

Markets go Ho-Ho-Ho on trade deal

- Markets risk-on mood surged this week after the confirmation of a US-China phase one trade deal, boosting demand for riskier assets:** equities, commodities and corporate bonds, at the cost of safe-haven bonds. Moreover, decreasing trade angst boosted EM assets. Nonetheless, uncertainty resurfaced in the markets at times as the UK Prime Minister downplayed expectations of any extension of the Brexit transition period beyond end-2020, in turn refueling hard Brexit fears.
- The US Treasury Secretary Mnuchin noted that the US and China would sign their phase one trade pact at the beginning of January.** He confirmed that the deal was completely finished and was just undergoing a technical "scrub", but warned that it would not be subject to any renegotiation. However, the US will maintain 25% tariffs on approximately \$250 billion of Chinese imports (see). The US expects China to increase purchases of U.S. products and services by at least \$200 billion over the next two years. In addition, China, this week, unveiled a new list of tariff exemptions for US imports, mostly chemical products, and said it would refrain from implementing tariffs on US vehicles and auto parts.
- Boris Johnson's government agenda shatters expectations of a soft Brexit** and focuses on improving public services and constitutional reform. The withdrawal bill has been modified to rule out an extension to the transitional period (Dec'20), to strip out the alignment with EU laws and the checks- and-balances of parliament on a future relationship with the EU. The second phase of negotiations will start in March.
- On the data front, **the US showed some signs of stabilization** this week: November's industrial production rose more than expected by 1.1% m/m (Cons: 0.9% m/m; Previous: -0.9% m/m). Meanwhile, Dec PMIs indicated that US business activity, order books and jobs growth accelerated to five-month highs. Services PMI was better-than-expected (52.2; Cons: 52; Previous: 51.6), but manufacturing PMIs marginally fell (52.5; Cons: 52.6; Previous 52.6). Elsewhere, December's confidence surveys were mixed in the **Eurozone**, still suggesting weak momentum in 4Q19. Eurozone flash **PMIs were somewhat disappointing** (Composite: 50.6; Cons: 50.7), as the resilience of services sentiment (52.4 from 51.9; Cons: 52) continues to contrast with a further decline in the manufacturing expectations (45.9 from 46.9; Cons: 47.3). Across countries, the decline in manufacturing PMI was steeper in Germany, but contrasts with further improvement of Ifo business expectations that point to tentative signs of recovery. On the other hand, **China's November activity indicators improved** as its industrial production growth increased significantly.
- Regarding monetary policies, **in Sweden, the central bank ended its negative interest policy** by lifting its key rate from -0.25% to zero as expected (it had already been announced at the previous meeting). This move was more related to concerns about side effects than outlook improvement, while the central bank said interest rates will be on hold in coming years. The decision had no major impact on the currency. Moreover, **the PBoC left its benchmark Loan Prime Rates** (one-year and five-year) **unchanged** at 4.15% and 4.8%, against market expectations of a 5 bps cut. Earlier in the week, the central bank had cut the 14 day reverse repo rate to 2.65% from 2.7% to prop up banking sector liquidity.
- US yields jumped** (10Y +10 bps), so did German bund yields (10Y +5 bps). **Peripheral risk premia were broadly steady** (Spain at 69 bps, Portugal at 66 bps) **except in Italy**, where it widened significantly (+11 bps to 166 bps) due to renewed concerns over early elections (see).
- In **FX markets**, G-10 FX were broadly steady; despite the risk-on mood, investors did not sell the JPY. However, renewed concerns about a hard Brexit **dragged the GBP** (-2.1%), completely reversing last week's appreciation post-UK election results. Meanwhile, EM FX appreciated across the board, except the TRY, which lost ground on idiosyncratic factors.
- Gains in equity markets**, especially across EMs, with the banking sector outperforming in Europe.

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

Developed Markets	level	Daily	Week	Month	YTD
US (2-yr)	1,63	0,5	2,8	6	-86
US	1,92	0,4	10,2	18	-76
GER (2-yr)	-0,63	0,4	-0,7	2	-2
Germany	-0,24	-0,6	4,8	11	-48
France	0,06	-0,4	5,6	10	-65
Spain	0,45	0,0	3,5	2	-97
Italy	1,41	3,1	15,5	21	-133
Portugal	0,42	0,8	4,7	3	-130
Greece	1,43	3,3	7,3	3	-297
Japan (2-yr)	-0,10	0,9	3,1	11	5
Japan	0,01	1,1	3,2	12	1
Emerging Markets	level	Daily	Weekly	Monthly	YTD
Brazil	7,16	5,7	37,2	35	-208
Chile	2,80	0,0	-11,5	-13	-145
Colombia	6,24	0,0	0,0	-7	-51
Mexico	6,91	0,6	8,8	-13	-173
Peru	3,58	1,5	-0,2	-16	-178
Poland	2,09	0,8	7,4	3	-73
Russia	6,54	-1,1	-0,5	0	-225
Turkey	12,16	-19,0	16,0	25	-364
India	6,60	-14,6	-18,2	14	-77
Indonesia	7,17	-6,9	-6,3	11	-86

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	30	0,2	0,8	-1	-17
Italy	166	3,7	10,7	11	-85
Portugal	66	1,4	-0,1	-8	-82
Spain	69	0,6	-1,3	-8	-49
2-yr sovereign spread vs Germany					
France	2	-0,6	-0,3	-2	-13
Italy	59	1,2	6,4	-7	-49
Portugal	7	-0,4	-0,3	-10	-19
Spain	23	-0,6	0,3	-4	-13
Emerging Markets	level	Daily	Weekly	Monthly	YTD
5-yr sovereign CDS *					
Brazil	103	5,0	1	-23	-104
Chile	43	3,1	0	-9	-20
Colombia	76	4,9	2	-12	-83
Argentina	5778	298,0	-269	-2069	4971
Mexico	82	4,9	7	-12	-73
Peru	43	1,2	-3	-13	-52
Poland	59	-1,0	-1	-6	-9
Russia	58	2,0	3	-14	-96
Turkey	283	-0,8	-11	-21	-77
China	33	0,0	-4	-7	-35
India	68	-0,1	-2	-3	-45
Indonesia	64	-0,1	-7	-9	-73

RISK INDICATORS

Volatility indicators (change in pp)	level	Daily	Weekly	Monthly	YTD
VIX	12	-0,4	0	-1	-13
VSTOXX	54	0,0	-3	-12	-13
EM EFT volatility Index	2	0,0	0	0	-1
Dollar/euro volatility	4	-0,1	-1	-1	-3
EM FX volatility index	15	0,4	0	-2	-10
Credit spread (BAA) (change in bps)	198	-0,4	-4	-17	-48
US bonds volatility index	7	0,1	0	-1	-3
Inflation expectations (% change in pp)	level	Daily	Weekly	Monthly	YTD
US Inflation expectations (5Y5Y)	2,12	-	7	10	-2
EZ Inflation expectations (5Y5Y)	1,31	-	3	10	-29
Banking 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US	41	0,4	0	-6	-41
EZ	45	0,4	-1	-8	-60
UK	42	0,3	-1	-5	-53
Large Spanish	32	0,0	-1	-7	-55
Medium Spanish	77	0,1	-2	-14	-36
Corporate 5y CDS (bps) *	level	Daily	Weekly	Monthly	YTD
US Non-financial	181	-4,0	-9	-55	-33
EZ Non-financial	65	0,0	-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	-3	n.a.
Euribor 3m	-0,39	1	1	2	-8
Euribor 12m	-0,25	1	1	2	-14
Libor 3m	-0,46	0	0	0	-10
Libor 12m	1,91	0	1	1	-89

STOCK MARKETS (%)

Main indices	level	Daily	Weekly	Monthly	YTD
S&P500	3218	0,4	1,6	3,5	28
Dow Jones	28455	0,3	1,1	2,3	22
Nikkei	23817	-0,2	-0,9	2,9	19
FTSE 100	7583	0,1	3,1	4,4	13
EuroStoxx 50	3768	0,8	1,0	2,3	26
IBEX	9657	0,4	1,0	4,7	13
DAX	13296	0,6	0,1	1,0	26
CAC	6004	0,5	1,4	1,9	27
MB	23947	1,0	2,6	2,5	31
ASE Athens	895	-0,8	0,5	0,5	46
MSCI Latam *	100709	0,3	2,4	6,0	17
Ibovespa (Brazil)	114766	-0,3	2,0	8,4	31
Mexbol (Mexico)	44756	0,2	1,1	2,6	7
Merval (Argentina)	38312	0,6	4,2	14,6	26
MSCI EM Europe *	6305	-0,3	1,1	1,4	19
Poland	2127	-0,3	1,0	-3,1	-7
Micex 10 (Russia)	5311	0,5	1,3	4,0	27
Ise 100 (Turkey)	111219	0,6	0,7	4,2	22
MSCI EM Asia *	910	-0,3	2,9	3,9	16
Shanghai Com (China)	3005	-0,4	1,3	3,2	20
Jakarta (Indonesia)	6284	0,0	2,4	2,2	1
Banking sector	level	Daily	Weekly	Monthly	YTD
US banks	162,7	0,6	2,0	6,3	41
JPM	138,5	0,8	1,2	6,8	42
Citi	78,9	0,9	3,3	6,8	52
BoA	35,1	0,3	1,8	7,2	42
MS	51,0	0,4	1,6	4,0	29
GS	230,6	0,3	2,5	5,8	38
EZ banks	85,9	0,0	2,3	5,3	25
BNP	53,5	0,0	2,8	4,7	36
Crédit Agricole	13,1	-0,6	0,1	3,8	39
Deutsche Bank	7,0	-1,1	4,8	6,7	1
ING	10,9	0,1	2,0	4,7	16
Intesa	2,4	0,5	2,8	2,0	23
SG	31,3	0,6	3,2	10,4	12
Unicredito	13,5	0,0	3,1	9,2	36
UK banks	79,3	-1,2	-0,3	6,2	9
HSBC	600,1	0,0	4,4	4,1	-7
RBS	243,7	-1,5	-1,2	9,5	12
Barclays	179,8	-2,0	-3,5	6,2	19
Lloyds	62,8	-1,7	-2,4	6,3	21
Large Spanish banks	60,4	0,1	3,4	8,3	4
Santander	3,8	0,1	2,4	7,4	-4
BBVA	5,2	0,1	4,2	9,1	11
Medium Spanish banks	53,9	0,7	2,7	10,1	-6
Caixabank	2,9	0,2	4,1	8,3	-9
Sabadell	1,1	-0,5	1,4	9,9	10
Bankinter	6,8	1,9	2,2	11,0	-3
Bankia	1,9	0,1	4,2	13,5	-24

CURRENCIES (% , RED FOR CURRENCY DEPRECIATION)

Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,108	-0,4	-0,3	0,1	-3
GBPUSD	1,305	0,3	-2,1	1,0	2
USDJPY	109,360	0,0	0,0	-0,7	0
DXY	97,626	0,3	0,5	-0,3	2
Emerging	level	Daily	Weekly	Monthly	YTD
USDARS (Argentina)	59,82	0,0	0,0	-0,2	-37
USDBRL (Brazil)	4,09	-0,5	0,5	2,7	-5
USDCPL (Chile)	748,61	0,6	2,0	6,2	-7
USDCOP (Colombia)	3323	-0,3	1,91	3,61	-2
USDMXN (Mexico)	18,92	0,0	0,7	2,9	4
USDPEN (Peru)	3,32	0,3	1,3	1,8	1
LACI	51,09	-0,1	0,8	2,9	-6
USDPLN (Poland)	3,84	-0,3	-0,1	0,9	-3
USD RUB (Russia)	62,25	0,2	1,0	2,5	11
USDTRY (Turkey)	5,94	0,0	-2,2	-4,0	-11
USDCNY (China)	7,01	0,0	-0,4	0,5	-2
USDINR (India)	71,12	-0,1	-0,4	1,0	-2
USDIDR (Indonesia)	13978	0,1	0,1	0,8	3
ADXY	104,52	0,0	0,0	0,4	-1

COMMODITIES (%)

	level	Daily	Weekly	Monthly	YTD
Brent	66,3	-0,4	1,6	6	23
WTx	61	-1,0	0,9	6	33
Copper	281	-0,8	1,0	6	7
Gold	1479	0,0	0,2	1	15
S&P Spot commodity *	435	0,4	1,6	5	16
S&P Brent Spot *	558	0,6	2,1	7	22
S&P Metals Spot *	326	1,0	1,5	3	2
S&P Agricultural *	297	-0,4	1,3	4	5

Source: Bloomberg, Datastream and Haver

* With one day delay