	3,8	0,0	2,9	6,8	-4
BBVA	5,2	1,2	4,7	8,2	11
Medium Spanish banks	53,6	1,4	1,7	9,1	-7
Caixabank	2,9	1,5	3,1	7,4	-10
Sabadell	1,1	1,6	1,8	11,5	10
Bankinter	6,7	0,5	0,0	8,5	-5
Bankia	1,9	3,2	4,2	12,2	-24

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,113	0,1	0,0	0,5	-3
GBPUSD	1,304	-0,3	-0,9	0,9	2
USDJPY	109,240	0,3	0,1	-0,6	0
DXY	97,373	0,0	0,0	-0,5	1
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,82	0,0	0,0	-0,2	-37
USDBRL (Brazil)	4,06	0,2	0,8	3,4	-4
USDCOP (Chile)	753,34	-0,1	2,1	4,5	-8
USDCOP (Colombia)	3318	0,2	1,65	3,63	-2
USDMXN (Mexico)	18,94	0,1	0,6	2,1	4
USDPEN (Peru)	3,33	0,1	1,3	1,3	1
LACI	51,14	0,1	0,8	2,7	-6
USDPLN (Poland)	3,83	0,3	0,6	1,1	-2
USD RUB (Russia)	62,31	0,6	0,7	2,5	11
USDTRY (Turkey)	5,94	-0,3	-2,5	-4,1	-11
USDCNY (China)	7,01	-0,1	-0,1	0,2	-2
USDINR (India)	71,04	-0,1	-0,3	1,0	-2
USDIDR (Indonesia)	13985	0,0	0,3	0,8	3
ADXY	104,48	0,0	-0,2	0,3	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	66,7	0,7	3,8	9	24
WTx	61	0,8	3,8	11	35
Copper	282	0,2	1,2	6	7
Gold	1478	0,2	0,6	0	15
S&P Spot commodity *	433	-0,2	2,2	6	16
S&P Brent Spot *	555	0,1	3,1	9	21
S&P Metals Spot *	322	0,2	0,1	2	1
S&P Agricultural *	298	-0,5	2,0	5	5

Source: Bloomberg, Datastream and Haver

* With one day delay