

Market Comment

The New Year starts with shy optimism

- **Financial markets began the year on a positive note**, with both equity markets and yield increasing as a result of a fresh monetary stimulus announced by China and comments from US officials suggesting that the US and China could sign phase one of the agreement on January 15. A cautious tone emerged during the session, however, with DM yields showing early increases amid low trading volumes. Economic data was slightly weaker than expected, but was not the main reason behind the decline in yields. Meanwhile, geopolitical risk (US-Iran conflict) and ongoing 2020 uncertainty factors (US elections, Trump's impeachment and US-China trade talks) might have played some role in today's cautious tone.
- **US President Donald Trump suggested that he will sign a preliminary trade deal with China on January 15**, which should pave the way for phase-two talks to commence. Nevertheless, China has not yet confirmed the signature date, and the precise terms of the phase-one deal remain unclear. Separately, the Chinese central bank has announced that it will cut the Reserve Ratio Requirement on January 6, injecting \$115 billion into the country's financial system ([see](#)).
- In December, **manufacturing confidence was revised upward in the US, but slightly downward in the UK**. Eurozone Market Manufacturing PMI increased more than expected (46.3; Cons; 45.9; Prev: 45.9) but still remained weak amid negative PMIs from intermediate and investment goods sectors. Moreover, US jobless claims declined on the week ending December 28 following an upward revision last month (222k; Cons: 220k; Prev: 224k).
- **Equity markets increased across the board**, with cyclical sectors leading the way, while equity volatility inched down.
- **Sovereign bond yields showed early increases**, ending the session declining in most DM countries (10Y UST -3.9 bps, 10Y Ger -4.0 bps) despite trade optimism. In Europe, the Italian bond continued to underperform due to political concerns. Italy's risk premium widened (+4.2 bps to 164 bps) while Spain's risk premium inched up slightly.
- **The USD index**, which reached its six-month low this Tuesday, **appreciated marginally and the JPY recovered from early losses**. Nonetheless, **European currencies depreciated**, especially for the GBP as concerns of a no-deal Brexit at the end of 2020 persists. EM currencies generally appreciated, with LatAm currencies leading in gains.

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

Developed Markets	Daily	Week	Month	YoY
US (2-yr)	0.2	-6.0	3	-90
<b>US</b>	-4.0	-1.7	16	-74
GER (2-yr)	-0.2	1.6	3	1
<b>Germany</b>	-3.9	1.7	12	-39
France	-4.0	1.7	12	-57
Spain	-2.4	0.8	3	-96
Italy	0.3	-1.6	13	-128
Portugal	-2.4	0.1	5	-130
Greece	-4.1	-3.4	-14	-296
Japan (2-yr)	0.0	-1.6	2	1
<b>Japan</b>	0.0	0.0	1	-1
Emerging Markets	Daily	Weekly	Monthly	YoY
Brazil	-5.5	-15.0	-12	-246
Chile	-1.3	-16.7	-37	-152
Colombia	0.0	9.6	-15	-39
Mexico	-4.4	-4.9	-30	-177
Peru	-3.5	-1.6	-27	-186
Poland	-1.1	2.6	12	-66
Russia	0.0	-7.3	-17	-237
Turkey	0.0	3.0	-10	-419
India	0.1	-7.6	4	-85
Indonesia	0.0	-8.0	-14	-102

COUNTRY RISK (BP, CHANGE IN BPS)

Developed Markets	Daily	Weekly	Monthly	YoY
<b>10-yr sovereign spread vs Germany</b>				
France	-0.1	0.0	0	-18
Italy	4.2	-3.3	1	-89
Portugal	1.5	-1.6	-7	-91
Spain	1.5	-0.9	-9	-57
<b>2-yr sovereign spread vs Germany</b>				
France	3.3	3.4	0	-10
Italy	1.1	-4.6	-12	-50
Portugal	2.0	-4.2	-2	-20
Spain	1.2	-0.6	-2	-16
Emerging Markets	Daily	Weekly	Monthly	YoY
<b>5-yr sovereign CDS *</b>				
Brazil	-0.3	-5	-26	-106
Chile	-0.1	-2	-14	-21
Colombia	-0.2	-3	-18	-85
Argentina	0.0	-517	-3242	4071
Mexico	-0.3	-3	-13	-76
Peru	-0.1	-1	-15	-53
Poland	0.0	0	-4	-9
Russia	0.0	-1	-14	-97
Turkey	1.1	6	-28	-71
China	0.0	0	-8	-35
India	0.0	-2	-4	-45
Indonesia	-0.1	0	-12	-75

RISK INDICATORS

Volatility indicators (change in pp)	Daily	Weekly	Monthly	YoY
VIX	-0.6	1	-3	-10
VSTOXX	0.0	2	-6	-5
EM EFT volatility Index	0.0	0	0	-1
Dollar/euro volatility	-0.3	1	0	-3
EM FX volatility index	0.0	1	-1	-7
Credit spread (BAA) (change in bps)	4.0	5	-9	-47
US bonds volatility index	0.0	0	0	-3
Inflation expectations (% change in pp)	Daily	Weekly	Monthly	YoY
US Inflation expectations (5Y5Y)	-	2	7	3
EZ Inflation expectations (5Y5Y)	-	-4	12	-23
Banking 5y CDS (bps) *	Daily	Weekly	Monthly	YoY
US	0.0	-1	-5	-40
EZ	0.0	0	-3	-56
UK	0.0	0	-3	-50
Large Spanish	0.0	0	-4	-51
Medium Spanish	0.6	1	-2	-35
Corporate 5y CDS (bps) *	Daily	Weekly	Monthly	YoY
US Non-financial	0.5	-11	-16	-37
EZ Non-financial	-0.1	0	-5	-31
UK Non-financial	0.1	3	-2	-19

INTERBANK MARKETS (% CHANGE IN BPS)

	Daily	Weekly	Monthly	YoY
ESTR Index	0	2	1	n.a.
Euribor 3m	0	2	2	-7
<b>Euribor 12m</b>	0	0	2	-13
Libor 3m	0	2	1	-9
Libor 12m	0	-5	1	-90

STOCK MARKETS (%)

Main indices	Daily	Weekly	Monthly	YoY
<b>S&amp;P500</b>	0.3	0.0	4.8	29
Dow Jones	0.6	0.3	4.4	23
Nikkei	0.0	-1.1	1.2	18
FTSE 100	0.9	-0.3	6.3	13
<b>EuroStoxx 50</b>	1.4	0.6	5.1	27
IBEX	1.5	0.3	6.1	13
DAX	1.1	0.7	3.1	27
CAC	1.2	0.3	5.6	29
MB	1.4	-0.2	4.9	30
ASE Athens	1.5	2.0	5.6	54
<b>MSCI Latam *</b>	0.0	-0.7	4.7	16
Ibovespa (Brazil)	1.7	0.4	8.0	29
Mexbol (Mexico)	1.3	-0.4	4.3	4
Merval (Argentina)	-1.1	-2.5	25.9	33
<b>MSCI EM Europe *</b>	0.0	0.4	4.0	20
Poland	2.3	2.7	5.3	-4
Micex 10 (Russia)	0.0	0.1	6.9	28
Ise 100 (Turkey)	1.3	2.0	8.6	30
<b>MSCI EM Asia *</b>	0.0	0.3	5.7	16
Shanghai Com (China)	1.1	2.6	7.0	25
Jakarta (Indonesia)	-0.3	-0.4	2.5	1
Banking sector	Daily	Weekly	Monthly	YoY
<b>US banks</b>	0.8	0.6	8.5	40
JPM	0.6	0.8	8.0	41
Citi	1.0	1.1	10.0	51
BoA	0.6	-0.3	7.9	42
MS	1.0	1.0	7.3	28
GS	1.2	0.6	9.6	35
<b>EZ banks</b>	2.5	1.5	9.5	27
BNP	1.6	1.4	8.5	37
Crédit Agricole	2.1	1.4	8.9	42
Deutsche Bank	6.1	6.2	15.9	3
ING	3.6	2.4	9.5	18
Intesa	1.4	-0.8	6.1	25
SG	2.5	1.9	13.5	16
Unicredito	3.4	0.9	9.3	38
<b>UK banks</b>	1.8	0.8	9.3	10
HSBC	0.7	-0.6	7.2	-8
RBS	1.9	0.9	12.3	13
Barclays	3.3	3.1	11.6	23
Lloyds	1.8	0.3	7.5	25
<b>Large Spanish banks</b>	3.2	2.1	11.0	4
Santander	3.9	3.2	12.3	-3
<b>BBVA</b>	2.7	1.1	9.9	10
<b>Medium Spanish banks</b>	2.9	2.0	8.5	-6
Caixabank	3.5	2.5	9.4	-7
Sabadell	2.6	1.9	8.3	8
Bankinter	2.6	1.6	6.7	-4
Bankia	3.7	2.5	14.5	-22

CURRENCIES (% RED FOR CURRENCY DEPRECIATION)

Developed	Daily	Weekly	Monthly	YoY
EURUSD	-0.3	0.7	0.8	-2
GBPUSD	-1.0	1.0	1.0	4
USDJPY	0.3	1.1	0.2	0
DXY	0.3	-0.9	-1.1	0
Emerging	Daily	Weekly	Monthly	YoY
USDARS (Argentina)	0.1	0.1	0.2	-37
USDBRL (Brazil)	-0.3	0.4	4.2	-6
USDCOP (Chile)	0.3	-0.7	6.9	-7
USDCOP (Colombia)	1.0	1.05	7.66	0
USDMXN (Mexico)	0.1	0.3	3.6	4
USDPEN (Peru)	0.4	0.6	2.7	2
LACI	0.0	0.3	4.0	-6
USDPLN (Poland)	-0.1	1.0	1.8	0
USDTRY (Russia)	0.3	0.8	3.9	12
USDTRY (Turkey)	-0.2	-0.4	-3.6	-9
USDCNY (China)	0.0	0.5	1.4	-1
USDINR (India)	-0.2	-0.1	0.4	-2
USDIDR (Indonesia)	-0.2	0.5	1.6	4
ADXY	-0.1	0.4	1.3	0

COMMODITIES (%)

	Daily	Weekly	Monthly	YoY
<b>Brent</b>	-0.3	-3.1	8	20
WTx	-0.4	-1.4	8	31
Copper	0.0	-2.4	7	6
Gold	0.6	1.0	3	19
S&P Spot commodity *	0.0	-0.8	6	15
S&P Brent Spot *	0.0	-1.1	9	20
S&P Metals Spot *	0.0	-0.7	4	4
S&P Agricultural *	0.0	0.9	6	6

Source: Bloomberg, Datastream and Haver  
\* With one day delay